HAECO

Hong Kong Aircraft Engineering Company Limited

Annual Report 2015

Stock Code: 00044

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Financial Highlights

		2015	2014	Change
Results				
Revenue	*HK$ Million*	**12,095**	11,927	+1.4%
Net operating profit	*HK$ Million*	**339**	439	-22.8%
Share of after-tax results of joint venture companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited	*HK$ Million*	**194**	267	-27.3%
– Other joint venture companies	*HK$ Million*	**52**	47	+10.6%
Profit attributable to the Company's shareholders	*HK$ Million*	**464**	573	-19.0%
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	*HK$*	**2.79**	3.45	-19.0%
Total dividends per share	*HK$*	**1.70**	2.10	-19.0%
Financial Position				
Net borrowings	*HK$ Million*	**2,710**	2,610	+3.8%
Gearing ratio	*%*	**37.7**	35.3	+2.4%pt
Total equity	*HK$ Million*	**7,186**	7,387	-2.7%
Equity attributable to the Company's shareholders per share	*HK$*	**35.36**	36.49	-3.1%
Cash Flows				
Net cash generated from operating activities	*HK$ Million*	**696**	1,115	-37.6%
Net cash inflow/(outflow) before financing activities	*HK$ Million*	**281**	(2,211)	-112.7%

Note:
The average number of shares in issue is 166,324,850 in 2015 (2014: 166,324,850).
Additional financial information about the Group's joint venture companies is presented on pages 81 to 83.

Chairman's Letter

The HAECO Group reported an attributable profit of HK$464 million in 2015. This compares to a profit of HK$573 million in 2014.

The Directors have declared a second interim dividend of HK$1.10 per share for the year ended 31st December 2015. Together with the first interim dividend of HK$0.60 per share paid on 22nd September 2015, this results in total dividends for the year of HK$1.70 per share and represents a total distribution of HK$283 million, 19.0% lower than that made in respect of 2014. The second interim dividend, which totals HK$183 million (2014: HK$241 million), will be paid on 26th April 2016 to shareholders on the register at the close of business on 1st April 2016. Shares of the Company will be traded ex-dividend as from Wednesday, 30th March 2016.

The HAECO Group's businesses are being adversely affected by new airframes, engines and components requiring less maintenance than older airframes, engines and components.

Manhours sold by HAECO in Hong Kong ("HAECO Hong Kong") for airframe services increased by 13.8% in 2015. This reflected continued good demand and an increase in staff numbers. Manhours sold for line services in Hong Kong also increased in spite of a reduction in aircraft movements handled, as more work was done per movement. Manhours sold for components and avionics work in Hong Kong decreased. This reflected the retirement of Boeing 747-400 aircraft. The profit of HAECO ITM Limited ("HAECO ITM") increased. This reflected higher utilisation of rotable parts as operations expanded. The profits of Hong Kong Aero Engine Services Limited ("HAESL") decreased. 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.

HAECO USA Holdings, Inc. ("HAECO Americas") recorded a higher loss in 2015 than in the 11 months following its acquisition in 2014. This principally reflected completion of large, high work scope airframe services contracts and their replacement with smaller work scope contracts. HAECO Americas also shipped fewer seats. Demand for its old seats declined and the replacement seats were not yet in commercial production.

The profit of Taikoo (Xiamen) Aircraft Engineering Company Limited ("HAECO Xiamen") decreased in 2015. Fewer airframe maintenance manhours were sold and there was very little private jet work. Taikoo Engine Services (Xiamen) Company Limited ("TEXL") overhauled more engines. However its after tax profits fell, as it no longer had tax losses to utilise. The losses of Taikoo (Xiamen) Landing Gear Services Company Limited ("HAECO Landing Gear Services") were slightly smaller than those of 2014. It did more work in 2015 than in 2014, but better operating results were largely offset by unrealised foreign exchange losses on loans. The results of the Group's other joint ventures in Mainland China were better than in 2014.

The Group continued to invest in order to increase the scale of its operations and technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure for 2015 was HK$716 million. Capital expenditure committed at the end of the year was HK$1,928 million.

Prospects

The prospects for the Group's different businesses in 2016 are mixed. HAECO Hong Kong's airframe services capacity is expected to grow in 2016, with more staff being hired. Training them will increase costs in the short term. Further growth in capacity will be constrained by lack of hangar space. Demand for line services in Hong Kong in 2016 is expected to remain strong. The component and avionics overhaul business will continue to be adversely affected by the cost of developing new capabilities. Demand for HAECO Americas' airframe services is expected to remain similar to that of 2015. Results are expected to improve through efficiency and work flow improvements on contracts entered into in 2015. HAECO Americas will start to deliver new Vector seats this year. The cabin integration order book is strong.

HAECO Xiamen expects to do less airframe services work in 2016 than in 2015. Demand for TEXL's overhaul services is expected to remain firm in 2016. HAESL is expected to do less work per engine in 2016.

The municipal government of Xiamen has announced that the proposed new airport at Xiang'an will commence operations in 2020. This is subject to the National Development and Reform Commission's approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

The commitment and hard work of employees of the Company and its subsidiary and joint venture companies are central to our continuing success. I take this opportunity to thank them for jobs well done.

John Slosar
Chairman
Hong Kong, 8th March 2016

Your resourceful partner for world-class aircraft engineering and maintenance solutions.

Established in Hong Kong in 1950, HAECO is one of the world's leading independent aircraft engineering and maintenance groups. It is one of the largest Maintenance, Repair and Overhaul ("MRO") service providers in terms of capacity. Through its 19 subsidiaries and joint venture companies around the world, the Group offers a full spectrum of services including airframe services, line services, component services, engine services, inventory technical management, fleet technical management, cabin integration services and interior products, private jet solutions, freighter conversion, parts manufacturing and technical training.

One Group. Full Services.

Airframe Services
Offers airframe maintenance, cabin reconfiguration, structural modification, freighter conversion fulfillment, as well as line services covering transit checks and certification, defect clearance, cabin management, ramp services and 24/7 aircraft-on-ground support across Asia and the United States.

Cabin Solutions
Provides turnkey cabin integration solutions for commercial aircraft and private jets, covering design engineering, certification and vendor management. The Group is an authorised aircraft seat and cabin interior products original equipment manufacturer.

Component Services
Provides component repair and overhaul services for hydraulic, mechanical, avionics and pneumatic systems across the Airbus and Boeing commercial aircraft fleets, and with wheels and brakes, tyres, aerostructures, landing gear and auxiliary power units through the Group's subsidiaries and joint ventures facilities.

Engine Services
Operates world-class repair, overhaul and testing facilities for Rolls-Royce RB-211 and Trent engines in Hong Kong, a GE Aviation-authorised GE-90 facility in Xiamen, Mainland China, and a Pratt & Whitney JT8D facility in Oscoda, Michigan in the United States.

The strategic objective of HAECO is sustainable growth in shareholder value over the long term. The strategies employed in order to achieve this objective are:

Continuing to increase the range, depth and quality of aircraft engineering services offered by the HAECO Group

We will continue to develop and enhance our technical capabilities, with the aim of meeting our customers' needs at competitive prices.

We intend to expand our inventory and technical management services and our component repair capabilities. We intend these businesses to achieve the scale necessary to utilise fully the assets employed in them. This should enable us to earn satisfactory returns while charging competitive prices.

We aim for the highest professional standards of work in all our businesses.

We aim to expand geographically, by starting new operations ourselves or in joint ventures with others.

HAECO Group Service Locations

Employing staff who will be committed to HAECO for the long term and providing them with career paths and training consistent with HAECO's strategic objectives

We aim to offer competitive remuneration and benefit packages to our staff.

We will continue to provide high standards of staff training.

We will continue to promote health and safety in our operations.

Maintaining and developing strategic relationships with manufacturers of aircraft and aircraft equipment

We intend to maintain and develop strong strategic relationships with manufacturers of aircraft and aircraft equipment. We believe that this will increase the value of the services we provide to our customers.

HAECO Group Services	Hong Kong	U.S.	Mainland China	Singapore
Airframe Services	■	■	■	■
Cabin Solutions	■	■	■	
Component Services	■		■	
Engine Services	■	■	■	■

Our Vision

To be the best-in-class service provider of aircraft engineering and maintenance solutions – recognised for technical expertise, operational excellence and the determination to deliver.

Our Mission

We firmly believe that delivering aircraft engineering and maintenance solutions above and beyond expectations is fundamental to safe and enjoyable skies.

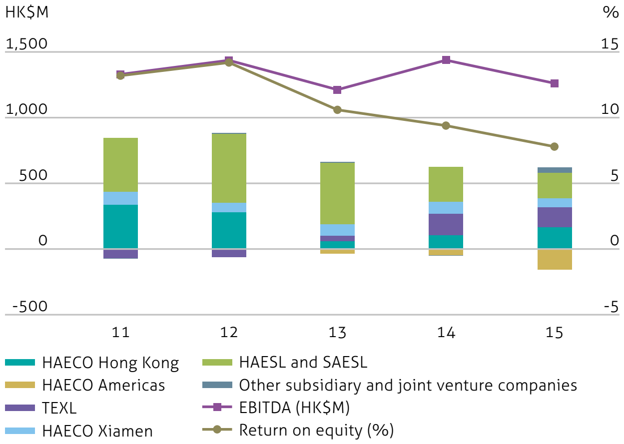
Our Attributes

- "Can-do" Spirit
- Technical Expertise
- Service Innovation
- Operational Excellence
- Integrity & Trust

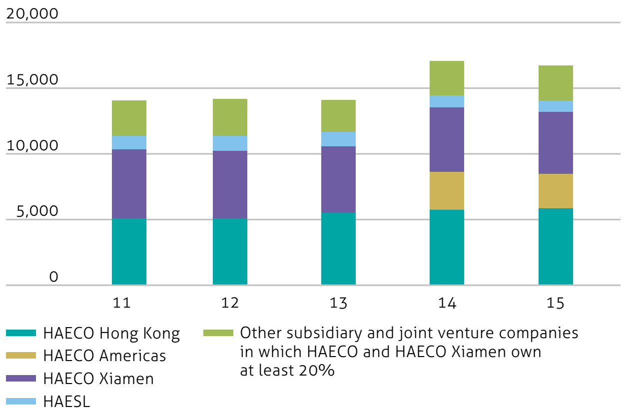
The profit attributable to the Company's shareholders comprises:

	2015 HK$M	2014 HK$M	Change
HAECO Hong Kong	167	103	+62.1%
HAECO Americas	(158)	(45)	-251.1%
HAECO Xiamen	69	89	-22.5%
TEXL	149	166	-10.2%
Share of:			
HAESL and SAESL	194	267	-27.3%
Other subsidiary and joint venture companies	43	(7)	+714.3%
	464	573	-19.0%

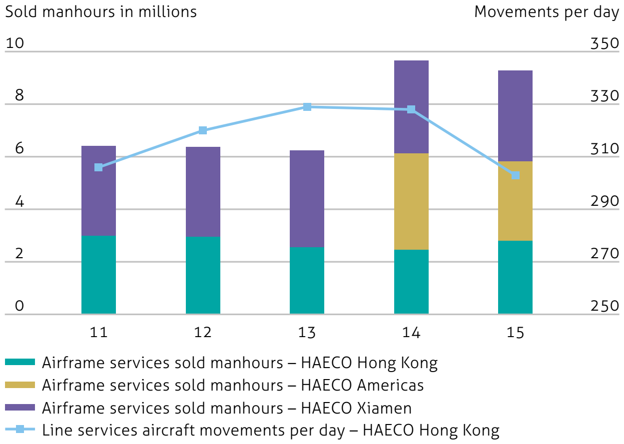
Attributable Profits by Company



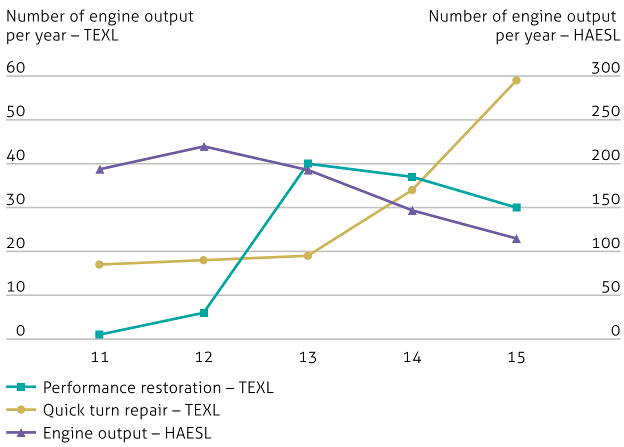
Number of Staff



Airframe Services Sold Manhours and Line Services Aircraft Movements



Engine Output



Industry Background

Orders for new aircraft are firm. Aircraft manufacturers have record order books and are increasing production. More aircraft means in principle more demand for their MRO. But new aircraft need less MRO than older aircraft and original equipment manufacturers are doing more MRO than they used to. On balance, MRO demand is still expected to grow in the medium and longer term.

