

## INTERIM REPORT 2015

Hong Kong Aircraft Engineering  
Company Limited

Stock Code: 00044



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# Financial Highlights

		Six months ended 30th June		
		2015	2014	Change
<b>Results</b>				
Revenue	HK\$ Million	<b>5,734</b>	5,337	<b>+7.4%</b>
Net operating profit	HK\$ Million	<b>224</b>	225	<b>-0.4%</b>
Share of after-tax results of joint venture companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	HK\$ Million	<b>104</b>	136	<b>-23.5%</b>
– Other joint venture companies	HK\$ Million	<b>26</b>	25	<b>+4.0%</b>
Profit attributable to the Company's shareholders	HK\$ Million	<b>254</b>	283	<b>-10.2%</b>
Earnings per share attributable to the Company's shareholders (basic and diluted)	HK\$	<b>1.53</b>	1.70	<b>-10.2%</b>
First interim dividend per share	HK\$	<b>0.60</b>	0.65	<b>-7.7%</b>
<b>Financial Position</b>				
Net borrowings	HK\$ Million	<b>2,621</b>	2,610	<b>+0.4%</b>
Gearing ratio	%	<b>35.5</b>	35.3	<b>+0.2%pt</b>
Total equity	HK\$ Million	<b>7,392</b>	7,387	<b>+0.1%</b>
Equity attributable to the Company's shareholders per share	HK\$	<b>36.56</b>	36.49	<b>+0.2%</b>
<b>Cash Flows</b>				
Net cash generated from operating activities	HK\$ Million	<b>426</b>	313	<b>+36.1%</b>
Net cash inflow/(outflow) before financing activities	HK\$ Million	<b>219</b>	(2,816)	<b>+107.8%</b>

**Notes:**

The weighted average number of shares in issue is 166,324,850 in 2015 (2014: 166,324,850).

Additional financial information of the Group's joint venture companies is presented on page 27.

## Chairman's Letter

The HAECO Group reported an attributable profit of HK\$254 million for the first six months of 2015. This compares with a profit of HK\$283 million for the equivalent period in 2014. Earnings per share decreased by 10.2% to HK\$1.53. Revenue increased by 7.4% to HK\$5,734 million.

The Directors have declared a first interim dividend of HK\$0.60 per share (2014: HK\$0.65 per share) for the period ended 30th June 2015, a decrease of 7.7% from the first interim dividend paid in 2014. The first interim dividend, which totals HK\$100 million (2014: HK\$108 million), will be paid on 22nd September 2015 to shareholders registered at the close of business on the record date, being Friday, 4th September 2015. Shares of the Company will be traded ex-dividend as from Tuesday, 1st September 2015.

Performance for line maintenance services of HAECO in Hong Kong ("HAECO Hong Kong") was good. More extensive work scopes were conducted per aircraft which generated higher workload and revenue for the first half of 2015. More airframe services work was done. Capacity increased as the workforce grew. Component services in Hong Kong were adversely affected by the costs of capability development. HAECO ITM Limited ("HAECO ITM") recorded a higher profit. This reflected higher utilisation of rotatable parts as operations increased. The profits of Hong Kong Aero Engine Services Limited ("HAESL") decreased. Fewer engines were overhauled reflecting the retirement of aircraft operating Trent 500 engines and a reduction in the required frequency of scheduled maintenance of Trent 700 engines.

HAECO USA Holdings, Inc. ("HAECO Americas") recorded a higher loss in the first half of 2015 than in 2014. The higher loss principally reflected lower airframe services operating results.

The profit of Taikoo (Xiamen) Aircraft Engineering Company Limited ("HAECO Xiamen") decreased. This reflected reduced demand for its airframe services. Taikoo Engine Services (Xiamen) Company Limited ("TEXL") performed well, with more engines overhauled, but the absence of unutilised tax losses caused its after tax profits to fall. Taikoo (Xiamen) Landing Gear Services Company Limited ("HAECO Landing Gear Services") incurred a smaller loss in the first half of 2015 than in 2014 (work was only resumed in the second quarter and results were adversely affected by impairment and other provisions arising from the fire at its premises in late 2012). The overall contribution from the Group's other activities in Mainland China improved slightly.

The Group continued to invest in order to expand its facilities and technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure during the first half of 2015 was HK\$349 million. Capital expenditure committed at the end of June was HK\$1,623 million.

HAECO Hong Kong's aircraft maintenance capacity for the longer term is expected to grow with an increase in the workforce in the second half of 2015, although there will be an associated cost of training additional staff in the short term. The workload for line services in Hong Kong is expected to remain stable. Demand for the airframe services of HAECO Americas is expected to remain low while that of HAECO Xiamen is likely to be lower in the second half of the year. HAESL's performance is expected to continue to be adversely affected by a continued reduction in demand for its engine overhaul services. TEXL's engine output is expected to remain stable.

The municipal government of Xiamen has announced that the proposed new airport at Xiang'an will commence operations in 2020. Management maintains regular communications with the local authorities about the new airport and the consequences of its opening, which will be material for the HAECO Group's operations at the existing airport.

**John Slosar**

*Chairman*

Hong Kong, 18th August 2015

HAECO Group was named the Leading Independent MRO at the 2015 Aviation Week MRO of the Year Awards. The award recognised the Group's creation of HAECO Cabin Solutions, a set of cabin completion and reconfiguration services which include maintenance and overhaul services.

### AIRFRAME SERVICES

#### Airframe Services

In January, HAECO Americas started the second of two airframe maintenance lines of Airbus A300 aircraft for UPS.

In February, HAECO Hong Kong completed a heavy maintenance check on a Boeing 747-400F freighter owned and operated by Atlas Air on behalf of Etihad Cargo. The work included repainting the aircraft. In January, HAECO Hong Kong and Atlas Air entered into a five-year agreement for the maintenance of Atlas Air's freighter aircraft with effect from the end of this year.

In February, HAECO Xiamen completed its first installation of a Panasonic Global Communication Suite ("GCS") system on a Japan Airlines' Boeing 767 aircraft.

In April, HAECO Americas began work on its first Boeing 757 passenger-to-freighter conversion for Precision Conversions. Passenger-to-freighter conversion work on other aircraft for this customer will follow at least until the end of 2016.

In June, HAECO Americas started to renovate a hangar at Lake City in order to expand airframe maintenance capacity. The renovation is expected to be completed in the second half of 2015.

#### Line Services

In January, HAECO Hong Kong and Panasonic Avionics Corporation entered into an agreement for the maintenance of inflight entertainment and communication services. The services encompass both functional and technical support for integrated in-flight entertainment and communications systems.

In June, HAECO Xiamen and Shanghai Taikoo Aircraft Engineering Services Company Limited ("HAECO Shanghai") were appointed by American Airlines to provide line services in Beijing and Shanghai for Boeing 787 aircraft.

HAECO Americas has 19 line services stations in the United States. In the first half of 2015, it opened stations for Atlas Air in Washington State and for Icelandair in Oregon. It closed a station in Florida.

### CABIN SOLUTIONS

#### Cabins and Seats

In the first half of 2015, HAECO Americas obtained Supplemental Type Certificates ("STCs") for interior reconfiguration of Delta Air Lines Boeing 737-800 aircraft, Cathay Pacific Airbus A330-300 aircraft and Condor Airlines Boeing 767-300 aircraft, and for a Lumaxis in-flight entertainment handset upgrade for Boeing 777-300 aircraft.

In March, HAECO Americas entered into an agreement with Air Canada for the design, certification and installation of new aircraft interiors for 18 Boeing 777 aircraft. Some of the work will be done by HAECO Hong Kong.

In April, HAECO Americas introduced its Vector economy seats at the Aircraft Interiors Expo in Hamburg.