HAECO Hong Kong

HAECO Group has been awarded a comprehensive fleet modification contract by Air Canada for the "777 Dream Cabin" programme.

HAECO Hong Kong's business comprises airframe services, line services at the passenger and cargo terminals at Hong Kong International Airport ("HKIA"), component services, material management and fleet technical management. It recorded a 62.1% increase in profit compared to 2014.

Airframe Services

HAECO Hong Kong performs scheduled maintenance checks, modifications and overhaul work on a wide variety of aircraft types. It competes on turnaround time and quality of workmanship with other maintenance, repair and overhaul facilities worldwide. Manhours sold increased from 2.46 million in 2014 to 2.80 million in 2015. This reflected continued good demand and an increase in staff numbers. 79.7% of the work was for airlines based outside Hong Kong.

Line Services

HAECO Hong Kong undertakes technical and non-technical line services for airlines operating at HKIA. The average number of aircraft movements handled decreased in 2015 by 7.6% to 303 per day. But line services manhours sold increased because more work was done per movement.

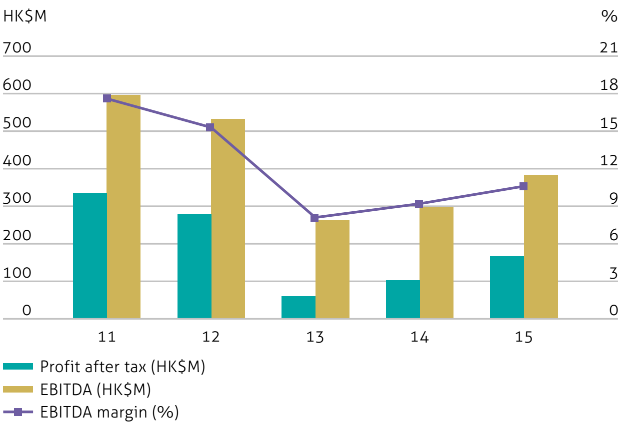
Component Services

HAECO Hong Kong overhauls components and avionics at Tseung Kwan O in Hong Kong. Manhours sold, together with those sold by HAECO Component Overhaul (Xiamen) Limited ("HAECO Component Overhaul (Xiamen)"), were 0.199 million in 2015, a decrease of 11.6% compared to 2014. The decrease reflected the retirement of Boeing 747-400 aircraft.

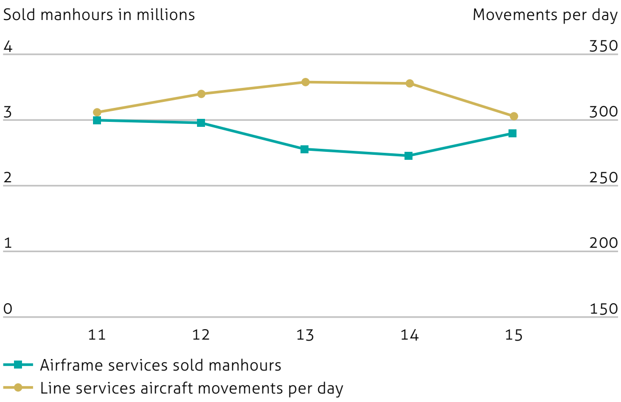
HAECO Hong Kong employed 5,857 staff at the end of 2015, 2.1% more than at the end of 2014. The increase principally reflects recruitment of trainees.

Airframe services and line services capacity in 2016 is expected to grow, with more staff being hired. Training them will increase costs in the short term. Demand for line services in 2016 is expected to remain strong.

HAECO Hong Kong – Profitability



HAECO Hong Kong – Key Operating Drivers



HAECO Americas (owned 100% by HAECO)

HAECO Americas introduces the Vector-Y, its sleek new lightweight economy class seat.

HAECO Americas, acquired in February 2014, recorded a loss of HK$158 million for the full year 2015 compared to a loss of HK$45 million (for the 11-month period following its acquisition) in 2014. The increased loss principally reflected a decline in airframe services manhours sold.

Airframe, Line and Engine Services

Demand for HAECO Americas' airframe services fell to 3.02 million manhours sold in 2015 from 3.66 million in the post-acquisition period in 2014. The decrease principally reflected completion of large, high work scope contracts and their replacement with smaller work scope contracts. At the end of 2015, line services were available at 21 stations in the United States, compared with 19 stations at the end of 2014. Engine overhaul work was steady in 2015, with 38 engines overhauled and two engines sold.

Cabins and Seats

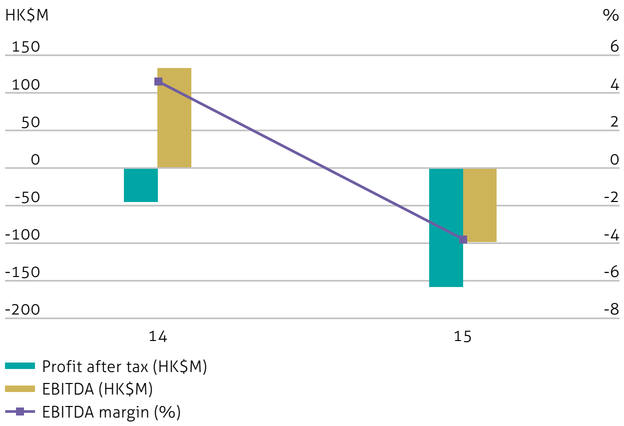
In 2015, HAECO Americas worked on 40 cabin integration programmes compared with 44 in the post-acquisition period in 2014. Such reduction was partly compensated by more Panasonic Global Communication Suite kit work done in 2015. For seat business, it shipped approximately 4,200 premium economy and economy class seats compared with 8,600 in the post-acquisition period in 2014. Demand for HAECO Americas' old seats declined and the replacement seats were not yet in commercial production.

Demand for airframe services is expected to remain similar to that of 2015. Results are expected to improve through efficiency and work flow improvements on contracts entered into in 2015.

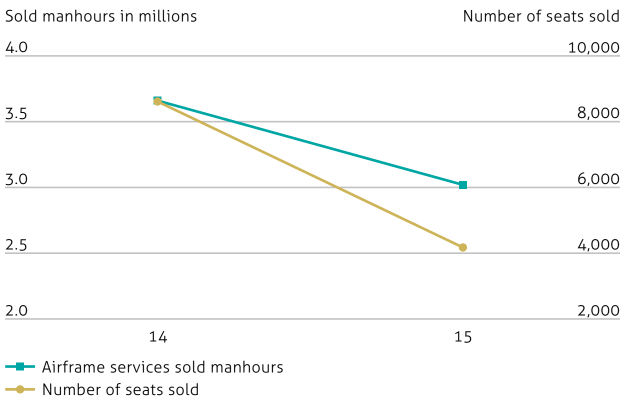
HAECO Americas will start to deliver its new Vector seats in 2016. Acceptance of the new seat will take time and the seat business is therefore expected to incur a loss. The cabin integration order book is strong.

HAECO Americas employed 2,597 staff at the end of 2015.

HAECO Americas – Profitability



HAECO Americas – Key Operating Drivers



HAECO Xiamen (owned 58.55% by HAECO)

Maintenance work in progress at HAECO Xiamen's hangar facility.

HAECO Xiamen's business comprises airframe services, line services, private jet work, parts manufacturing and technical training.

In 2015, HAECO Xiamen recorded a 22.5% decrease in profit compared with 2014. Fewer airframe services manhours were sold in 2015 and there was very little private jet work.

Airframe Services

HAECO Xiamen provides airframe services in Xiamen. Manhours sold in 2015 were 3.46 million, 2.5% less than in 2014. There was less demand, particularly for heavy maintenance work.

Line Services

HAECO Xiamen provides line services in Xiamen, Beijing, Tianjin, Chongqing and Zhengzhou. It handled an average of 46 aircraft movements per day in 2015, 12.2% more than in 2014.

Private Jet Work

Revenue and profit from private jet work decreased significantly in 2015.

Parts Manufacturing and Technical Training

HAECO Xiamen manufactures parts and provides technical training in Xiamen. Parts manufacturing revenue increased by 12.8% in 2015. Revenue from technical training increased by 15.7% in 2015.

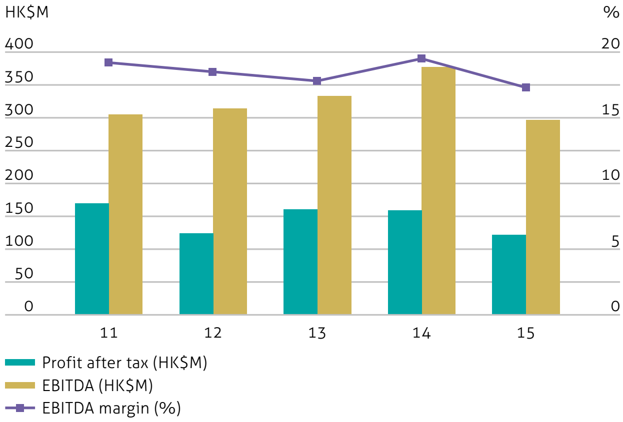
HAECO Xiamen employed 4,736 staff at the end of 2015, 3.4% fewer than at the end of 2014.

HAECO Xiamen expects to do less airframe services work in 2016 than in 2015.

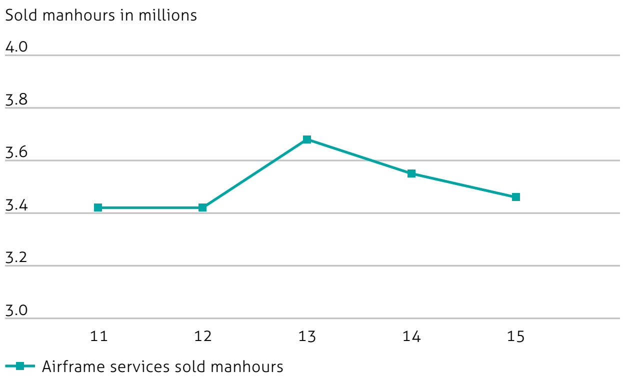
New Airport in Xiamen

The municipal government of Xiamen has announced that the proposed new airport at Xiang'an will commence operations in 2020. This is subject to the National Development and Reform Commission's approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

HAECO Xiamen – Profitability



HAECO Xiamen – Key Operating Driver



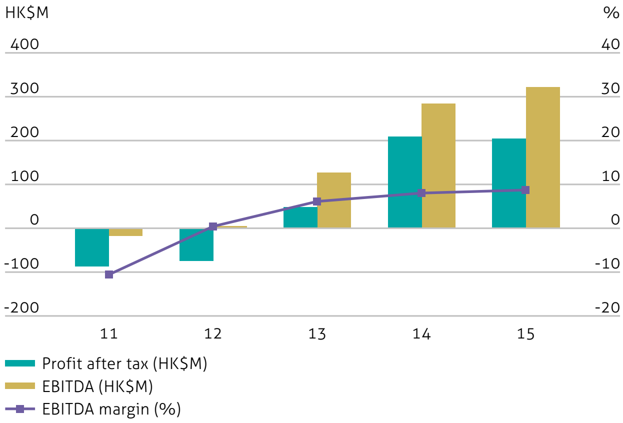
TEXL (owned 67.58% by HAECO and 9.01% by HAECO Xiamen)

As a GE90-authorised service provider, TEXL offers a full range of repair and overhaul services for airlines operating GE90-110B and GE90-115B engines.

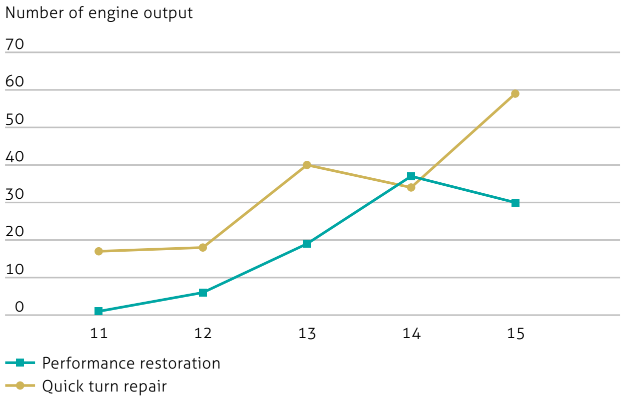
TEXL has an engine overhaul facility in Xiamen. It has a service agreement with General Electric under which it provides MRO services for GE90-110B and GE90-115B engines. In 2015, TEXL completed 59 quick turn repairs on GE90 aircraft engines (56 of them being heavy or medium repairs) and 30 performance restorations on such engines, compared to 34 quick turn repairs and 37 performance restorations in 2014. TEXL also did high pressure compressor spool replacements, high pressure turbine shroud and vane replacements, low pressure turbine disc and blade replacements and turbine centre frame modifications. Extra work meant a higher profit before tax in 2015 than in 2014. TEXL's after tax profit fell as it no longer had tax losses to utilise.