#### Private Jet Work

In March, the Group obtained three STCs for cabin modifications on Boeing business jets. The STCs are for the installation of EMTEQ's eConnect System, an upgrade of the Honeywell SATCOM system and integration of the two systems. The modifications will improve internet connectivity and speed.

In April, HAECO Xiamen signed a memorandum of understanding with Asian Sky Group (an aviation consultant) in relation to cabin work on private jets.

## COMPONENT SERVICES

### Component Repair and Overhaul

In May, HAECO Component Overhaul (Xiamen) Limited (“HAECO Component Overhaul (Xiamen)”) was appointed by Umbra Cuscinetti to repair its components in Mainland China. Umbra Cuscinetti manufactures flight control actuation components for Boeing aircraft.

## ENGINE SERVICES

In March, HAESL took delivery of its first Rolls-Royce Trent XWB engine. HAESL expects to have full capability to overhaul Trent XWB engines by the end of 2015.

## Review of Operations

HAECO Hong Kong, HAECO Americas and HAECO Xiamen sold 4.87 million airframe services manhours in the first half of 2015, 1.8% fewer than those sold in the corresponding period in 2014. Manhours sold by HAECO Americas and HAECO Xiamen fell by 10.4% and 2.5% respectively. Manhours sold by HAECO Hong Kong increased by 11.1%. Line services aircraft movements handled by HAECO Hong Kong fell because part of the work from a significant customer was lost. However, the workload increased as more extensive work scopes were conducted per aircraft.

TEXL overhauled more engines in the first half of 2015 than in the first half of 2014. But its after tax profits fell because, from January 2015, it no longer had tax losses to utilise. HAESL overhauled 53 engines in the first half of 2015, compared with 68 engines in the first half of 2014.

The profit attributable to the Company's shareholders comprises:

	Six months ended 30th June		
	2015 HK\$M	2014 HK\$M	Change
HAECO Hong Kong	99	42	+135.7%
HAECO Americas	(59)	(3)	-1,866.7%
HAECO Xiamen	46	51	-9.8%
TEXL	52	68	-23.5%
Share of:			
HAESL and SAESL	104	136	-23.5%
Other subsidiary and joint venture companies	12	(11)	+209.1%
	<b>254</b>	<b>283</b>	<b>-10.2%</b>

The key operating highlights are as follows:

	Six months ended 30th June		Change
	2015	2014	
Airframe services sold manhours (in millions)			
HAECO Hong Kong	1.40	1.26	+11.1%
HAECO Americas	1.55	1.73	-10.4%
HAECO Xiamen	1.92	1.97	-2.5%
	<b>4.87</b>	<b>4.96</b>	<b>-1.8%</b>
Line services aircraft movements (per day)			
HAECO Hong Kong	299	327	-8.6%
HAECO Xiamen	45	40	+12.5%
HAECO Shanghai	40	48	-16.7%
Engine output			
TEXL – performance restoration	13	15	-13.3%
TEXL – quick turn repair	25	14	+78.6%
HAESL	53	68	-22.1%

### HAECO HONG KONG

HAECO Hong Kong's business comprises airframe services, line services at the passenger and cargo terminals at Hong Kong International Airport, component services, material management and fleet technical management. HAECO Hong Kong recorded a 135.7% increase in profit compared to the equivalent period in 2014.

1.40 million airframe services manhours were sold by HAECO Hong Kong in the first half of 2015, 11.1% higher than in the first half of 2014. Capacity increased from a larger workforce. Approximately 76.2% of the work was for airlines based outside Hong Kong.



Line services manhours increased by 2.7% from the first half of 2014 with more extensive work at higher rates despite an 8.6% decrease in aircraft movements handled to 299 per day.

0.10 million component services manhours were sold, 9.1% less than in the first half of 2014. The results were adversely affected by the cost of capability development.

Airframe services capacity for the longer term is expected to grow with an increase in the workforce in the second half of 2015, although there will be an associated cost of training additional staff in the short term. The workload for line services is expected to remain stable. More component repair work is expected in the second half of the year as capability is developed.

## HAECO AMERICAS

HAECO Americas provides airframe maintenance, repair and overhaul services, line services and engine repair services and manufactures seats and other cabin products. It recorded a loss of HK\$59 million in the first half of 2015, compared to a loss of HK\$3 million in the same period last year. The higher loss principally reflected a decline in airframe services activity.

1.55 million airframe services manhours were sold, 10.4% fewer than the first half of 2014. Fewer airframes were overhauled as some significant contracts came to an end in 2014. For the cabins and seats business, more Panasonic Global Communication Suite kit work was done. Fewer seats were sold (approximately 2,800 compared with 4,300 in the first half of 2014) since demand for HAECO Americas' old seats declined and the new generation seats are not yet ready for sale.

Demand for HAECO Americas' airframe services is expected to remain low in the second half of 2015. However, the overall demand for HAECO Americas' cabin products and services is expected to be stronger in the second half of 2015 than in the first half.

## HAECO XIAMEN

HAECO Xiamen provides comprehensive airframe services. It does heavy maintenance, cabin work,

conversions of passenger aircraft to freighters and private jet work. It provides line services and technical training and manufactures parts.

Airframe services manhours sold decreased from 1.97 million in the first half of 2014 to 1.92 million in the first half of 2015. No aircraft were converted to freighters, whereas three aircraft had been converted to freighters in the first half of 2014. After completion of a private jet conversion in January 2015, only private jet work of small work scope was done.

HAECO Xiamen provides line services in Xiamen, Beijing, Tianjin, Chongqing and Zhengzhou. It handled an average of 45 aircraft movements per day in the first half of 2015.

Demand for HAECO Xiamen's airframe services and private jet work is expected to be lower in the second half of 2015.

The municipal government of Xiamen has announced that the proposed new airport at Xiang'an will commence operations in 2020. Management maintains regular communications with the local authorities about the new airport and the consequences of its opening, which will be material for the operations of the HAECO Group at the existing airport.

## TEXL

TEXL (owned 67.58% by HAECO and 9.01% by HAECO Xiamen) has an engine overhaul facility in Xiamen. It has a service agreement with General Electric under which it provides maintenance, repair and overhaul service on GE90-110B and GE90-115B engines. In the first half of 2015, TEXL completed 25 quick turn repairs on GE90 engines and 13 performance restorations on such engines, compared with 14 quick turn repairs and 15 performance restorations in the first half of 2014. With more engines overhauled, TEXL recorded a higher profit before tax in the first half of 2015 than in the first half of 2014 but its after tax profits fell because, from January 2015, it no longer had tax losses to utilise.

TEXL's engine output is expected to remain stable in the second half of 2015.

## HAESL

HAESL (45% owned) recorded a 14.7% decrease in profit in the first half of 2015 compared to the first half of 2014. Fewer engines were overhauled. This reflected the retirement of aircraft operating Trent 500 engines and a reduction in the frequency of scheduled maintenance of Trent 700 engines. Engine output was 53 in the first half of 2015 compared with 68 in the first half of 2014.

Singapore Aero Engine Services Pte. Limited ("SAESL"), in which HAESL has a 20% interest, recorded a 43.9% decrease in profit in the first half of 2015 compared to the first half of 2014. Fewer engines were overhauled and less work was done per engine.

HAESL's performance is expected to continue to be adversely affected by a continued reduction in demand for its engine overhaul services. HAESL expects to start generating revenue from overhauling Trent XWB engines in 2016.

## OTHER PRINCIPAL SUBSIDIARY AND JOINT VENTURE COMPANIES

HAECO ITM (owned 70% by HAECO) provides inventory technical management services to Cathay Pacific and other airlines. In the first half of 2015, the total number of aircraft for which services were provided was 256, an increase of 13.8% over the equivalent period in 2014. A higher profit was recorded in this period due to higher utilisation of rotatable parts as operations increased.

HAECO Landing Gear Services (owned 63.80% by HAECO and 10% by HAECO Xiamen) overhauls landing gear in Xiamen. It reported a smaller loss in the first half of 2015 than in the first half of 2014 (work only resumed in the second quarter and results were adversely affected by impairment and other provisions arising from the fire at its premises in late 2012).

HAECO Shanghai (owned 60% by HAECO and 15% by HAECO Xiamen) provides line services in Shanghai and Nanjing. The average number of aircraft movements handled per day was 40 in the first half of 2015, 16.7% lower than that of 2014. This reflected the expiry of contracts. Profits fell.

HAECO Component Overhaul (Xiamen) (100% owned) reported a loss in the first half of 2015, similar to that in the corresponding period of last year.

Singapore HAECO Pte. Limited (100% owned) recorded a small profit in the first half of 2015, compared to a loss in the same period last year.

Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("HAECO Spirit AeroSystems") (owned 41.8% by HAECO and 10.76% by HAECO Xiamen) repairs and overhauls composite structures at Jinjiang in Fujian Province in Mainland China. Profit in the first half of 2015 was slightly lower than in the first half of 2014. Revenues were similar, but staff costs were higher.

## STAFF

The Group's headcount at the dates shown was as follows:

	30th June 2015	31st December 2014	Change
HAECO Hong Kong	<b>5,694</b>	5,734	<b>-0.7%</b>
HAECO Americas	<b>2,649</b>	2,894	<b>-8.5%</b>
HAECO Xiamen	<b>4,753</b>	4,902	<b>-3.0%</b>
HAESL	<b>876</b>	915	<b>-4.3%</b>
Other subsidiary and joint venture companies in which HAECO and HAECO Xiamen own more than 20%	<b>2,602</b>	2,612	<b>-0.4%</b>
	<b>16,574</b>	17,057	<b>-2.8%</b>

## REVENUE

Revenue increased by 7.4% to HK\$5,734 million. HAECO Hong Kong and TEXTL recorded increases in revenue, reflecting growth in business volume. HAECO Americas and HAECO Xiamen recorded reductions in revenue, reflecting decreases in airframe services manhours.

	Six months ended 30th June		
	2015 HK\$M	2014 HK\$M	Change
HAECO Hong Kong	<b>1,777</b>	1,554	<b>+14.4%</b>
HAECO Americas	<b>1,256</b>	1,308	<b>-4.0%</b>
HAECO Xiamen	<b>938</b>	1,009	<b>-7.0%</b>
TEXTL	<b>1,538</b>	1,299	<b>+18.4%</b>
Others	<b>225</b>	167	<b>+34.7%</b>
	<b>5,734</b>	5,337	<b>+7.4%</b>

## OPERATING EXPENSES

Operating expenses increased by 8.1% to HK\$5,486 million, principally reflecting an increase in the cost of direct material and job expenses. This in turn principally reflected higher volume at TEXTL. Staff remuneration and benefits increased because of salary increases, particularly in Hong Kong, and the fact that the corresponding period in 2014 only included five months' results from HAECO Americas.

	Six months ended 30th June		
	2015 HK\$M	2014 HK\$M	Change
Staff remuneration and benefits	<b>2,405</b>	2,183	<b>+10.2%</b>
Cost of direct material and job expenses	<b>2,387</b>	2,167	<b>+10.2%</b>
Depreciation, amortisation and impairment	<b>320</b>	316	<b>+1.3%</b>
Other operating expenses	<b>374</b>	410	<b>-8.8%</b>
	<b>5,486</b>	5,076	<b>+8.1%</b>

## PROFIT

The change in the interim profit attributable to the Company's shareholders can be analysed as follows:

	HK\$M	
2014 interim profit	<b>283</b>	
Revenue		
HAECO Hong Kong	<b>223</b>	The increase principally reflects a 11.1% increase in airframe services manhours sold and a 2.7% increase in line services hours.
HAECO Americas	<b>(52)</b>	The reduction principally reflects a 10.4% decrease in airframe services manhours sold.
HAECO Xiamen	<b>(71)</b>	The decrease reflects a 2.5% reduction in airframe services manhours and less private jet work.
TEXL	<b>239</b>	The increase reflects more engine repair work.
Others	<b>58</b>	The increase principally reflects the growth in HAECO ITM operations and the resumption of overhaul work for customers at HAECO Landing Gear Services.
Staff remuneration and benefits	<b>(222)</b>	The increase principally reflects salary increases, particularly in Hong Kong, and the fact that the corresponding period in 2014 only included five months' results from HAECO Americas.
Cost of direct material and job expenses	<b>(220)</b>	The increase principally reflects higher volume at TEXL.
Depreciation, amortisation and impairment	<b>(4)</b>	The increase was mainly due to the higher depreciation in HAECO ITM following the acquisition of rotatable spare parts.
Other operating expenses	<b>36</b>	The decrease partially reflects the lower repair and maintenance expense in HAECO Hong Kong.
Net finance charges	<b>(6)</b>	The increase principally reflects the fair value loss on a put option and lower interest income as a result of a reduced bank balance.
Share of after-tax results of joint venture companies	<b>(31)</b>	The decrease principally reflects lower profits from HAESL and SAESL.
Taxation	<b>5</b>	The decrease principally reflects a higher loss at HAECO Americas, partly offset by the tax charge at TEXL as it no longer had tax losses to utilise.
Other items	<b>18</b>	HAECO Xiamen made foreign exchange gains, having made foreign exchange losses in the first half of 2014.
Non-controlling interests	<b>(2)</b>	The increase mainly reflects a higher non-controlling interests' share of TEXL's profit following the change of its shareholdings in late 2014.
<b>2015 interim profit</b>	<b>254</b>	

## ASSETS

Total assets at 30th June 2015 were HK\$14,678 million. During the period, additions to fixed assets were HK\$335 million. Included in this amount was HK\$61 million spent on plant, machinery and tools and HK\$169 million spent on rotatable and repairable spare parts for inventory technical management.

## NET DEBT AND GEARING

At 30th June 2015, the Group's net borrowings were HK\$2,621 million (representing a slight increase of HK\$11 million from their amount at 31st December 2014). The gearing ratio was 35.5%, similar to that at the end of last year. The Group's net debt by company is analysed below:

	Group	
	30th June 2015 HK\$M	31st December 2014 HK\$M
HAECO Hong Kong	(596)	(50)
HAECO Americas	(2,353)	(2,571)
HAECO Xiamen	460	812
TEXTL	(189)	(547)
Other subsidiary companies	57	(254)
	<b>(2,621)</b>	<b>(2,610)</b>

## SOURCES OF FINANCING

At 30th June 2015, net borrowings consisted of short-term loans of HK\$68 million, long-term loans of HK\$4,337 million and finance lease obligations of HK\$14 million, net of bank balances and short-term deposits of HK\$1,798 million. Loans are denominated in US dollars and HK dollars, and are repayable on various dates up to 2020. Finance leases are repayable on various dates up to 2030.