The engine types overhauled by TEXL are getting older. They need more maintenance. Demand for TEXL's overhaul services is expected to remain firm in 2016.

TEXL – Profitability



TEXL – Key Operating Drivers



HAESL (45% owned by HAECO)


HAESL took delivery of its first Rolls-Royce Trent XWB engine in 2015.

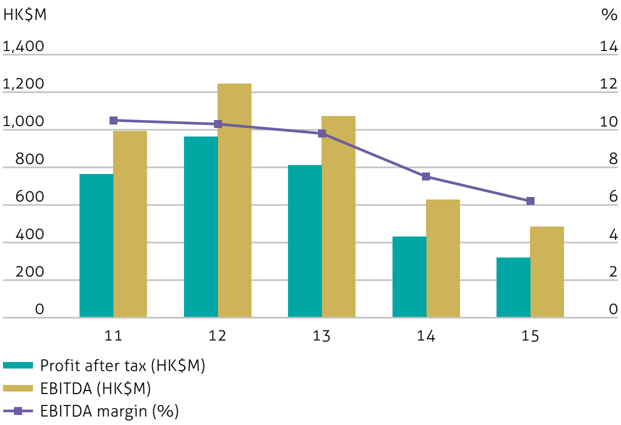
HAESL repairs and overhauls Rolls-Royce engines and engine components at Tseung Kwan O in Hong Kong. The company recorded a 25.8% decrease in profit in 2015 compared to 2014. Fewer engines were overhauled. This reflected the retirement of aircraft operating Trent 500 engines and a reduction in the frequency of scheduled maintenance of Trent 700 engines. Engine output was 115 in 2015 compared with 147 in 2014.

HAESL is expected to do less work per engine in 2016.

The Group's share of the after-tax profit of HAESL, including that derived from HAESL's interest in SAESL, decreased by 27.3% in 2015 to HK$194 million.

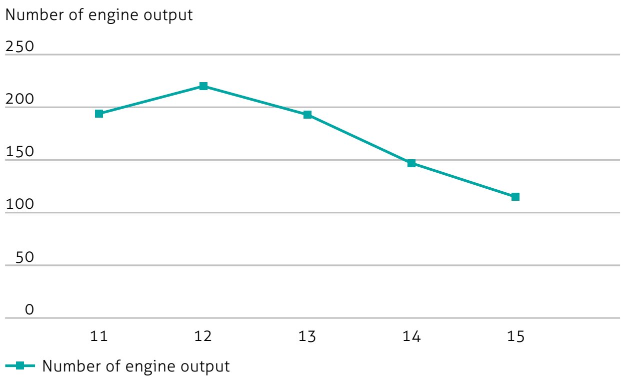
In November 2015, conditional agreements were entered into for the restructuring of shareholdings in HAESL and SAESL. As part of the restructuring (and subject to satisfaction of the conditions to which the agreements are subject), HAESL will sell its 20% shareholding in SAESL. This sale is expected to result in a gain to HAESL. The amount of the gain will depend on (inter alia) when the agreements are completed. For illustrative purposes only, if (which is not certain) the agreements are completed by the end of April 2016, the gain to HAESL is expected to be approximately US$229 million. 45% of the gain to HAESL (equivalent to approximately HK$804 million if the agreements are completed by the end of April 2016) is expected to be reported as a profit by HAECO. As part of the restructuring, HAECO agreed to increase its shareholding in HAESL from 45% to 50%. On completion of the restructuring, HAESL will be owned as to 50% by HAECO and 50% by Rolls-Royce, and HAESL will no longer be interested in SAESL.

HAESL – Profitability



Remark: The above figures do not include any share of after-tax results of SAESL.

HAESL – Key Operating Driver



Other Principal Subsidiary and Joint Venture Companies

The new universal hydraulic test bench at the HAECO Component Overhaul (Xiamen) workshop.

HAECO Group launched "East meets West", a new cabin design concept for private jets.

- HAECO ITM (owned 70% by HAECO) provides inventory technical management services to Cathay Pacific and other airlines. The total number of aircraft for which services were provided in 2015 was 259, slightly more than in 2014. Profits increased in 2015. This reflected a higher utilisation of rotable parts as operations expanded.
- HAECO Landing Gear Services (owned 63.80% by HAECO and 10% by HAECO Xiamen) overhauls landing gear in Xiamen. 2015 losses were slightly smaller than those of 2014. More work was done in 2015 than in 2014, but better operating results were largely offset by unrealised foreign exchange losses on loans.
- HAECO Component Overhaul (Xiamen) (100% owned) overhauls components in Xiamen. It made a smaller loss in 2015 than in 2014. The volume of work increased.
- Shanghai Taikoo Aircraft Engineering Services Company Limited ("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 41 in 2015, 16.3% lower than in 2014. This reflected the expiry of contracts. Profits fell.
- Singapore HAECO Pte. Limited ("HAECO Line Services (Singapore)") (100% owned) provides line services in Singapore. It recorded a profit in 2015, compared to breakeven in 2014. Staff costs were lower.
- HAECO Private Jet Solutions, LLC (owned 90.01% by HAECO) provides certification, engineering design and programme management for completion and reconfiguration of private jet cabins in the United States. It made a smaller loss in 2015 than in 2014.

- Goodrich Asia-Pacific Limited (49% owned by HAECO) refurbishes carbon brakes and wheel hubs in Hong Kong. Its profit decreased significantly, despite a growth in sales, in 2015. This reflected higher rents and one off workshop relocation costs.
- 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. Its profit increased significantly in 2015. It did more work and recognised a deferred tax asset arising from unutilised tax losses.
- Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited (owned 28% by HAECO and 9% by HAECO Xiamen) sells and retreads aircraft tyres at Jinjiang in Fujian Province in Mainland China. Its gross profit increased in 2015, but it made a loss because of a higher foreign exchange loss.
- Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited (35% owned by HAECO Xiamen) overhauls fuel control systems and pumps in Xiamen. Its pretax profit was similar in 2015 to that in 2014. Its after tax profit increased because of a tax refund.
- Honeywell TAECO Aerospace (Xiamen) Company Limited (owned 25% by HAECO and 10% by HAECO Xiamen) overhauls auxiliary power units and other rotable spares. It made a profit in 2015 because of higher sales.
- Taikoo (Shandong) Aircraft Engineering Company Limited (owned 30% by HAECO and 10% by HAECO Xiamen) undertakes airframe maintenance, passenger to freighter conversions and line services at Jinan in Shandong Province in Mainland China for Boeing 737 and other narrow-body aircraft. Profits decreased significantly in 2015. Keen competition meant less airframe services work.

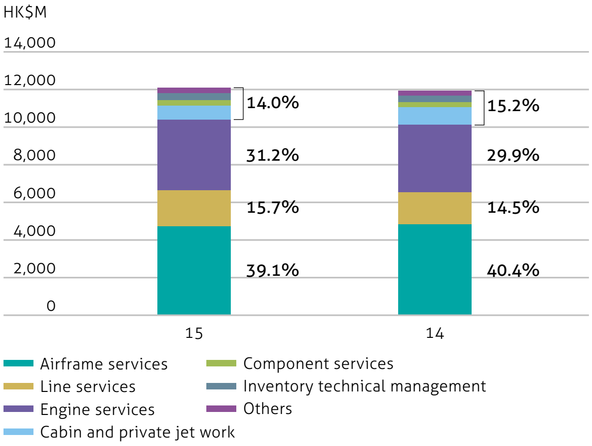
Maintenance on a D-Duct of a Boeing 777 T800 thrust reverser performed by HAECO Spirit AeroSystems.

Based at the Jinan International Airport, STAECO provides airframe and line maintenance and modification services for airlines throughout Asia Pacific.

Operational Review by Service Type

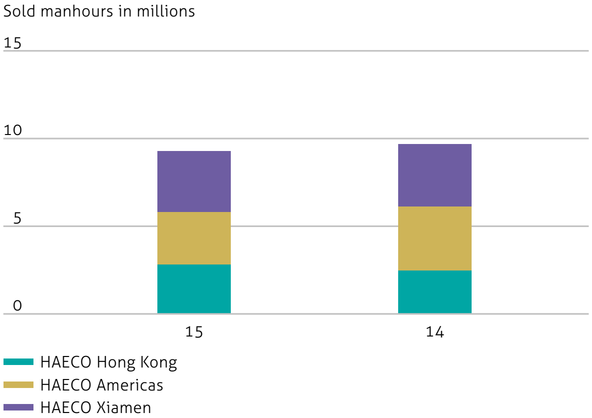
Revenue increased by 1.4% to HK$12,095 million in 2015. An analysis of the total revenue by service type is shown below.

Total Revenue



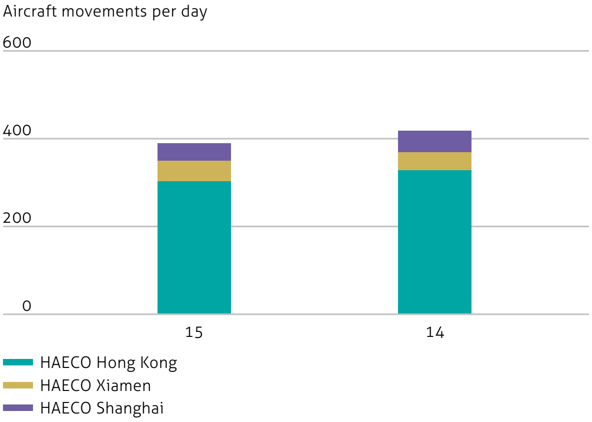
The following graphs illustrate the key operating drivers of respective service type of the Group:

Airframe Services – Number of Sold Manhours



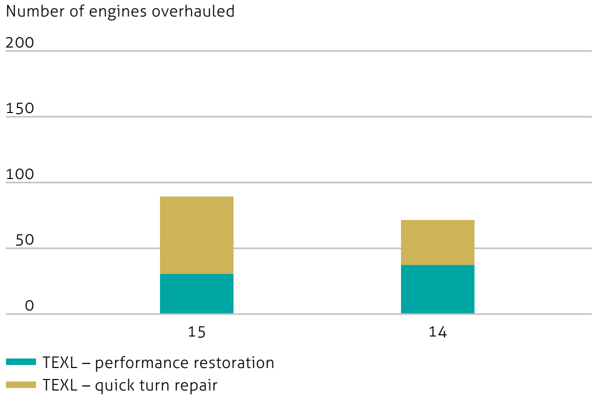
The Group's revenue from airframe services in 2015 reduced slightly from 2014. HAECO Hong Kong, HAECO Americas and HAECO Xiamen sold 9.28 million airframe services manhours in 2015, 0.39 million less than those in 2014. Manhours sold decreased at HAECO Americas and HAECO Xiamen but increased at HAECO Hong Kong.

Line Services – Number of Aircraft Movements



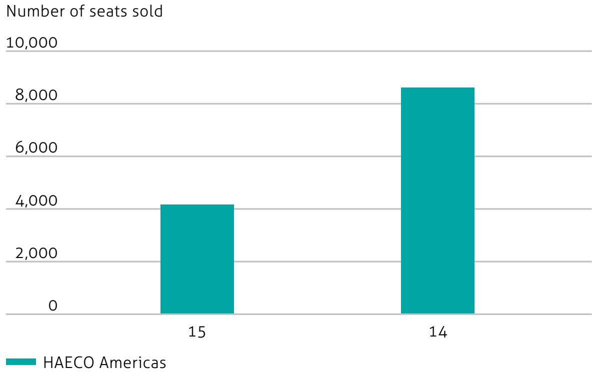
The increase in Group's revenue from line services was principally driven by HAECO Hong Kong. The average number of aircraft movements handled by HAECO Hong Kong decreased in 2015 by 7.6% to 303 per day. But line services manhours sold increased because more work was done per movement. In Mainland China, the average number of aircraft movements handled by HAECO Xiamen increased by 12.2% to 46 per day in 2015 but that handled by HAECO Shanghai decreased by 16.3% to 41 per day. This decrease reflected the expiry of contracts.

Engine Services – Number of Engines Overhauled



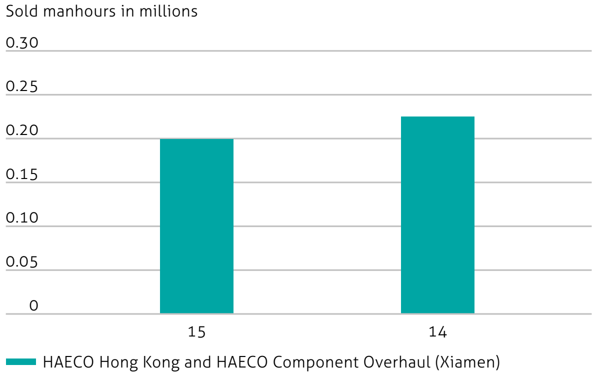
The Group's revenue from engine services increased from 2014 as a result of TEXL doing more quick turn repairs offsetting less performance restoration work in 2015.