The maturity of long-term loans at 30th June 2015 was as follows:

	Group	
	30th June 2015 HK\$M	31st December 2014 HK\$M
Bank loans:		
Repayable within one year	1,446	1,167
Repayable between one and two years	–	847
Repayable between two and five years	2,891	2,457
	<b>4,337</b>	<b>4,471</b>

Committed facilities amounted to HK\$5,169 million at 30th June 2015, of which HK\$898 million were undrawn. There were uncommitted facilities of HK\$2,014 million, of which HK\$1,831 million were undrawn. Sources of funds at 30th June 2015 comprised:

	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring beyond one year HK\$M
<b>Committed facilities</b>				
– Loans and finance leases	5,169	4,271	–	898
<b>Uncommitted facilities</b>				
– Loans and overdraft	2,014	183	1,831	–
<b>Total</b>	<b>7,183</b>	<b>4,454</b>	<b>1,831</b>	<b>898</b>

## FINANCE CHARGES

The Group's loans were on a floating rate basis at 30th June 2015. The principal amount of loans at 30th June 2015 which gives rise to exposure to interest rate changes (after interest rate swaps) was HK\$3,292 million. The Group's weighted average cost of debt at 30th June 2015 was 2.03%.

The exposure of the Group's loans to interest rate changes (after interest rate swaps) can be illustrated as follows:

	Floating interest rate HK\$M	Fixed interest rate maturing in:			Total HK\$M
		1 year or less HK\$M	1 to 5 years HK\$M	Over 5 years HK\$M	
<b>At 30th June 2015</b>	<b>3,292</b>	<b>1,151</b>	<b>7</b>	<b>4</b>	<b>4,454</b>
At 31st December 2014	3,809	153	1,008	4	4,974

## CURRENCY PROFILE

An analysis of the carrying amounts of gross borrowing by currency is shown below:

	30th June 2015		31st December 2014	
	HK\$M		HK\$M	
<b>Currency</b>				
Hong Kong dollar	<b>1,669</b>	<b>37.5%</b>	1,881	37.8%
United States dollar	<b>2,785</b>	<b>62.5%</b>	3,093	62.2%
Total	<b>4,454</b>	<b>100.0%</b>	4,974	100.0%

## CURRENCY HEDGING

HAECO Xiamen mitigates its exposure to changes in the exchange rate of the US dollar against the Renminbi by retaining surplus funds in Renminbi and by selling US dollars forward. At 30th June 2015, HAECO Xiamen had sold forward a total of US\$28.2 million to fund part of its Renminbi requirements for 2015 and 2016. The weighted average exchange rate applicable to these forward sales was RMB6.28 to US\$1. Because of the strengthening of the Renminbi against the US dollar, total gains of HK\$2 million on forward foreign exchange contracts arose in the first half of 2015.

# Report on Review of Condensed Interim Financial Statements

## TO THE BOARD OF DIRECTORS OF HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

*(incorporated in Hong Kong with limited liability)*

### INTRODUCTION

We have reviewed the condensed interim accounts set out on pages 14 to 32, which comprise the consolidated statement of financial position of Hong Kong Aircraft Engineering Company Limited (the "Company") and its subsidiaries (together the "Group") as at 30 June 2015 and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed interim accounts to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these interim accounts in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim accounts based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial

and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim accounts are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 18th August 2015

# Consolidated Statement of Profit or Loss

for the six months ended 30th June 2015

	Note	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December	
		2015 HK\$M	2014 HK\$M	2014 HK\$M	
<b>Revenue</b>	4	<b>5,734</b>	5,337	11,927	
<b>Operating expenses:</b>					
Staff remuneration and benefits		<b>(2,405)</b>	(2,183)	(4,573)	
Cost of direct material and job expenses		<b>(2,387)</b>	(2,167)	(5,322)	
Depreciation, amortisation and impairment		<b>(320)</b>	(316)	(639)	
Insurance and utilities		<b>(96)</b>	(96)	(191)	
Operating lease rentals – land and buildings		<b>(93)</b>	(112)	(275)	
Repairs and maintenance		<b>(79)</b>	(93)	(188)	
Other		<b>(106)</b>	(109)	(236)	
		<b>(5,486)</b>	(5,076)	(11,424)	
<b>Other net gains/(losses)</b>		<b>15</b>	(3)	6	
<b>Operating profit</b>	4	<b>263</b>	258	509	
<b>Finance income</b>	5	<b>12</b>	15	30	
<b>Finance charges</b>	5	<b>(51)</b>	(48)	(100)	
<b>Net operating profit</b>		<b>224</b>	225	439	
<b>Share of after-tax results of joint venture companies</b>	11	<b>130</b>	161	314	
<b>Profit before taxation</b>		<b>354</b>	386	753	
<b>Taxation</b>	6	<b>(58)</b>	(63)	(94)	
<b>Profit for the period</b>		<b>296</b>	323	659	
<b>Profit attributable to:</b>					
The Company's shareholders		<b>254</b>	283	573	
Non-controlling interests		<b>42</b>	40	86	
		<b>296</b>	323	659	
<b>Dividends</b>					
First interim – declared/paid		<b>100</b>	108	108	
Second interim – paid		<b>–</b>	–	241	
		<b>100</b>	108	349	
		<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	
<b>Earnings per share from profit attributable to the Company's shareholders (basic and diluted)</b>	8	<b>1.53</b>	1.70	3.45	
		<b>2015</b>	2014		
		<b>First interim HK\$</b>	First interim HK\$	Second interim HK\$	Total HK\$
<b>Dividends per share</b>		<b>0.60</b>	0.65	1.45	2.10

The notes on pages 19 to 32 form part of these financial statements.



# Consolidated Statement of Other Comprehensive Income

for the six months ended 30th June 2015

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December	
	2015 HK\$M	2014 HK\$M	2014 HK\$M	
<b>Profit for the period</b>	<b>296</b>	323	659	
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Defined benefit retirement schemes				
– remeasurement losses recognised during the period	–	–	(253)	
– deferred tax	–	–	42	
<b>Items that may be reclassified subsequently to profit or loss</b>				
Cash flow hedges				
– losses recognised during the period	(3)	(19)	(18)	
– transferred to profit or loss account	6	5	8	
– deferred tax	(1)	3	2	
Share of other comprehensive income of joint venture companies	1	1	(27)	
Net translation differences on foreign operations	(3)	(79)	(71)	
<b>Other comprehensive income for the period, net of tax</b>	–	(89)	(317)	
<b>Total comprehensive income for the period</b>	<b>296</b>	234	342	
<b>Total comprehensive income attributable to:</b>				
The Company's shareholders	<b>253</b>	227	288	
Non-controlling interests	<b>43</b>	7	56	
	<b>296</b>	234	344	

The notes on pages 19 to 32 form part of these financial statements.

# Consolidated Statement of Financial Position

at 30th June 2015

	Note	(Unaudited) 30th June 2015 HK\$M	(Audited) 31st December 2014 HK\$M
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	5,310	5,319
Leasehold land and land use rights	9	354	360
Intangible assets	10	2,564	2,608
Joint venture companies	11	1,264	1,240
Deferred tax assets	16	127	96
Retirement benefit assets	12	33	53
Long-term prepayment		17	17
		<b>9,669</b>	<b>9,693</b>
<b>Current assets</b>			
Stocks		770	654
Work in progress		627	588
Trade and other receivables	14	1,807	1,767
Taxation recoverable		1	1
Derivative financial instruments	13	6	10
Cash and cash equivalents		1,782	2,310
Short-term deposits		16	21
		<b>5,009</b>	<b>5,351</b>
<b>Current liabilities</b>			
Trade and other payables	15	2,115	2,044
Taxation payable		49	38
Derivative financial instruments	13	6	9
Short-term loans		68	453
Long-term loans due within one year		1,446	1,167
Put option over a non-controlling interest in a subsidiary company		75	–
Finance lease obligations due within one year		3	3
		<b>3,762</b>	<b>3,714</b>
<b>Net current assets</b>		<b>1,247</b>	<b>1,637</b>
<b>Total assets less current liabilities</b>		<b>10,916</b>	<b>11,330</b>
<b>Non-current liabilities</b>			
Long-term loans		2,891	3,304
Finance lease obligations		11	14
Receipt in advance		21	27
Deferred income		21	23
Advance from a related party		295	218
Put option over a non-controlling interest in a subsidiary company		–	72
Deferred tax liabilities	16	276	273
Derivative financial instruments	13	–	2
Other payables		9	10
		<b>3,524</b>	<b>3,943</b>
<b>NET ASSETS</b>		<b>7,392</b>	<b>7,387</b>
<b>EQUITY</b>			
Share capital	17	185	185
Reserves	18	5,896	5,884
<b>Equity attributable to the Company's shareholders</b>		<b>6,081</b>	<b>6,069</b>
<b>Non-controlling interests</b>		<b>1,311</b>	<b>1,318</b>
<b>TOTAL EQUITY</b>		<b>7,392</b>	<b>7,387</b>

The notes on pages 19 to 32 form part of these financial statements.