Cabin and Private Jet Work – Number of Seats Sold



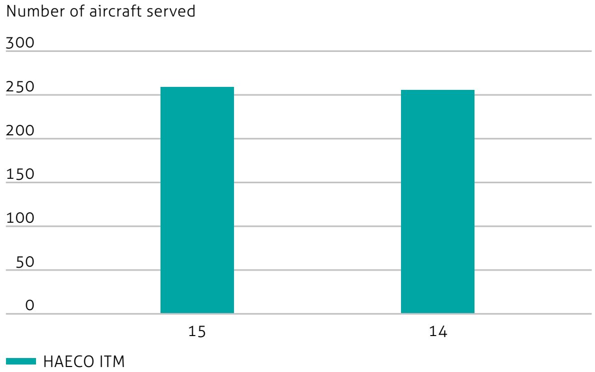
The Group's revenue from cabin and private jet work decreased in 2015 reflecting the reduction in seat sales in HAECO Americas and very little private jet work in HAECO Xiamen. Such decrease was partly compensated by more Panasonic Global Communication Suite kit work done in 2015.

Component Services – Number of Sold Manhours



The Group's component services revenue increased in 2015 mainly due to more landing gear overhaul work done. However, manhours sold for components and avionics work were 0.199 million, a decrease of 11.6% compared to 2014. The decrease reflected the retirement of Boeing 747-400 aircraft.

Inventory Technical Management – Number of Aircraft Served



The Group's revenue from inventory technical management recorded an increase in 2015. The total number of aircraft for which services were provided in 2015 was 259, a slight increase from 2014.

Consolidated Statement of Profit or Loss

	2015 HK$M	2014 HK$M	Change HK$M	Reference
Revenue				
– HAECO Hong Kong The increase reflects a 13.8% increase in airframe services manhours sold and more work being done per line services movement.	**3,628**	3,178	450	
– HAECO Americas The reduction reflects a decrease in airframe services manhours sold.	**2,554**	2,885	(331)	
– HAECO Xiamen The decrease reflects a significant reduction in private jet work.	**1,712**	1,924	(212)	
– TEXL The increase reflects more quick turn engine work, largely offset by less performance restoration work.	**3,719**	3,538	181	
– Others The increase reflects growth in business volume at HAECO ITM.	**482**	402	80	
– Total	**12,095**	11,927	168	Note 4
Staff remuneration and benefits The increase reflects higher staff costs at HAECO Hong Kong.	**(4,813)**	(4,573)	(240)	Note 5
Cost of direct material and job expenses The increase reflects more airframe services work at HAECO Hong Kong and engine repair work at TEXL.	**(5,460)**	(5,322)	(138)	
Depreciation, amortisation and impairment The reduction is principally due to an intangible asset of HAECO Americas being fully amortised at the end of 2014.	**(620)**	(639)	19	Notes 12 and 13
Other operating expenses The decrease reflects a reversal of accrued rental expenses at HAECO Hong Kong.	**(801)**	(890)	89	
Other net gains The increase principally reflects a smaller loss on disposal of property, plant and equipment in 2015 than in 2014.	**14**	6	8	Note 7

Consolidated Statement of Profit or Loss (continued)

	2015 HK$M	2014 HK$M	Change HK$M	Reference
Operating profit The reduction reflects higher losses at HAECO Americas and lower profits at HAECO Xiamen, partially offset by higher profits at HAECO Hong Kong, TEXL and HAECO ITM.	**415**	509	(94)	
Net finance charges The increase principally reflects an increase in net borrowings.	**(76)**	(70)	(6)	Note 8
Share of after-tax results of joint venture companies The decrease reflects lower profits from HAESL and SAESL.	**246**	314	(68)	Note 15
Taxation The decrease principally reflects the deferred tax credit arising from higher losses at HAECO Americas, partially offset by the tax charge at TEXL.	**(33)**	(94)	61	Note 9
Non-controlling interests A small increase as higher share of profit at TEXL was largely offset by reduced profit at HAECO Xiamen.	**(88)**	(86)	(2)	Note 28
Profit attributable to the Company's shareholders	**464**	573	(109)	

Consolidated Statement of Financial Position

	2015 HK$M	2014 HK$M	Change HK$M	Reference
Property, plant and equipment The acquisition of rotable spares at HAECO ITM and the construction of a plating shop at HAECO Landing Gear Services was offset by depreciation of assets at HAECO Hong Kong and HAECO Xiamen.	**5,319**	5,319	–	Note 12
Intangible assets The decrease was attributable to the amortisation of intangible assets at HAECO Americas.	**2,531**	2,608	(77)	Note 13
Joint venture companies The increase reflects HAECO's share of profits of HAESL and SAESL, partially offset by the dividends distributed by them.	**1,262**	1,240	22	Note 15
Trade and other receivables The increase reflects more receivables at HAECO Hong Kong and HAECO ITM.	**1,902**	1,767	135	Note 22
Trade and other payables (current portion) The increase reflects more payables at HAECO ITM and more deferred income at TEXL.	**2,377**	2,044	333	Note 23
Loans and finance lease obligations (current and non-current portion) The decrease principally reflects partial repayment of bank loans at TEXL and HAECO Xiamen and refinancing of bank loans by shareholders' loans at HAECO Americas, HAECO ITM and HAECO Landing Gear Services.	**4,137**	4,941	(804)	Note 24

Consolidated Statement of Cash Flows

	2015 HK$M	2014 HK$M	Change HK$M	Reference
Cash generated from operations The decrease reflects higher losses at HAECO Americas in 2015 and the absence of non-recurring insurance compensation received by HAECO Landing Gear Services in 2014.	**868**	1,274	(406)	Note 31(a)
Net interest paid The increase reflects lower interest income, which in turn reflects lower bank balances.	**(58)**	(47)	(11)	
Dividend received from joint venture companies The decrease reflects lower dividends from HAESL.	**185**	251	(66)	
Net cash outflow on purchase of shares in a subsidiary company The net cash outflow in 2014 reflects the purchase of TIMCO Aviation Services, Inc.	**–**	(2,942)	2,942	
Purchase of property, plant and equipment The increase reflects the construction of HAECO Landing Gear Services plating shop and the acquisition of a new property by HAECO Americas.	**(702)**	(664)	(38)	
Loans (repaid)/drawn (net of repayment) Bank loans at TEXL and HAECO Xiamen were partly repaid and the financing of HAECO Americas, HAECO ITM and HAECO Landing Gear Services was restructured.	**(828)**	2,360	(3,188)	
Net cash inflow on disposal of shares in a subsidiary company The net cash inflow in 2014 reflects the disposal of a 9.9% equity interest in TEXL.	**–**	79	(79)	

Capital Structure

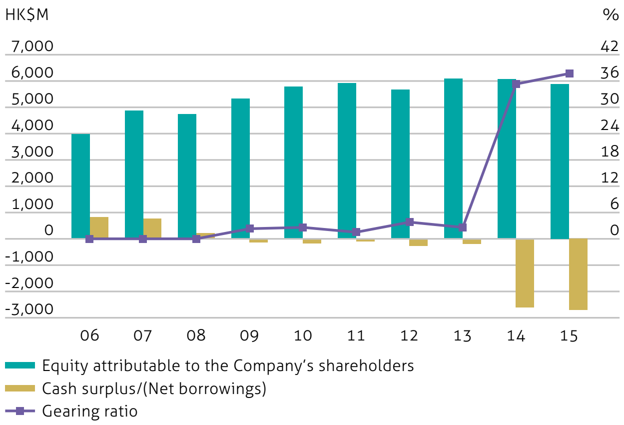
The Group aims to maintain a capital structure which safeguards its ability to operate as a going concern and enables it to provide returns for shareholders and to secure access to finance at a reasonable cost.

Net Borrowings and Gearing

At 31st December 2015, the Group's net borrowings were HK$2,710 million representing an increase of HK$100 million from those at 31st December 2014. The gearing ratio was 37.7%, a slight increase from that at 31st December 2014. The Group's net borrowings by company are analysed below:

	2015	2014
	HK$M	HK$M
HAECO Hong Kong	**(741)**	(50)
HAECO Americas	**(2,349)**	(2,571)
HAECO Xiamen	**450**	812
TEXL	**(121)**	(547)
Other subsidiary companies	**51**	(254)
	(2,710)	(2,610)

Equity, Cash Surplus / Net Borrowings and Gearing



Changes in Financing

During the year, the Group raised committed financing amounting to HK$3,538 million. Significant new financings during the year were:

- a five-year term loan and revolving credit facility of HK$900 million
- a five-year term loan and revolving credit facility of HK$700 million
- a five-year term loan and revolving credit facility of HK$500 million
- a five-year term loan facility of HK$500 million
- a three-year term loan and revolving credit facility of HK$400 million
- an approximately four-year term loan facility of US$39 million
- a three-year term loan facility of US$30 million

Significant loan repayments during the year were:

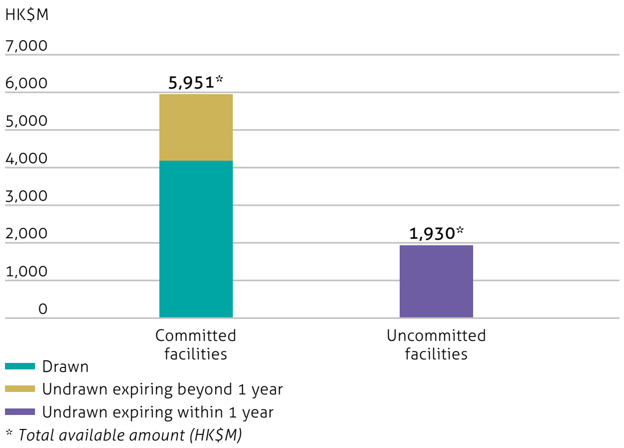
- repayments (aggregating HK$914 million) of term loan and revolving credit facilities in Hong Kong
- repayments (aggregating US$99 million) of term loan and revolving credit facilities in Mainland China
- repayment of a term loan facility in the United States of US$39 million
- partial repayment (US$35 million) of a term loan facility in Mainland China

Sources of Financing

At 31st December 2015, net borrowings consisted of long-term loans of HK$4,123 million and finance lease obligations of HK$14 million, net of bank balances and short-term deposits of HK$1,427 million. Committed facilities were HK$5,951 million at 31st December 2015, of which HK$1,766 million were undrawn. In addition, there were uncommitted facilities of HK$1,930 million at the same date, of which all were undrawn.

	Available	Drawn	Undrawn expiring within one year	Undrawn expiring beyond one year
	HK$M	HK$M	HK$M	HK$M
Committed facilities				
– Loans and finance leases	5,951	4,185	–	1,766
Uncommitted facilities				
– Loans and overdraft	1,930	–	1,930	–
Total	**7,881**	**4,185**	**1,930**	**1,766**

Facilities – Loan



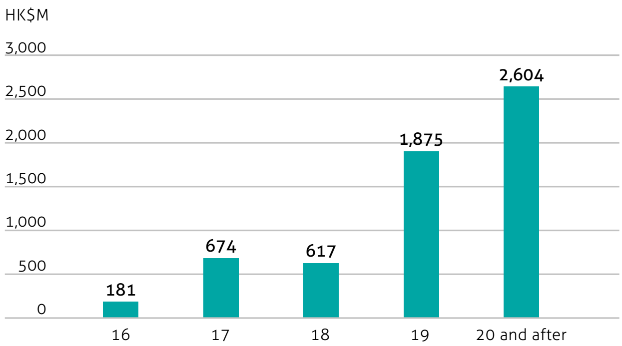
Maturity Profile and Refinancing

Loans are repayable on various dates up to 2020. Finance leases are repayable on various dates up to 2030.

The weighted average term and cost of the Group's debt is:

	2015	2014
Weighted average term of debt	**3.7 years**	2.6 years
Weighted average cost of debt	**2.06%**	1.88%

Total Available Committed Facilities by Maturity (at 31st December 2015)



Finance Charges

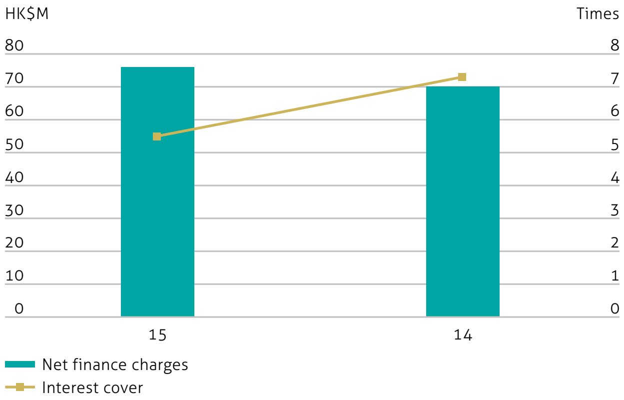
The exposure of the Group's loans to interest rate changes (after interest rate swaps) can be illustrated as follows:

	Floating interest rate	Fixed interest rate maturing in: 1 year or less	1 to 5 years	Over 5 years	Total
	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2015	**2,823**	**1,001**	**357**	**4**	**4,185**
At 31st December 2014	3,809	153	1,008	4	4,974

Interest Cover

An analysis of the interest cover and net finance charges in 2014 and 2015 is shown below:

Interest Cover



Currency Profile

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

	2015		2014	
	HK$M		HK$M	
Currency				
Hong Kong dollar	**1,850**	**44.2%**	1,881	37.8%
United States dollar	**2,335**	**55.8%**	3,093	62.2%
Total	**4,185**	**100.0%**	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 31st December 2015, HAECO Xiamen had sold forward a total of US$25.7 million to fund part of its Renminbi requirements for 2016 and 2017. The weighted average exchange rate applicable to these forward sales was RMB6.50 to US$1. Because of the weakening of the Renminbi against the US dollar, losses of HK$2 million were made on forward foreign exchange contracts in 2015.