# Consolidated Statement of Cash Flows

for the six months ended 30th June 2015

	(Unaudited) Six months ended 30th June	(Audited) Year ended 31st December	
	2015 HK\$M	2014 HK\$M	2014 HK\$M
<b>Operating activities</b>			
Cash generated from operations	529	389	1,274
Interest paid	(41)	(36)	(81)
Interest received	14	20	34
Tax paid	(76)	(60)	(112)
<b>Net cash generated from operating activities</b>	<b>426</b>	<b>313</b>	<b>1,115</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	(346)	(315)	(664)
Purchase of intangible assets	(3)	(2)	(7)
Proceeds from disposals of property, plant and equipment	31	–	35
Dividends received from joint venture companies	106	130	251
Net cash outflow on purchase of shares in a subsidiary company	–	(2,942)	(2,942)
Decrease in deposits maturing after more than three months	5	–	1
<b>Net cash used in investing activities</b>	<b>(207)</b>	<b>(3,129)</b>	<b>(3,326)</b>
<b>Net cash inflow/(outflow) before financing activities</b>	<b>219</b>	<b>(2,816)</b>	<b>(2,211)</b>
<b>Financing activities</b>			
Proceeds from loans	329	3,540	5,738
Repayment of loans and finance leases	(854)	(697)	(3,378)
Net cash inflow on disposal of shares in a subsidiary company	–	–	79
Advance from a related party	77	128	128
Dividends paid to the Company's shareholders	(241)	(216)	(324)
Dividends paid to non-controlling interests	(50)	(38)	(38)
<b>Net cash (used in)/generated from financing activities</b>	<b>(739)</b>	<b>2,717</b>	<b>2,205</b>
<b>Decrease in cash and cash equivalents</b>	<b>(520)</b>	<b>(99)</b>	<b>(6)</b>
Cash and cash equivalents at 1st January	2,310	2,341	2,341
Currency adjustment	(8)	(28)	(25)
<b>Cash and cash equivalents at end of the period</b>	<b>1,782</b>	<b>2,214</b>	<b>2,310</b>

The notes on pages 19 to 32 form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the six months ended 30th June 2015

Note	Attributable to the Company's shareholders				Non-controlling interests HK\$M	Total equity HK\$M
	Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M	Total HK\$M		
<b>At 1st January 2015</b>	<b>185</b>	<b>5,725</b>	<b>159</b>	<b>6,069</b>	<b>1,318</b>	<b>7,387</b>
Profit for the period	–	254	–	254	42	296
Other comprehensive income	–	–	(1)	(1)	1	–
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>254</b>	<b>(1)</b>	<b>253</b>	<b>43</b>	<b>296</b>
Dividends paid	–	(241)	–	(241)	(50)	(291)
<b>At 30th June 2015 (unaudited)</b>	<b>185</b>	<b>5,738</b>	<b>158</b>	<b>6,081</b>	<b>1,311</b>	<b>7,392</b>
	Attributable to the Company's shareholders					
	Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M	Total HK\$M	Non-controlling interests HK\$M	Total equity HK\$M
At 1st January 2014	166	5,703	228	6,097	1,229	7,326
Profit for the period	–	283	–	283	40	323
Other comprehensive income	–	–	(56)	(56)	(33)	(89)
Total comprehensive income for the period	–	283	(56)	227	7	234
Dividends paid	–	(216)	–	(216)	(38)	(254)
Transition to no-par value regime on 3rd March 2014	19	–	(19)	–	–	–
At 30th June 2014 (unaudited)	185	5,770	153	6,108	1,198	7,306

The notes on pages 19 to 32 form part of these financial statements.

# Notes to the Interim Financial Statements

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

- (a) The unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of The Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial statements are consistent with those described in the 2014 annual financial statements except for those noted in 1(b) below.

- (b) The following amendments were required to be adopted by the Group effective from 1st January 2015:

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2010-2012 Cycle Annual Improvements to HKFRSs 2011-2013 Cycle
HKAS 19 (Amendment)	Defined Benefit Plans – Employee Contributions

The improvements to HKFRSs cycles consist of amendments to existing standards. The amendments have had no significant impact on the Group's financial statements.

The amendment to HKAS 19 applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment permits (but does not require) contributions from employees or third parties that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered, rather than being attributed to periods of service as a negative benefit. The amendment has had no significant impact on the Group's financial statements.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the interim financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Those areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the Group's consolidated financial statements are detailed in the 2014 annual financial statements.

### 3. FINANCIAL RISK MANAGEMENT

- (a) In the normal course of business the Group is exposed to a number of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2014 annual financial statements. There have been no changes in the Group's financial risk management structure, policies and procedures since the year end.

- (b) HKFRS 13 for financial instruments that are measured in the statement of financial position at fair value (or for other assets and liabilities whose fair value is disclosed) requires disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Unobservable inputs for the asset or liability (level 3).

Financial instruments that are measured at fair value are included in the following fair value hierarchy:

	Level 2 HK\$M	Level 3 HK\$M	Total carrying amount HK\$M
<b>Assets as per consolidated statement of financial position</b>			
At 30th June 2015			
Derivatives not qualifying as hedges	6	–	6
Total	6	–	6
At 31st December 2014			
Derivatives not qualifying as hedges	10	–	10
Total	10	–	10
<b>Liabilities as per consolidated statement of financial position</b>			
At 30th June 2015			
Derivatives used for hedging	6	–	6
Put option over a non-controlling interest in a subsidiary company	–	75	75
Total	6	75	81
At 31st December 2014			
Derivatives used for hedging	9	–	9
Derivatives not qualifying as hedges	2	–	2
Put option over a non-controlling interest in a subsidiary company	–	72	72
Total	11	72	83

### 3. FINANCIAL RISK MANAGEMENT (continued)

(b) The following table presents the change in level 3 instruments:

	Put option over a non-controlling interest in a subsidiary company HK\$M
At 1st January 2015	72
Change in fair value recognised in profit or loss during the period	3
At 30th June 2015	75
Total losses for the period included in profit or loss in respect of financial instruments held at 30th June 2015	3
Change in unrealised losses for the period included in profit or loss in respect of financial instruments held at 30th June 2015	3

There has been no change in valuation techniques for level 2 and level 3 fair value hierarchy classifications.

The fair value of derivatives in Level 2 is determined based on quotes from market makers or alternative market participants supported by observable inputs. The most significant inputs are market interest rates and exchange rates.

The fair value of the put option over a non-controlling interest in a subsidiary company in Level 3 is determined using discounted cash flow valuation technique. The significant unobservable inputs used in the fair value measurement are the terminal growth rate into perpetuity and discount rate.

Information about fair value measurements using significant unobservable inputs (Level 3) in the period under review is as follows:

Description	Unobservable inputs	Unobservable inputs (%)	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation (HK\$M)
Put option over a non-controlling interest in a subsidiary company	Terminal growth rate into perpetuity	2%	The higher the terminal growth rate, the higher the fair value	+/-1%	49/(34)
	Discount rate	7.5%	The higher the discount rate, the lower the fair value	+/-1%	(56)/81

The Group's finance department includes a team that performs the valuations of financial instruments required for financial reporting purposes, including Level 3 fair values. This team reports to Group Director Finance. Discussions of valuation processes and results are held between Group Director Finance and the valuation team at least once every six months, in line with the Group's external reporting dates.

#### 4. SEGMENT INFORMATION

The Group is engaged in commercial aircraft overhaul, modification and maintenance mainly in Hong Kong, Mainland China and the United States. Management has determined the operating segments based on the reports used by the Executive Directors of the Board to assess performance and allocate resources. The Executive Directors of the Board consider the business primarily from an entity perspective.

The segment information provided to the Executive Directors of the Board for the reportable segments for the period is as follows:

Six months ended 30th June 2015	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL		Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
External revenue	1,777	1,256	938	1,538	3,653	(3,653)	225	–	5,734
Inter-segment revenue	32	–	7	–	2	(2)	21	(60)	–
Total revenue	1,809	1,256	945	1,538	3,655	(3,655)	246	(60)	5,734
Operating profit/(loss)	127	(68)	108	102	220	(220)	(6)	–	263
Finance income	4	–	12	1	–	–	–	(5)	12
Finance charges	(12)	(23)	(2)	(7)	(4)	4	(12)	5	(51)
Share of after-tax results of joint venture companies	–	–	–	–	50	54	–	26	130
Profit/(loss) before taxation	119	(91)	118	96	266	(162)	(18)	26	354
Taxation (charge)/credit	(20)	32	(35)	(25)	(36)	36	(7)	(3)	(58)
Profit/(loss) for the period	99	(59)	83	71	230	(126)	(25)	23	296
Depreciation	82	31	71	19	44	(44)	48	–	251
Amortisation	1	28	6	15	2	(2)	–	–	50
Provision for impairment of stock and property, plant and equipment	13	10	6	–	–	–	19	–	48



## 4. SEGMENT INFORMATION (continued)

Six months ended 30th June 2014	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL		Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
External revenue	1,554	1,308	1,009	1,299	3,963	(3,963)	167	–	5,337
Inter-segment revenue	36	–	7	–	8	(8)	25	(68)	–
Total revenue	1,590	1,308	1,016	1,299	3,971	(3,971)	192	(68)	5,337
Operating profit/(loss)	60	18	129	89	257	(257)	(38)	–	258
Finance income	4	–	8	2	–	–	1	–	15
Finance charges	(13)	(16)	(3)	(8)	(4)	4	(8)	–	(48)
Share of after-tax results of joint venture companies	–	–	–	–	92	44	–	25	161
Profit/(loss) before taxation	51	2	134	83	345	(209)	(45)	25	386
Taxation (charge)/credit	(9)	(5)	(42)	1	(42)	42	(5)	(3)	(63)
Profit/(loss) for the period	42	(3)	92	84	303	(167)	(50)	22	323
Depreciation	80	32	71	18	51	(51)	38	–	239
Amortisation	1	32	6	15	2	(2)	–	–	54
Provision for impairment of stock and property, plant and equipment	6	1	2	–	–	–	23	–	32

  

Year ended 31st December 2014	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL		Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
External revenue	3,178	2,885	1,924	3,538	8,363	(8,363)	402	–	11,927
Inter-segment revenue	66	–	14	–	10	(10)	53	(133)	–
Total revenue	3,244	2,885	1,938	3,538	8,373	(8,373)	455	(133)	11,927
Operating profit/(loss)	135	(8)	215	217	525	(525)	(50)	–	509
Finance income	10	–	18	3	–	–	1	(2)	30
Finance charges	(26)	(38)	(5)	(15)	(8)	8	(18)	2	(100)
Share of after-tax results of joint venture companies	–	–	–	–	162	105	–	47	314
Profit/(loss) before taxation	119	(46)	228	205	679	(412)	(67)	47	753
Taxation (charge)/credit	(16)	1	(69)	4	(86)	86	(9)	(5)	(94)
Profit/(loss) for the year	103	(45)	159	209	593	(326)	(76)	42	659
Depreciation	163	72	150	37	99	(99)	81	–	503
Amortisation	1	69	12	30	4	(4)	–	–	112
Provision for impairment of stock and property, plant and equipment	9	11	9	–	–	–	24	–	53

## 4. SEGMENT INFORMATION (continued)

At 30th June 2015	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL		Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
<b>Total segment assets</b>	<b>3,992</b>	<b>3,362</b>	<b>3,029</b>	<b>2,249</b>	<b>2,978</b>	<b>(2,978)</b>	<b>1,895</b>	<b>(1,113)</b>	<b>13,414</b>
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	51	17	30	21	42	(42)	216	–	335
<b>Total segment liabilities</b>	<b>1,766</b>	<b>2,921</b>	<b>593</b>	<b>1,305</b>	<b>1,231</b>	<b>(1,231)</b>	<b>1,807</b>	<b>(1,106)</b>	<b>7,286</b>

At 31st December 2014	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL		Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
Total segment assets	4,050	3,357	3,147	2,135	2,377	(2,377)	1,821	(706)	13,804
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	78	21	75	35	182	(182)	472	(3)	678
Total segment liabilities	1,597	3,065	691	1,262	652	(652)	1,747	(705)	7,657

	30th June 2015 HK\$M	31st December 2014 HK\$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	13,414	13,804
Unallocated: investment in joint venture companies	1,264	1,240
Total assets	14,678	15,044

The Group's principal joint venture companies, except for SAESL, are held by HAECO and HAECO Xiamen.

HAESL has been determined as a reportable operating segment, although it is a joint venture company. The Executive Directors of the Board review the full statement of profit or loss and net assets of this entity as part of its performance review and resource allocation decisions. Full information on revenue, profit, assets and liabilities has been included in the above, although these amounts do not appear in the Group's consolidated statement of profit or loss and consolidated statement of financial position on a line by line basis. Adjustments are also presented in the above to reflect the Group's equity share of HAESL in the consolidated statement of profit or loss and consolidated statement of financial position.

## 5. FINANCE INCOME AND FINANCE CHARGES

	Six months ended 30th June		Year ended 31st December	
	2015 HK\$M	2014 HK\$M	2014 HK\$M	
Finance income:				
Short-term deposits and bank balances	12	15	30	
Finance charges:				
Bank loans	(45)	(48)	(96)	
Advance from a related party	(1)	–	(1)	
Finance lease obligations	–	–	(1)	
Fair value losses on derivative instruments:				
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	(2)	–	(2)	
Fair value loss on a put option over a non-controlling interest in a subsidiary company	(3)	–	–	
Net finance charges	(39)	(33)	(70)	

## 6. TAXATION

	Six months ended 30th June		Year ended 31st December	
	2015 HK\$M	2014 HK\$M	2014 HK\$M	
Current taxation:				
Hong Kong profits tax	23	3	13	
Overseas taxation	62	45	97	
Under-provisions in prior years	2	12	2	
	87	60	112	
Deferred taxation:				
Increase in deferred tax assets	(33)	(7)	(18)	
Increase in deferred tax liabilities	4	10	–	
	58	63	94	

Hong Kong profits tax is calculated at 16.5% (2014: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

The Group's share of joint venture companies' tax charges for the six months ended 30th June 2015 of HK\$20 million (30th June 2014: HK\$23 million; year ended 31st December 2014: HK\$47 million) is included in the share of after-tax results of joint venture companies shown in the consolidated statement of profit or loss.