Governance Culture

HAECO is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, HAECO believes that shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to shareholders
- that the interests of those who deal with the Company are safeguarded
- that overall business risk is understood and managed appropriately
- the delivery of high-quality products and services to the satisfaction of customers and
- that high standards of ethics are maintained

Corporate Governance Statement

The Corporate Governance Code (the "CG Code") as published by The Stock Exchange of Hong Kong Limited sets out the principles of good corporate governance and provides two levels of recommendation:

- code provisions, with which issuers are expected to comply, but with which they may choose not to comply, provided they give considered reasons for non-compliance
- recommended best practices, with which issuers are encouraged to comply, but which are provided for guidance only

The Company supports the principles-based approach of the CG Code and the flexibility this provides for the adoption of corporate policies and procedures which recognise the individuality of companies. HAECO has adopted its own corporate governance code which is available on its website **www.haeco.com**. Corporate governance does not stand still; it evolves with each business and operating environment. The Company is always ready to learn and adopt best practices.

The Company complied with all the code provisions set out in 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 year covered by the annual 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 Board of Directors

Role of the Board

The Company is governed by a Board of Directors, which has responsibility for strategic leadership and control of the Group designed to maximise shareholder value, while taking due account of the interests of those with whom the Group does business and others.

Responsibility for achieving the Company's objectives and running the business on a day-to-day basis is delegated to management. The Board exercises a number of reserved powers which include:

- maintaining and promoting the culture of the Company
- formulation of long-term strategy
- approving public announcements, including financial statements
- committing to major acquisitions, divestments and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue, or buy-back, of equity securities under the relevant general mandates
- approving treasury policy
- setting dividend policy
- approving appointments to the Board
- reviewing the board diversity policy with a view to the Board having a balance of skills, experience and diversity of perspectives appropriate to the Company's businesses
- ensuring that appropriate management development and succession plans are in place
- setting the Group remuneration policy
- approving annual budgets and forecasts
- reviewing operational and financial performance
- reviewing the effectiveness of the Group's risk management and internal control systems
- ensuring the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

To assist it in fulfilling its duties, the Board has established three committees, the Executive Committee, the Audit Committee and the Remuneration Committee. The work of these Committees is reported to the Board.

Chairman and Chief Executive

The CG Code requires that the roles of Chairman and Chief Executive be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the running of the Board and the executives who run the business.

J.R. Slosar, the Chairman, is responsible for:

- leadership of the Board
- setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda
- facilitating effective contributions from and dialogue with all Directors and constructive relations between them

- ensuring that all Directors are properly briefed on issues arising at Board meetings and that they receive accurate, timely and clear information
- obtaining consensus amongst the Directors
- ensuring, through the Board, that good corporate governance practices and procedures are followed

A.K.W. Tang, the Chief Executive, is responsible for implementing the policies and strategies set by the Board in order to ensure the successful day-to-day management of the Group's business.

Throughout the year, there was a clear division of responsibilities between the Chairman and the Chief Executive.

Board Composition

The Board is structured with a view to ensuring it is of a high calibre and has a balance of key skills and knowledge so that it works effectively as a team and individuals or groups do not dominate decision-making.

The Board comprises the Chairman, four other Executive Directors and six Non-Executive Directors. Their biographical details are set out on pages 42 and 43 of this report and are posted on the Company's website.

J.R. Slosar, A.K.W. Tang, W.E.J. Barrington, G.T.F. Hughes and F.N.Y. Lung are directors and/or employees of the John Swire & Sons Limited ("Swire") group. M.B. Swire is a shareholder, director and employee of Swire.

The Non-Executive Directors bring independent advice, judgement and, through constructive challenge, scrutiny of executives and review of performance and risks. The Audit and Remuneration Committees of the Board comprise only Non-Executive Directors.

The Board considers that four of the six Non-Executive Directors are independent in character and judgement and fulfill the independence guidelines set out in Rule 3.13 of the Listing Rules. Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules. R.E. Adams and D.C.L. Tong have served as Non-Executive Directors for more than nine years. The Directors are of the opinion that they remain independent, notwithstanding their length of tenure. R.E. Adams and D.C.L. Tong continue to demonstrate the attributes of an Independent Non-Executive Director noted above and there is no evidence that their tenure has had any impact on their independence. The Board believes that their detailed knowledge and experience of the Group's business and their external experience continue to be of significant benefit to the Company, and that they maintain an independent view of its affairs.

The Independent Non-Executive Directors:

- provide open and objective challenge of management and Board members
- raise intelligent questions and challenge constructively and with vigour
- bring outside knowledge of the businesses and markets in which the Group operates, providing informed insight and responses to management

The number of Independent Non-Executive Directors represented at least one-third of the Board of Directors.

Appointment and Re-election

Potential new Directors are identified and considered for appointment by the Board. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and all Executive and Non-Executive Directors are subject to re-election by shareholders every three years.

Potential new Board members are identified on the basis of skills and experience which, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board.

Full details of changes in the Board during the year and to the date of this report are provided in the Directors' Report on pages 46 and 47.

Board Diversity

The Board has a board diversity policy, which is available on the Company's website.

In order to achieve a diversity of perspectives among members of the Board, it is the policy of the Company to consider a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders.

Responsibilities of Directors

On appointment, the Directors receive information about the Group including:

- the role of the Board and the matters reserved for its attention
- the role and terms of reference of Board Committees
- the Group's corporate governance practices and procedures
- the powers delegated to management and
- the latest financial information

Directors update their skills, knowledge and familiarity with the Group through their participation at meetings of the Board and its committees and through regular meetings with management at the head office and in the divisions. Directors are regularly updated by the Company Secretary on their legal and other duties as Directors of a listed company.

Through the Company Secretary, Directors are able to obtain appropriate professional training and advice.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Group. All Directors disclose to the Board on their first appointment their interests as a Director or otherwise in other companies or organisations and such declarations of interests are updated regularly.

Details of Directors' other appointments are shown in their biographies on pages 42 and 43.

Board Processes

All committees of the Board follow the same processes as the full Board.

The dates of the 2015 Board meetings were determined in 2014 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met five times in 2015. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 32. Average attendance at Board meetings was 100%. All Directors attended Board meetings in person or through electronic means of communication during the year.

Agendas and accompanying Board papers are circulated with sufficient time to allow the Directors to prepare before meetings.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole.

Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting papers, are made available to all Directors. The minutes record the matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comment and records respectively.

Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings.

A typical Board meeting would consist of:

- review of a report by the Chief Executive on the results since the last meeting and an explanation of changes in the business environment and their impact on budgets and the longer-term plan
- the raising of new initiatives and ideas
- the presentation of papers to support decisions requiring Board approval
- an update of legal and compliance matters for Directors' consideration
- any declarations of interest.

The executive management provides the Board with such information and explanations as are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board. Queries raised by Directors are answered fully and promptly.

When necessary, the Independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility. One such meeting was held in 2015.

The Chairman meets at least annually with the Non-Executive Directors without the Executive Directors being present.

Directors	Meetings Attended/Held: Board	Meetings Attended/Held: Audit Committee	Meetings Attended/Held: Remuneration Committee	Meetings Attended/Held: 2015 Annual General Meeting	Continuous Professional Development: Type of Training (Note)
Executive Directors					
J.R. Slosar – Chairman	5/5			√	A, B
W.E.J. Barrington (appointed with effect from 7th September 2015)	1/1			N/A	A, B
M. Hayman (resigned on 15th May 2015)	2/2			√	A, B
G.T.F. Hughes (appointed with effect from 17th September 2015)	1/1			N/A	A
F.N.Y. Lung	5/5			√	A, B
A.K.W. Tang	5/5			√	A, B
Non-Executive Directors					
C.P. Gibbs	5/5			√	A, B
P.A. Johansen (resigned with effect from 7th September 2015)	4/4	2/2	1/1	√	A, B
M.B. Swire	5/5			√	A, B
Independent Non-Executive Directors					
R.E. Adams	5/5	3/3	2/2	√	A, B
Benjamin Cha (appointed with effect from 7th September 2015)	1/1			N/A	A
L.K.K. Leong (retired on 15th May 2015)	2/2	1/1	1/1	√	A, B
D.C.L. Tong	5/5		1/1	√	A, B
P.P.W. Tse	5/5	2/2	1/1	√	A, B
Average attendance	100%	100%	100%	100%	

Notes:

A: All the Directors received training materials, including from the Company's external legal advisor, about matters relevant to their duties as directors. They also kept abreast of matters relevant to their role as directors by such means as attendance at seminars and conferences and reading and viewing materials about financial, commercial, economic, legal, regulatory and business affairs.

B: Receiving training from the Company's external legal advisers about directors' duties.

Continuous Professional Development

All Directors named above have received the training referred to above and have been provided with "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" issued by the Hong Kong Institute of Directors. The Company makes available continuous professional development for all Directors at the expense of the Company so as to develop and refresh their knowledge and skills.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

Conflicts of Interest

If a Director has a material conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and abstains from voting. The matter is considered at a Board meeting and voted on by Directors who have no material interest in the transaction.

Delegation by the Board

Responsibility for delivering the Company's strategies and objectives, as established by the Board, and responsibility for day-to-day management is delegated to the Chief Executive. The Chief Executive has been given clear guidelines and directions as to his powers and, in particular, the circumstances under which he should report back to, and obtain prior approval from, the Board before making commitments on behalf of the Company.

The Board monitors management's performance against the achievement of financial and non-financial measures, the principal items monitored being:

- detailed monthly group performance reports covering financial and operational performance compared to budget, together with forecasts
- internal and external audit reports
- feedback from external parties such as customers, others with whom the Group does business, trade associations and service providers.

Securities Transactions

The Company has adopted a code of conduct (the "Securities Code") regarding securities transactions by Directors and officers on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. These rules are available on the Company's website.

A copy of the Securities Code has been sent to each Director of the Company and will be sent to each Director twice annually, immediately before the two financial period ends, with a reminder that the Director cannot deal in the securities and derivatives of the Company during the blackout period before the Group's interim and annual results have been published, and that all their dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors and senior executives of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests at 31st December 2015 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on pages 47 and 48.

Executive Committee

The Executive Committee comprises four Executive Directors, one of whom, A.K.W. Tang, is the chairman of the committee, three senior executives of the Company and two senior executives of subsidiaries of the Company. It is responsible to the Board for overseeing the day-to-day operations of the Company.

Remuneration Committee

Full details of the remuneration of the Directors and Executive Officers are provided in note 6 to the financial statements.

The Remuneration Committee comprises three Non-Executive Directors, R.E. Adams, D.C.L. Tong and P.P.W. Tse. All of the Committee Members are Independent Non-Executive Directors, one of whom, R.E. Adams, is Chairman. P.P.W. Tse succeeded L.K.K. Leong as a member of the Remuneration Committee with effect from the conclusion of the Company's 2015 Annual General Meeting held on 15th May 2015. D.C.L. Tong succeeded P.A. Johansen as a member of the Remuneration Committee with effect from 7th September 2015. R.E. Adams served for the whole of 2015.

The Remuneration Committee reviews and approves the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The Remuneration Committee exercises the powers of the Board to determine the remuneration packages of individual Executive Directors and individual members of senior management (including salaries, bonuses, benefits in kind and the terms on which they participate in any provident fund or other retirement benefit scheme), taking into consideration salaries paid by comparable companies, time commitments and responsibilities and employment conditions elsewhere in the group.

The terms of reference of the Remuneration Committee have been reviewed with reference to the CG Code and are posted on the Company's website.

A Services Agreement exists between the Company and John Swire & Sons (H.K.) Limited, a wholly-owned subsidiary of John Swire & Sons Limited, which is the parent company of the Swire group. This agreement has been considered in detail and approved by the Independent Non-Executive Directors of the Company. Under the terms of the agreement, staff at various levels, including Executive Directors and Executive Officers, are seconded to the Company. These staff report to and take instructions from the Board of the Company but remain employees of the Swire group. Given its substantial equity interest in the Company, it is in the best interests of the Swire group to ensure that executives of high quality are seconded to and retained within the HAECO group.