## 7. DIVIDENDS

	Six months ended 30th June	Year ended 31st December	
	2015 HK\$M	2014 HK\$M	2014 HK\$M
First interim dividend declared on 18th August 2015 of HK\$0.60 per share (2014 first interim dividend paid: HK\$0.65 per share)	100	108	108
Second interim dividend paid on 28th April 2015 of HK\$1.45 per share	–	–	241
	100	108	349

The Directors have declared a first interim dividend of HK\$0.60 per share (2014: HK\$0.65 per share) for the period ended 30th June 2015. The first interim dividend, which totals HK\$100 million (2014: HK\$108 million), will be paid on 22nd September 2015 to shareholders registered at the close of business on the record date, being Friday, 4th September 2015. Shares of the Company will be traded ex-dividend as from Tuesday, 1st September 2015.

The register of members will be closed on Friday, 4th September 2015, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 2nd September 2015.

## 8. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders for the period ended 30th June 2015 of HK\$254 million (30th June 2014: HK\$283 million; 31st December 2014: HK\$573 million) by the weighted average number of 166,324,850 ordinary shares in issue during the period (30th June 2014: 166,324,850; 31st December 2014: 166,324,850).

## 9. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS

	Property, plant and equipment HK\$M	Leasehold land and land use rights HK\$M
Net book value:		
At 1st January 2015	5,319	360
Additions	334	–
Disposals	(73)	–
Depreciation and amortisation	(251)	(6)
Provision for impairment losses	(19)	–
<b>At 30th June 2015</b>	<b>5,310</b>	<b>354</b>

Property, plant and equipment and leasehold land and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

## 10. INTANGIBLE ASSETS

	Goodwill HK\$M	Technical licences HK\$M	Customer relationships HK\$M	Others HK\$M	Total HK\$M
Net book value:					
At 1st January 2015	<b>1,419</b>	<b>411</b>	<b>694</b>	<b>84</b>	<b>2,608</b>
Translation differences	<b>(1)</b>	–	–	–	<b>(1)</b>
Additions and transfers	–	–	–	<b>1</b>	<b>1</b>
Amortisation	–	<b>(13)</b>	<b>(25)</b>	<b>(6)</b>	<b>(44)</b>
<b>At 30th June 2015</b>	<b>1,418</b>	<b>398</b>	<b>669</b>	<b>79</b>	<b>2,564</b>

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

## 11. JOINT VENTURE COMPANIES

The Group's share of the results, assets and liabilities of the joint venture companies are as follows:

	HAESL			Others			Total		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2015 HK\$M	2014 HK\$M	2014 HK\$M	2015 HK\$M	2014 HK\$M	2014 HK\$M	2015 HK\$M	2014 HK\$M	2014 HK\$M
At 1st January	<b>901</b>	901	901	<b>339</b>	312	312	<b>1,240</b>	1,213	1,213
Translation differences	<b>(1)</b>	–	(1)	–	(9)	(8)	<b>(1)</b>	(9)	(9)
Share of profit	<b>104</b>	136	267	<b>26</b>	25	47	<b>130</b>	161	314
Share of other comprehensive income	<b>1</b>	1	(27)	–	–	–	<b>1</b>	1	(27)
Dividends received from joint venture companies	<b>(89)</b>	(127)	(239)	<b>(17)</b>	(8)	(12)	<b>(106)</b>	(135)	(251)
At period end	<b>916</b>	911	901	<b>348</b>	320	339	<b>1,264</b>	1,231	1,240

## 12. RETIREMENT BENEFITS

The movement in the retirement benefit assets recognised in the statement of financial position is as follows:

	Local Scheme HK\$M	Expatriate Scheme HK\$M	Total HK\$M
At 1st January 2015	(6)	59	53
Decrease due to:			
Net expenses charged to statement of profit or loss	(49)	–	(49)
Contributions paid	29	–	29
<b>At 30th June 2015</b>	<b>(26)</b>	<b>59</b>	<b>33</b>

## 13. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments solely for management of an underlying risk. The Group minimises its exposure to market risk since gains and losses on derivatives offset the losses and gains on the transactions being hedged. It is the Group's policy not to enter into derivative transactions for speculative purposes.

	Assets		Liabilities	
	30th June 2015 HK\$M	31st December 2014 HK\$M	30th June 2015 HK\$M	31st December 2014 HK\$M
Forward foreign exchange contracts				
– cash flow hedges	–	–	4	8
– not qualifying as hedges	6	10	–	2
Interest rate swaps				
– cash flow hedges	–	–	2	1
<b>Total</b>	<b>6</b>	<b>10</b>	<b>6</b>	<b>11</b>
Less: non-current portion				
Forward foreign exchange contracts				
– not qualifying as hedges	–	–	–	1
Interest rate swaps				
– cash flow hedges	–	–	–	1
	–	–	–	2
<b>Current portion</b>	<b>6</b>	<b>10</b>	<b>6</b>	<b>9</b>

## 14. TRADE AND OTHER RECEIVABLES

The Group has policies in place to evaluate credit risk when accepting new business and limit its credit exposure to any individual customer. The credit terms given to customers vary and are generally based on their individual financial strength.

Credit evaluations of trade receivables are performed periodically to minimise credit risk associated with receivables.

	30th June 2015 HK\$M	31st December 2014 HK\$M
Trade receivables	<b>902</b>	1,024
Less: provision for impairment of receivables	<b>(87)</b>	(89)
	<b>815</b>	935
Amounts due from joint venture companies	<b>12</b>	9
Amounts due from related parties	<b>549</b>	433
Other receivables and prepayments	<b>431</b>	390
	<b>1,807</b>	1,767
The analysis of the age of trade receivables (based on the invoice date) is as follows:		
Under three months	<b>774</b>	898
Between three and six months	<b>27</b>	27
Over six months	<b>101</b>	99
	<b>902</b>	1,024

**15. TRADE AND OTHER PAYABLES**

	30th June 2015 HK\$M	31st December 2014 HK\$M
Trade payables	420	492
Amounts due to joint venture companies	5	1
Amounts due to related parties	27	38
Accrued capital expenditure	32	45
Accruals	928	985
Deferred income	548	244
Other payables	155	239
	<b>2,115</b>	<b>2,044</b>
The analysis of the age of trade payables (based on the invoice date) is as follows:		
Under three months	413	485
Between three and six months	5	5
Over six months	2	2
	<b>420</b>	<b>492</b>

Included within accruals are amounts for provisions for certain customer claims and other contingencies. In accordance with the exemption allowed under paragraph 92 of HKAS 37, these amounts are not separately disclosed on the grounds that the Directors believe that doing so could be prejudicial to the eventual outcome of these claims.

**16. DEFERRED TAXATION**

The movement on the net deferred tax liabilities account is as follows:

	HK\$M
At 1st January 2015	177
Charged to statement of profit or loss	(29)
Credited to other comprehensive income	1
At 30th June 2015	<b>149</b>
Represented by:	
Deferred tax assets	(127)
Deferred tax liabilities	276
	<b>149</b>



## 17. SHARE CAPITAL

### Issued and fully paid:

At 30th June 2015 and 31st December 2014

Company	
Number of shares	HK\$M
<b>166,324,850</b>	<b>185</b>

During the period, the Company did not purchase, sell or redeem any of its shares.

On 3rd March 2014, the Companies Ordinance (Cap. 662) (the "New CO") came into effect. This had the following results.

- The Company's authorised share capital ceased to exist (by virtue of section 98(4) of the New CO).
- The Company's shares ceased to have nominal or par value (by virtue of section 135 of the New CO).
- The amount standing to the credit of the Company's capital redemption reserve became part of the Company's share capital (by virtue of paragraph 37 of Schedule 11 to the New CO).

The entitlements of the Company's shareholders are unaffected by the Company's shares ceasing to have nominal or par value as referred to in (b) above.

## 18. RESERVES

	Revenue reserve HK\$M	Exchange translation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
At 1st January 2015	<b>5,725</b>	<b>167</b>	<b>(8)</b>	<b>5,884</b>
Total comprehensive income for the period	<b>254</b>	<b>(2)</b>	<b>1</b>	<b>253</b>
2014 second interim dividend	<b>(241)</b>	<b>-</b>	<b>-</b>	<b>(241)</b>
<b>At 30th June 2015</b>	<b>5,738</b>	<b>165</b>	<b>(7)</b>	<b>5,896</b>

## 19. CAPITAL COMMITMENTS

	30th June 2015 HK\$M	31st December 2014 HK\$M
Outstanding capital commitments at the end of the period:		
Contracted for	<b>268</b>	166
Authorised by Directors but not contracted for	<b>1,355</b>	1,126
	<b>1,623</b>	1,292

## 20. RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS

The Group has a number of transactions with its related parties and connected persons. All trading transactions are conducted in the normal course of business at prices and on terms similar to those charged to/by and contracted with other third party customers/suppliers of the Group. The aggregate transactions which are material to the Group and which have not been disclosed elsewhere in the interim report are summarised below:

Note	Joint venture companies			Immediate holding company			Other related parties			Total			
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	
	2015 HK\$M	2014 HK\$M	2014 HK\$M	2015 HK\$M	2014 HK\$M	2014 HK\$M	2015 HK\$M	2014 HK\$M	2014 HK\$M	2015 HK\$M	2014 HK\$M	2014 HK\$M	
Revenue from rendering of services	<b>25</b>	18	36	–	–	–	<b>1,269</b>	1,302	2,583	<b>1,294</b>	1,320	2,619	
	<b>25</b>	18	36	–	–	–	<b>1,269</b>	1,302	2,583	<b>1,294</b>	1,320	2,619	
Purchases of:													
Services from John Swire & Sons (H.K.) Limited under services agreement													
– Service fees payable during the period	<i>b</i>	–	–	–	–	–	<b>8</b>	9	18	<b>8</b>	9	18	
– Expenses reimbursed at cost	<i>b</i>	–	–	–	–	–	<b>39</b>	34	61	<b>39</b>	34	61	
Subtotal	<i>b</i>	–	–	–	–	–	<b>47</b>	43	79	<b>47</b>	43	79	
– Share of administrative services		–	–	–	–	–	<b>1</b>	1	5	<b>1</b>	1	5	
Total		–	–	–	–	–	<b>48</b>	44	84	<b>48</b>	44	84	
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		–	–	–	–	–	<b>4</b>	3	7	<b>4</b>	3	7	
Risk management service		–	–	<b>1</b>	1	2	–	–	–	<b>1</b>	1	2	
Services from Cathay Pacific Airways Limited Group	<i>b</i>	–	–	–	–	–	<b>11</b>	11	26	<b>11</b>	11	26	
Other services	<i>c</i>	<b>9</b>	12	17	–	–	<b>14</b>	12	23	<b>23</b>	24	40	
		<b>9</b>	12	17	<b>1</b>	1	<b>2</b>	<b>77</b>	70	140	<b>87</b>	83	159

### Notes:

- Revenue from joint venture companies mainly came from the provision to HAESL of engine component repairs on a commercial arm's length basis. Revenue from other related parties mainly came from the provision of aircraft maintenance service.
- These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules.
- Purchases from joint venture companies comprised mainly aircraft component overhaul charges by HAESL.
- Amounts due from and due to joint venture companies and other related parties at 30th June 2015 are disclosed in note 14 and note 15 to the financial statements.

### CORPORATE GOVERNANCE

The Company complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the interim report with the following exceptions which it believes do not benefit shareholders:

- **Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee.** The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by the Board as to suitability for the role.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules.

On specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the interim report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

The interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

### DIRECTORS' PARTICULARS

Changes in the particulars of the Directors are set out as follows:

1. J.R. Slosar was appointed as a Vice-President of The Real Estate Developers Association of Hong Kong with effect from 19th March 2015.
2. L.K.K. Leong retired as an Independent Non-Executive Director of the Company at the conclusion of the 2015 annual general meeting held on 15th May 2015 ("2015 AGM").
3. M. Hayman resigned as an Executive Director of the Company with effect from the conclusion of the 2015 AGM and retired as Group Director Engineering and Operations on 31st July 2015.

## DIRECTORS' INTERESTS

At 30th June 2015, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of Hong Kong Aircraft Engineering Company Limited and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited, Swire Pacific Limited and Swire Properties Limited:

	Capacity			Total no. of shares	Percentage of voting shares (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
<b>Hong Kong Aircraft Engineering Company Limited</b>						
<b>Ordinary Shares</b>						
The Hon. Sir Michael David Kadoorie (Alternate Director)	–	–	5,223,811	5,223,811	3.14	1
D.C.L. Tong	20,000	–	–	20,000	0.01	

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
<b>John Swire &amp; Sons Limited</b>						
<b>Ordinary Shares of £1</b>						
M.B. Swire	3,150,523	–	19,222,920	22,373,443	22.37	3
<b>8% Cum. Preference Shares of £1</b>						
M.B. Swire	846,476	–	5,655,441	6,501,917	21.67	3

	Capacity			Total no. of shares	Percentage of voting shares in the class (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
<b>Swire Pacific Limited</b>						
<b>'A' shares</b>						
P.A. Johansen	31,500	–	–	31,500	0.0035	
<b>'B' shares</b>						
P.A. Johansen	200,000	–	–	200,000	0.0067	
The Hon. Sir Michael David Kadoorie (Alternate Director)	–	–	8,372,500	8,372,500	0.2795	2

**Swire Properties Limited****Ordinary Shares**

P.A. Johansen

	Capacity			Total no. of shares	Percentage of voting shares (%)
	Beneficial interest		Trust interest		
	Personal	Family			
P.A. Johansen	50,050	–	–	50,050	0.00086

*Notes:*

1. The Hon. Sir Michael David Kadoorie is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares.
2. The Hon. Sir Michael David Kadoorie is one of the discretionary objects of the discretionary trusts which ultimately hold these shares.
3. M.B. Swire is a trustee of trusts which held 7,899,584 ordinary shares and 2,237,039 preference shares in John Swire & Sons Limited included under "Trust interest" and does not have any beneficial interest in those shares.

Other than as stated above, no Director or chief executive of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

**SUBSTANTIAL SHAREHOLDERS' AND OTHER INTERESTS**

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2015 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	Number of shares	Percentage of voting shares (%)	Type of interest	Note
1. Swire Pacific Limited	124,723,637	74.99	Beneficial owner	1
2. John Swire & Sons Limited	124,723,637	74.99	Attributable interest	2

*Notes:*

At 30th June 2015:

1. Swire Pacific Limited was interested in 124,723,637 shares of the Company as beneficial owner.
2. John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited were deemed to be interested in the 124,723,637 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group's interests in shares of Swire Pacific Limited representing approximately 49.75% of the equity and approximately 61.26% of the voting rights.

# Financial Calendar and Information for Investors

## FINANCIAL CALENDAR 2015

Shares trade ex-dividend	1st September 2015
Interim Report available to shareholders	2nd September 2015
Share register closed for first interim dividend entitlement	4th September 2015
Payment of 2015 first interim dividend	22nd September 2015
Annual results announcement	March 2016
Annual General Meeting	May 2016

## REGISTERED OFFICE

Hong Kong Aircraft Engineering Company Limited  
33rd Floor, One Pacific Place  
88 Queensway  
Hong Kong

## REGISTRARS

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183 Queen's Road East  
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