In order to be able to attract and retain staff of suitable calibre, the Swire group provides a competitive remuneration package designed to be commensurate, overall, with those of its peer group. This typically comprises salary, housing, retirement benefits, leave passage and education allowances and, after three years' service, a bonus related to the overall profit of the Swire Pacific group. Although the remuneration of these executives is not directly linked to the profits of the Company, it is considered that these arrangements have contributed considerably to the maintenance of a flexible, motivated and high-calibre senior management team within the HAECO group.

A number of Directors and senior staff with specialist skills are employed directly by the Company on terms similar to those applicable to the staff referred to above, with the principal exception that their bonuses are paid by reference to the results of the Company alone.

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors and Executive Officers at its meeting in November 2015. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors and Executive Officers, as disclosed in note 6 to the financial statements, was comparable with that paid to equivalent executives in peer group companies.

No Director takes part in any discussion about his or her own remuneration.

The following fee levels have been approved by the Board:

	2015 HK$	2016 HK$
Fee		
Director's Fee	**380,000**	380,000
Fee for Audit Committee Chairman	**140,000**	140,000
Fee for Audit Committee Member	**90,000**	90,000
Fee for Remuneration Committee Chairman	**50,000**	50,000
Fee for Remuneration Committee Member	**35,000**	35,000

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for:

- the proper stewardship of the Company's affairs, to ensure the integrity of financial information
- preparing annual and interim financial statements and other related information that give a true and fair view of the Group's affairs and of its results and cash flows for the relevant periods, in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance
- selecting appropriate accounting policies and ensuring that these are consistently applied
- making judgements and estimates that are prudent and reasonable; and
- ensuring that the application of the going concern assumption is appropriate

Risk Management and Internal Control

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's risk management and internal control systems. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 37 and 38.

The foundation of strong risk management and internal control systems is dependent on the ethics and culture of the organisation, the quality and competence of its personnel, the direction provided by the Board, and the effectiveness of management.

Since profits are, in part, the reward for successful risk taking in business, the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key components of the Group's control structure are as follows:

Culture: The Board believes that good governance reflects the culture of an organisation. This is more significant than any written procedures.

The Company aims at all times to act ethically and with integrity, and to instil this behaviour in all its employees by example from the Board down. The Company has a Code of Conduct, which is posted on its internal intranet site.

The Company is committed to developing and maintaining high professional and ethical standards. These are reflected in the rigorous selection process and career development plans for all employees. The organisation prides itself on being a long-term employer which instils in individuals, as they progress through the Group, a thorough understanding of the Company's ways of thinking and acting.

Channels of communication are clearly established, allowing employees a means of communicating their views upwards with a willingness on the part of more senior personnel to listen. Employees are aware that, whenever the unexpected occurs, attention should be given not only to the event itself, but also to determining the cause.

Through the Company's Code of Conduct, employees are encouraged (and instructed as to how) to report control deficiencies or suspicions of impropriety to those who are in a position to take necessary action.

Risk assessment: The Board of Directors and the management each have a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated.

Management structure: The Group has a clear organisational structure that, to the extent required, delegates the day-to-day responsibility for the design, documentation and implementation of procedures and monitoring of risk. Individuals appreciate where they will be held accountable in this process.

A control self-assessment process requires management to assess, through the use of detailed questionnaires, the adequacy and effectiveness of risk management and internal controls over the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. This process and its results are reviewed by internal auditors and form part of the Audit Committee's annual assessment of control effectiveness.

Controls and review: The control environment comprises policies and procedures intended to ensure that relevant management directives are carried out and actions that may be needed to address risks are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties. Control activities can be divided into operations, financial reporting and compliance, although there may, on occasion, be some overlap between them. The typical control activities include:

- analytical reviews: for example, conducting reviews of actual performance versus budgets, forecasts, prior periods and competitors
- direct functional or activity management: reviews of performance reports, conducted by managers in charge of functions or activities
- information-processing: performing controls intended to check the authorisation of transactions and the accuracy and completeness of their reporting, for example, exception reports
- physical controls: ensuring equipment, inventories, securities and other assets are safeguarded and subjected to periodic checks
- performance indicators: carrying out analyses of different sets of data, operational and financial, examining the relationships between them, and taking corrective action where necessary
- segregation of duties: dividing and segregating duties among different people, with a view to strengthening checks and minimising the risk of errors and abuse.

The Company has in place effective processes and systems for the identification, capture and reporting of operational, financial and compliance-related information in a form and time-frame intended to ensure that staff carry out their designated responsibilities.

Internal audit: Independent of management, the Internal Audit department reports directly to the Chairman and performs regular reviews of key risk areas and monitors compliance with Group accounting, financial and operational procedures. The role of Internal Audit is discussed further on pages 38 and 39.

Audit Committee

The Audit Committee, consisting of three Non-Executive Directors, P.P.W. Tse, R.E. Adams and B.Y.C. Cha, assists the Board in discharging its responsibilities for corporate governance and financial reporting. All of the Committee members are Independent Non-Executive Directors, one of whom, P.P.W. Tse is Chairman. P.P.W. Tse succeeded L.K.K. Leong as Chairman of the Audit Committee with effect from the conclusion of the Company's 2015 Annual General Meeting held on 15th May 2015. B.Y.C. Cha succeeded P.A. Johansen as a member of the Audit Committee with effect from 7th September 2015. R.E. Adams served for the whole of 2015.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and comply with the CG Code. They are available on the Company's website.

The Audit Committee met three times in 2015. Regular attendees at the meetings are the Group Director Finance, the Head of Internal Audit of the Swire group and the external auditors. The Audit Committee meets at least twice a year with the external auditors, and at least once a year with the Head of Internal Audit, without the presence of management. Each meeting receives written reports from the external auditors and Internal Audit.

The work of the Committee during 2015 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2014 annual and 2015 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's risk management and internal control systems
- the Group's risk management processes
- the approval of the 2016 annual Internal Audit programme and review of progress on the 2015 programme
- periodic reports from Internal Audit and progress in resolving any matters identified in them
- significant accounting and audit issues
- the Company's policy regarding connected transactions and the nature of such transactions
- the relationship with the external auditors as discussed on pages 39 and 40
- the Company's compliance with the CG Code.

In 2016, the Committee has reviewed, and recommended to the Board for approval, the 2015 financial statements.

Assessing the Effectiveness of Risk Management and Internal Control Systems

On behalf of the Board, the Audit Committee reviews annually the continued effectiveness of the Group's risk management and internal control systems dealing with risk and financial accounting and reporting, the effectiveness and efficiency of operations, compliance with laws and regulations, and risk management functions.

This assessment considers:

- the scope and quality of management's ongoing monitoring of risks and of the risk management and internal control systems, the work and effectiveness of Internal Audit and the assurances provided by the Group Director Finance
- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment
- the extent and frequency with which the results of monitoring are communicated, enabling the Committee to build up a cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance
- areas of risk identified by management
- significant risks reported by Internal Audit
- work programmes proposed by both Internal Audit and the external auditors
- significant issues arising from internal and external audit reports
- the results of management's control self assessment exercise.

As a result of the above review, the Board confirms, and management has also confirmed to the Board, that the Group's risk management and internal control systems are effective and adequate and have complied with the CG Code provisions on risk management and internal control throughout the year and up to the date of this annual report.

Company Secretary

The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. The Company Secretary undertakes at least 15 hours of relevant professional training annually to update his skills and knowledge.

Internal Audit Department

The Swire group has had an Internal Audit Department ("IA") in place for 20 years. IA plays a critical role in monitoring the governance of the Group. The department is staffed by 22 audit professionals and conducts audits of the Group and of other companies in the Swire group. The 22 professionals include a team based in Mainland China which reports to IA in Hong Kong.

IA reports directly to the Chairman of the Board and, without the need to consult with management, to the Chairman of the Audit Committee and via him to the Board. IA has unrestricted access to all areas of the Group's business units, assets, records and personnel in the course of conducting its work.

The annual IA work plan and resources are reviewed and agreed with the Audit Committee.

Scope of Work

Business unit audits are designed to provide assurance that the risk management and internal control systems of the Company are implemented properly and operating effectively, and that the risks associated with the achievement of business objectives are being properly identified, monitored and managed.

The frequency of each audit is determined by IA using its own risk assessment methodology, which is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework, considering such factors as recognised risks, organisational change, overall materiality of each unit, previous IA results, external auditors' comments, output from the work of the Swire Pacific Group Risk Management Committee and management's views. Each business unit is typically audited at least once every three years. Acquired businesses would normally be audited within 12 months. Six assignments were conducted for HAECO in 2015.

IA specifically assists the Audit Committee in carrying out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems through its review of the process by which management has completed the annual Control Self Assessment, and the results of this assessment.

IA conducts ad-hoc projects and investigative work as may be required by management or the Audit Committee.

Audit Conclusion and Response

Copies of IA reports are sent to the Chairman of the Board, the Chief Executive, the Group Director Finance and the external auditors. The results of each review are also presented to the Audit Committee.

Management is called upon to present action plans in response to IA's recommendations, including those aimed at resolving material internal control defects. These are agreed by IA, included in its reports and followed up with a view to ensuring that they are satisfactorily undertaken.

External Auditors

The Audit Committee acts as a point of contact, independent from management, with the external auditors (the "auditors"). The auditors have direct access to the Chairman of the Audit Committee, who meets with them periodically without management present.

The Audit Committee's duties in relation to the auditors include:

- recommending to the Board, for approval by shareholders, the auditors' appointment
- approval of the auditors' terms of engagement
- consideration of the letters of representation to be provided to the auditors in respect of the interim and annual financial statements
- review of reports and other ad-hoc papers from the auditors
- annual appraisal of the quality and effectiveness of the auditors
- assessment of the auditors' independence and objectivity, including the monitoring of non-audit services provided, with a view to ensuring that their independence and objectivity is not, and is not seen to be, compromised
- approval of audit and non-audit fees.

Auditors' Independence

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of Section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work and the nature of the non-audit work) at a meeting of the Audit Committee.

Provision of Non-audit Services

In deciding whether the auditors should provide non-audit services the following key principles are considered:

- the auditors should not audit their own firm's work
- the auditors should not make management decisions
- the auditors' independence should not be impaired
- quality of service.

In addition, any services which may be considered to be in conflict with the role of the auditors must be submitted to the Audit Committee for approval prior to engagement, regardless of the amounts involved.

The fees in respect of audit (and audit-related) and non-audit services provided to the Group by the external auditors for 2015 amounted to approximately HK$6.6 million and HK$1.4 million respectively. The non-audit services mainly consist of tax advisory services.

Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission
- has included in its Corporate Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information
- ensures, through its own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information.

Shareholders

Communication with Shareholders and Investors

The Board and senior management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. Communication with shareholders and accountability to shareholders is a high priority of the Company.

The methods used to communicate with shareholders include the following:

- The Group Director Finance makes herself available for meetings with major shareholders, investors and analysts over two-month periods immediately after the announcement of the interim and annual results and at certain other times during the year. In addition, the Group Director Finance attended regular meetings with analysts and investors in Hong Kong and analyst briefings during the year.

- through the Company's website. This includes electronic copies of financial reports, audio webcasts of analyst presentations given at the time of the interim and annual results announcements, slides of presentations given at investor conferences, latest news, public announcements and general information about the Group's businesses
- through publication of interim and annual reports
- through the Annual General Meeting as discussed below.

Shareholders may send their enquiries and concerns to the Board by post or email at ir@haeco.com. The relevant contact details are set out in the Financial Calendar and Information for Investors section of this Annual Report.

The Annual General Meeting

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 15th May 2015. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 32.

At the Annual General Meeting, separate resolutions were proposed for each issue and were voted on by poll. The procedures for conducting a poll were explained at the meeting prior to the polls being taken. The agenda items were:

- receiving the report of the Directors and the audited financial statements for the year ended 31st December 2014
- re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share buy-backs
- a general mandate authorising the Directors to allot and issue shares up to 20% of the number of shares then in issue, provided that the aggregate number of the shares so allotted wholly for cash would not exceed 5% of the number of the shares then in issue.

Minutes of the meeting together with voting results are available on the Company's website.

Shareholder Engagement

Pursuant to Article 95 of the Company's Articles of Association, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination at the registered office of the Company within the 7-day period commencing on and including the day after the despatch of the notice of the meeting. The procedures for nominating candidates to stand for election as Directors at general meetings are set out in the Corporate Governance Section of the Company's website.

If they wish to propose a resolution relating to other matters to be considered at a general meeting, shareholders are requested to follow the requirements and procedures set out in the Corporate Governance Section of the Company's website.

Shareholder(s) representing at least 5% of the total voting rights of all members may request the Board to convene a general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office. Detailed requirements and procedures are set out in the Corporate Governance Section of the Company's website.

Other Information for Shareholders

Key shareholder dates for 2016 are set out on page 119 of this report.

No amendment has been made to the Company's Articles of Association during the year.

Directors and Officers

Executive Directors

SLOSAR, John Robert, aged 59, has been Chairman and a Director of the Company since March 2014. He was Managing Director of the Company from January 1996 to June 1998. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Cathay Pacific Airways Limited and a Director of Air China Limited and The Hongkong and Shanghai Banking Corporation Limited. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.

TANG, Kin Wing Augustus, aged 57, has been a Director and Chief Executive Officer of the Company since October 2008 and November 2008 respectively. He joined the Swire group in 1982 and has worked with Cathay Pacific Airways Limited in Hong Kong, Malaysia and Japan. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited.

BARRINGTON, William Edward James, aged 56, has been a Director and Group Director Airframe Services of the Company since September 2015. He was previously Director Corporate Development of Cathay Pacific Airways Limited. He joined the Swire group in 1982 and has previously worked with Cathay Pacific Airways Limited in Hong Kong, Malaysia and Canada.

HUGHES, Gregory Thomas Forrest, aged 54, has been a Director and Group Director Components & Engine Services of the Company since September 2015. He was previously Chief Operating Officer of John Swire & Sons Pty. Limited, Australia. He joined the Swire group in 1987 and has previously worked with Cathay Pacific in Hong Kong, Korea, Indonesia, Japan and Australia.

LUNG, Ngan Yee Fanny, aged 49, was appointed Director Finance in August 2010 and Group Director Finance in June 2013. She was previously Finance Director of Swire Pacific Offshore Holdings Limited, a wholly owned subsidiary of Swire Pacific Limited. She joined the Swire group in 1992.

Non-Executive Directors

GIBBS, Christopher Patrick, aged 54, has been a Director of the Company since January 2007. He is also Engineering Director of Cathay Pacific Airways Limited and a Director of Hong Kong Aero Engine Services Limited. He joined Cathay Pacific Airways Limited in 1992.

SWIRE, Merlin Bingham, aged 42, has been a Director of the Company since January 2009. He was Director and Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company, from May 2006 to June 2008. He is also Chief Executive and a Director and shareholder of John Swire & Sons Limited and a Director of Swire Pacific Limited, Swire Properties Limited and Cathay Pacific Airways Limited. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London.

Independent Non-Executive Directors

ADAMS, Robert Ernest, aged 72, has been a Director of the Company since October 2004. He was previously Managing Director of Fung Capital Asia Investments Limited, a member of the Li & Fung group and an Executive Director of CITIC Pacific Limited.

CHA, Yiu Chung Benjamin, aged 42, has been a Director of the Company since September 2015. He is Chief Executive of Grosvenor Asia Pacific Limited.

TONG, Chi Leung David, aged 45, has been a Director of the Company since May 2006. He is also a Director of Sir Elly Kadoorie & Sons Limited and CLP Power Hong Kong Limited, Deputy Chairman of Hong Kong Business Aviation Centre Limited and a Non-Executive Director of Tai Ping Carpets International Limited.
Alternate: The Hon. Sir Michael David KADOORIE

TSE, Pak Wing Peter, aged 64, has been a Director of the Company since December 2012. He was previously an Executive Director of CLP Holdings Limited and is an Independent Non-Executive Director of HSBC Bank (China) Company Limited and Link Asset Management Limited.

Executive Officers

CARTER, Kevin James, aged 43, is Chief Executive Officer of TIMCO Aviation Services, Inc., a wholly owned subsidiary of HAECO USA Holdings, Inc., and also Group Director Cabin Solutions of the Company. He joined TIMCO Aviation Services, Inc. in 2002 and was appointed as Chief Executive Officer in July 2008.

CHAN, Ching Summit, aged 50, has been Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company, since September 2015. He was appointed Commercial Director of the Company in February 2009 and Group Director Commercial in June 2013. He joined the Swire group in 1988 and was previously Director Business Development of Swire Pacific Offshore Holdings Limited, a wholly owned subsidiary of Swire Pacific Limited.

CHAU, Siu Cheong William, aged 62, was appointed Group Director Human Resources of the Company in September 2013. He joined the Swire group in 1973 and was previously Director Personnel of Cathay Pacific Airways Limited.

KENDALL, Charles Richard, aged 53, has been Deputy Chief Executive Officer of TIMCO Aviation Services, Inc., a wholly owned subsidiary of HAECO USA Holdings, Inc., since September 2015. He was previously Director & General Manager of Hong Kong Aero Engine Services Limited. He joined the Swire group in 1984 and has worked with the group in Hong Kong, Australia, Papua New Guinea, Japan, the United States, Singapore and New Zealand.

LAM, Siu Por Ronald, aged 43, was appointed Director and General Manager, Hong Kong Operations of the Company in July 2013. He joined the Swire group in 1996 and has previously worked with Cathay Pacific Airways Limited in Hong Kong, Japan and Sri Lanka.

Company Secretary

FU, Yat Hung David, aged 52, has been Company Secretary since January 2006. He joined the Swire group in 1988. He is a member of the Takeovers and Mergers Panel and the Takeovers Appeal Committee of the Securities and Futures Commission of Hong Kong.

Notes:

1. *The Audit Committee comprises P.P.W. Tse (committee chairman), R.E. Adams and B.Y.C. Cha.*
2. *The Remuneration Committee comprises R.E. Adams (committee chairman), D.C.L. Tong and P.P.W. Tse.*
3. *W.E.J. Barrington, S.C. Chan, W.S.C. Chau, G.T.F. Hughes, C.R. Kendall, R.S.P. Lam, F.N.Y. Lung, J.R. Slosar, M.B. Swire and A.K.W. Tang are employees of the John Swire & Sons Limited group.*

The Directors submit their report and the audited financial statements for the year ended 31st December 2015, which are set out on pages 58 to 115. Details of the following items are set out in the financial statements as follows:

		Page
Results	Consolidated Statement of Profit or Loss	58
Principal activities	Note 1	63
Interest	Note 8	72-73
Fixed assets	Notes 12 and 13	76-80
Share capital	Note 26	100
Reserves	Note 27	101
Commitments	Notes 32 and 33	107
Continuing connected transactions	Note 36	109-110

Consolidated Financial Statements

The consolidated Financial Statements incorporate the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") together with the Group's interests in joint venture. Details of the joint ventures are provided under note 15 to the financial statements.

Ten-Year Financial Summary

A ten-year financial summary of the results and of the assets and liabilities of the Group is shown on pages 116 and 117.

Dividends

The Directors have declared a second interim dividend of HK$1.10 per share for the year ended 31st December 2015. Together with the first interim dividend of HK$0.60 per share paid on 22nd September 2015, this results in total dividends for the year of HK$1.70 per share and represents a total distribution of HK$283 million. The second interim dividend will be paid on 26th April 2016 to shareholders registered at the close of business on the record date, being Friday, 1st April 2016. Shares of the Company will be traded ex-dividend as from Wednesday, 30th March 2016.

Closure of Register of Members

The register of members will be closed on Friday, 1st April 2016 during which day no transfer of shares will be effected. In order to qualify for entitlement to the second 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 Thursday, 31st March 2016.

To facilitate the processing of proxy voting for the annual general meeting to be held on Friday, 6th May 2016, the register of members will be closed from Tuesday, 3rd May 2016 to Friday, 6th May 2016, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, 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 Friday, 29th April 2016.

Business Review and Performance

A fair review of the HAECO group's business, a description of the principal risks and uncertainties facing the HAECO group, particulars of important events affecting the HAECO group that have occurred since the end of the financial year and an indication of the likely future development of the HAECO group's business (including, in each case to the extent necessary for an understanding of the development, performance or position of the HAECO group's business, key performance indicators) are provided in the sections of this annual report headed Chairman's Letter (on pages 2 to 3), Review of Operations (on pages 10 to 19), Financial Review (on pages 20 to 23) and Financing (on pages 24 to 26) and in the notes to the financial statements. To the extent necessary for an understanding of the development, performance or position of the HAECO group's business, a discussion of the HAECO group's environmental policies and performance and an account of the HAECO group's key relationships with its employees, customers and suppliers and others that have a significant impact on the HAECO group and on which the HAECO group's success depends are provided in the sections of this annual report headed Review of Operations (on pages 10 to 19) and Sustainable Development (on pages 50 to 52). To the extent necessary for an understanding of the development, performance or position of the HAECO group's business, a discussion of the HAECO group's compliance with the relevant laws and regulations that have a significant impact on the HAECO group is provided in the sections of this annual report headed Review of Operations (on pages 10 to 19), Corporate Governance Report (on pages 27 to 41) and Directors' Report (on pages 44 to 49).

Donations

During the year the Company and its subsidiary companies made donations for charitable and community purposes totalling HK$3.2 million.

Agreement for Services

The Company has an agreement for services with John Swire & Sons (H.K.) Limited ("JSSHK"), the particulars of which are set out in note 36 to the financial statements (the note on related party and continuing connected transactions).

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, W.E.J. Barrington, G.T.F. Hughes, F.N.Y. Lung, J.R. Slosar, M.B. Swire and A.K.W. Tang are interested in the JSSHK Services Agreement (as defined below). M.B. Swire is so interested as a shareholder of Swire.

Particulars of the fees paid and expenses reimbursed for the year ended 31st December 2015 are set out in note 36 to the financial statements.

Major Customers and Suppliers (Significant Contracts)

68.1% of sales and 55.1% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 27.3% of sales were made to the Group's largest customers, GE Aviation Group. 44.7% of purchases were from the largest suppliers, GE Aviation Group. The Cathay Pacific group, being Cathay Pacific and its subsidiaries (including Dragonair and AHK Air Hong Kong Limited), was among the Group's five largest customers.

In respect of the Company's transactions with the Cathay Pacific group and GE Aviation Group:

1. Swire Pacific Limited is interested as a controlling shareholder by holding a 45% equity interest in Cathay Pacific;
2. C.P. Gibbs is interested as employee of Cathay Pacific;

3. J.R. Slosar and M.B. Swire are interested as directors of Cathay Pacific; and
4. before he ceased to be a Director of the Company, L.K.K. Leong was interested as a public minority shareholder of General Electric Company.

Save as disclosed above, no Director, any of their close associates or any shareholder who, to the knowledge of the Directors, owns more than 5% of the number of issued shares of the Company has an interest in the customers or suppliers disclosed above.

Continuing Connected Transactions

HAECO, Cathay Pacific and HAECO ITM entered into a framework agreement on 13th November 2013 ("Framework Agreement"), under which services (being maintenance and related services in respect of aircraft, aircraft engines and aircraft parts and components and including inventory technical management services and the secondment of personnel) are provided by the HAECO Group to Cathay Pacific and its subsidiaries (the "Cathay Pacific Group") and vice versa and by HAECO ITM to the HAECO Group and vice versa. Payment is made in cash within 30 days of receipt of invoices. The term of the Framework Agreement is for 10 years ending on 31st December 2022.

Cathay Pacific is an associate of the Company's holding company Swire Pacific Limited and therefore a connected person of the Company under the Listing Rules. As Cathay Pacific, a connected person of HAECO at the listed company level, owns more than 10% of the voting rights in HAECO ITM, HAECO ITM is also a connected person of HAECO. The transactions under the Framework Agreement are continuing connected transactions in respect of which an announcement dated 13th November 2013 was published, a circular dated 10th December 2013 was sent to shareholders and an extraordinary general meeting of the Company was held on 31st December 2013.

The Independent Non-Executive Directors, who are not interested in any connected transactions with the Group, have reviewed and confirmed that the continuing connected transactions as set out in note 36 have been entered into by the Group:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have also reviewed these transactions and confirmed to the Board that nothing has come to their attention that causes them to believe that they have not been approved by the Board of the Company; that they were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; that they were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and that they have exceeded the relevant annual caps.

Directors

The Directors of the Company at the date of this report are listed on pages 42 and 43. M. Hayman resigned and L.K.K. Leong retired as Directors with effect from the conclusion of the 2015 Annual General Meeting held on 15th May 2015. P.A. Johansen resigned as a Director with effect from 7th September 2015. W.E.J. Barrington and B.Y.C. Cha were appointed as Directors with effect from 7th September 2015. G.T.F. Hughes was appointed as a Director with effect from 17th September 2015. All the other Directors at the date of this report served throughout the calendar year 2015.

The Hon. Sir Michael Kadoorie served as Alternate Director to D.C.L. Tong during the year.

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third Annual General Meeting following their election by ordinary resolution. In accordance therewith, C.P. Gibbs and P.P.W. Tse retire this year and, being eligible, offer themselves for re-election. D.C.L. Tong will also retire this year but does not offer himself for re-election.

W.E.J. Barrington, B.Y.C. Cha and G.T.F. Hughes, having been appointed as Directors of the Company under Article 91 since the last Annual General Meeting, also retire and, being eligible, offer themselves for election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election or re-election. No Director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Fees totalling HK$1.76 million were paid to the Independent Non-Executive Directors during the year; they received no other emoluments from the Company or any of its subsidiary companies.

Directors' Interests

At 31st December 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 and Swire Pacific Limited:

	Capacity					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of voting shares (%)	*Note*
Hong Kong Aircraft Engineering Company Limited						
Ordinary Shares						
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					
	Beneficial interest					
	Personal	Family	Trust interest	Total no. of shares	Percentage of issued share capital (comprised in the class) (%)	*Note*
John Swire & Sons Limited						
Ordinary Shares of £1						
M.B. Swire	3,151,773	–	19,222,920	22,374,693	22.37	*3*
8% Cum. Preference Shares of £1						
M.B. Swire	846,476	–	5,655,441	6,501,917	21.67	*3*

	Capacity: Beneficial interest – Personal	Capacity: Beneficial interest – Family	Capacity: Trust interest	Total no. of shares	Percentage of voting shares (comprised in the class) (%)	*Note*
Swire Pacific Limited						
'B' shares						
The Hon. Sir Michael David Kadoorie (Alternate Director)	–	–	8,965,000	8,965,000	0.2993	2

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).

Neither during nor prior to the year under review has any right been granted to, or exercised by, any Director of the Company, or to or by the spouse or minor child of any Director, to subscribe for shares, warrants or debentures of the Company.

Other than as stated in this report, no transaction, arrangement or contract of significance to which the Group was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year.

At no time during the year was the Company, or any of its associated corporations, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Interests in Competing Businesses

None of the Directors or their respective close associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Directors of Subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31st December 2015 or during the period from 1st January 2016 to the date of this Report are available on the Company's website **www.haeco.com**.

Permitted Indemnity

Subject to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), every Director is entitled under the Company's Articles of Association to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he or she may sustain or incur in or about the execution or discharge of his or her duties and/or the exercise of his or her powers and/or otherwise in relation to or in connection with his or her duties, powers or office. To the extent permitted by such Ordinance, the Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of companies in the Group.

Substantial Shareholders' and Other Interests

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 31st December 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 31st December 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 are 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 being interested in 53.20% of the equity of Swire Pacific Limited and controlling 62.60% of the voting rights attached to shares in Swire Pacific Limited.*

Termination of American Depositary Receipts Programme

The Company's sponsored Level 1 American Depositary Receipts ("ADR") programme came into effect on 1st November 1994. The Bank of New York Mellon (formerly The Bank of New York) was the sponsor. Under the programme, the Company's ADRs were traded in the over-the-counter market, but not listed, on the New York Stock Exchange under the depositary receipt symbol 'HKAEY' and in the ratio of 1 ADR to 1 share of the Company. As participation in the programme was low and declining, and outstanding ADRs represented only 0.02% of the Company's total outstanding shares in 2014, a notice directing termination was sent to The Bank of New York Mellon (as sponsor of the programme) on 15th August 2014 and the programme was terminated on 29th October 2015.

Public Float

From information that is publicly available to the Company and within the knowledge of its Directors at the date of this report, at least 25% of the Company's total number of issued shares are held by the public.

Auditors

A resolution for the re-appointment of PricewaterhouseCoopers as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

John Slosar
Chairman
Hong Kong, 8th March 2016

The Group believes that the creation of long-term value for its shareholders depends on the sustainable development of its businesses and its involvement with the communities in which it operates. The Group's sustainable development policy recognises this and informs the management of environmental, health and safety, employment, community and supplier matters. The Group cooperates with others with a view to promoting sustainable development within the aviation industry.

The Group issues an annual sustainable development report, which is available on its website.

Environment

1.21 Million kWh
Renewable Energy Generated

The Group recognises the need to reduce the impact of its operations on the environment. The Group does this by using alternative sources of energy (which reduce carbon emissions), by investing in energy efficient equipment and systems, by reducing waste and by cooperating with others.

Newly installed LED lights in a storage room at HAECO Xiamen.

In 2015, the Group emitted around 120,600 tonnes of carbon dioxide equivalent through its energy consumption, 4.9% more than in 2014. The increase reflected the renovation of facilities and expansion of business. Solar panels at HAECO Xiamen's premises generated approximately 1.21 million kWh of electricity.

The Group is replacing conventional lights with LED lights. HAECO Xiamen is phasing out the fluorocarbon refrigerant in its air conditioning system with a hydrocarbon refrigerant which is more energy efficient and is not capable of depleting the ozone.

Energy audits have been carried out in all group companies in Xiamen in order to identify energy saving opportunities.

HAECO Hong Kong is using less paper in line services by communicating more by electronic means. HAESL has participated in the Hong Kong government's Food Waste Recycling Partnership Scheme.

The Group received the following environmental awards in 2015:

- HAECO Hong Kong received a gold medal from CLP Power Hong Kong for its contribution to the environment.
- HAECO Americas received the "Outstanding Environmental Compliance Award" for the fifth consecutive year from the City of Greensboro, North Carolina.

Health and Safety

10.8%
Lost Time Injury Rate

The Group aims to conduct its business in a manner that protects the health and safety of its employees, customers, business associates, contractors and members of the public. Targets are set. Performance is monitored under a web-based safety management system. Safety training is carried out and safety audits are conducted.

HAESL has quarterly safety training. HAECO Xiamen provides training courses on working safety and on the use of personal protective equipment. HAECO Hong Kong and HAECO Xiamen have safety reward programmes for staff. HAECO Hong Kong has published a driving safety handbook and gives awards to its best drivers.

The Group's lost time injury rate (the number of instances of time being lost as a result of injuries per 200,000 hours worked) decreased by 10.8% between 2014 and 2015.

HAECO Hong Kong received an OSH Annual Report Award under the 14th Hong Kong Occupational Safety and Health Award Scheme organised by the Occupational Safety and Health Council.

Employees

Over 880,000
Training Hours

The Group recognises that the development of its staff is critical to the sustainable development of its business. It engages in job fairs, forums, recruitment events and exhibitions, with a view to enabling potential recruits to understand the Group and the employment opportunities within its businesses.

The Group reviews its remuneration packages, career development plans and management culture. HAESL organises workshops for senior staff and supervisors in order to facilitate their involvement in the career development of those who work for them.

The Group has extended supervisory and managerial training outside Hong Kong. HAECO Americas provides electronic and classroom training. More assistance is being given for external training and certification. Graduate trainees are rotated around the Group's businesses.

The Group, including its subsidiary and joint venture companies, employed over 16,700 staff at the end of 2015. The staff numbers at the end of 2015 and 2014 are below.

	2015	2014	Change
HAECO Hong Kong	5,857	5,734	+2.1%
HAECO Americas	2,597	2,894	-10.3%
HAECO Xiamen	4,736	4,902	-3.4%
HAESL	843	915	-7.9%
Other subsidiary and joint venture companies in which HAECO and HAECO Xiamen own more than 20%	2,670	2,612	+2.2%
	16,703	17,057	-2.1%

The Community

HKD3.2 Million
in Charitable Donations

The Group is committed to maintaining strong relationships with the communities in which it operates, to improve the opportunities and lifestyles available to members of these communities and to showing respect for their culture and heritage.

Having considered the results of a staff survey, HAECO Hong Kong intends to focus on the environment, youth development and children and under-privileged families.

In 2015, HAECO Hong Kong again supported the Green Power Hike and the Hong Kong 24 Hour Charity Pedal Kart Grand Prix. HAECO Xiamen continued to plant mangroves. To date, over 1,800 volunteers have planted 36,700 mangroves on the Xiamen coast.

HAECO Hong Kong supported the Hong Kong 24-Hour Charity Pedal Kart Grand Prix.

HAESL volunteers sold rice dumplings for charity in 2015 and gardened at the World Wildlife Fund education centre.

HAECO Americas supports an annual high school basketball tournament in Greensboro and the March of Dimes, which is dedicated to the prevention of birth defects and infant mortality. In 2015, HAECO Americas renovated twelve homes for US military veterans.

In 2015, the Group made donations of HK$3.2 million to charitable and community causes. The Group received the following awards in 2015:

- HAECO Hong Kong received the "5 Years Plus Caring Company" award from the Hong Kong Council of Social Service.
- HAECO Hong Kong received the "Drive for Corporate Citizenship" award from the Hong Kong Productivity Council.
- HAECO Americas was awarded the Salvation Army's "Doing The Most Good" award.

Suppliers

The Group favours suppliers who share its sustainability ambitions and standards. To this end, suppliers are invited, through the Group's supplier code of conduct, to demonstrate their commitment to legal compliance, safe operations, environmental protection and the wellbeing of their staff.

Key suppliers are invited to conduct annual self-assessment questionnaires regarding sustainability matters. A sustainability risk assessment was carried out in 2015. The top 20 suppliers of all Group companies were identified. Risk mitigants were developed.

The Group participates in the Swire supply chain sustainability working group, which promotes sustainable procurement practices among the Swire group companies. The Group takes the lead in the sustainability working group in relation to purchases of stationery, pantry items and printing accessories.

When HAECO introduced its new corporate identity in 2015, new uniforms were provided to staff. With the Hong Kong Baptist University and St. James Settlement, HAECO Hong Kong made bags, oversleeves and pencil cases out of 1,000 old uniforms. These will be donated to underprivileged students in Hong Kong.

Tote bags created by the Hong Kong Baptist University and St. James' Settlement using old HAECO Hong Kong uniforms.

To the Shareholders of Hong Kong Aircraft Engineering Company Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Hong Kong Aircraft Engineering Company Limited ("the Group financial statements") and its subsidiaries ("the Group") set out on pages 58 to 115, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Group Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Group financial statements as at and for the year ended 31 December 2015. These matters were addressed in the context of our audit of the Group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of a put option over a non-controlling interest in a subsidiary company. *Refer to notes 2 and 3 in the Group financial statements.* The Group has a liability related to an option that grants a non-controlling shareholder of a subsidiary company the ability to require the Group to acquire this shareholding at any point after 1 January 2016. Management has estimated the fair value of this option to be HK$74 million. The fair value is based on several key assumptions that require significant management judgement including the terminal growth rate of the subsidiary and the discount rate.	Our procedures on the option valuation included: • Assessing the valuation methodology; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets. We found the assumptions made by management in the fair value assessment to be reasonable based on available evidence. The significant inputs have been appropriately disclosed on pages 66 to 67.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of property, plant and equipment at Xiamen Airport. *Refer to note 12 in the Group financial statements.* The Group has assets of HK$1,494 million located at Xiamen Airport, Mainland China. The Municipal Government of Xiamen has announced its proposal to build a new airport with a planned opening date of 2020. The proposal is subject to the approval of the National Development and Reform Commission of the People's Republic of China. If the proposal is implemented, the Group expects to receive compensation. If the present value of the compensation together with the present value of future cash flows from the relevant assets were assessed to be less than the carrying value of the relevant assets, impairment would arise. Management has concluded that there is no impairment in respect of the proposed airport relocation. This conclusion required significant management judgement and was based on the current status of the approval process, discussions with representatives from the Municipal Government of Xiamen and preliminary compensation assessments performed by management with the assistance of an independent consultant.	Our procedures in relation to management's assessment of the carrying value of the assets included: • Evaluating management's preliminary compensation assessment; • Discussing the status of the airport relocation with the Group's project team; • Assessing correspondence between the Group and the Xiamen Municipal Government; and • Assessing the terms of the existing land use rights. We consider management's conclusion to be consistent with the available information.

Key Audit Matter	How our audit addressed the Key Audit Matter
HAECO Americas impairment assessment *Refer to note 13 in the Group financial statements.*	
The Group has goodwill of HK$1,387 million relating to HAECO USA Holdings, Inc.'s ("HAECO Americas") acquisition of TIMCO Aviation Services, Inc. in 2014 for HK$2,876 million. HAECO Americas incurred losses in the year ended 31 December 2015. This has increased the risk that the carrying values of goodwill and other assets may be impaired. Management has concluded that there is no impairment in respect of the HAECO Americas goodwill and other assets. This conclusion was based on a value in use model that required significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth.	Our procedures in relation to management's impairment assessment included: • Assessing the valuation methodology; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets. We found the assumptions made by management in relation to the value in use calculations to be reasonable based on available evidence. The significant inputs have been appropriately disclosed on pages 78 to 80.

Other Information in the Annual Report

The directors are responsible for the Other Information. The Other Information comprises all the information in the Group's 2015 annual report other than the Group financial statements and our auditor's report thereon ("Other Information").

Our opinion on the Group financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Group Financial Statements

The directors are responsible for the preparation of the Group financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of Group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Group Financial Statements

Our objectives are to obtain reasonable assurance about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Group financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Group financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group financial statements, including the disclosures, and whether the Group financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Group financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is James Noel Crockford.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 March 2016

Consolidated Statement of Profit or Loss

for the year ended 31st December 2015

	Note	2015 HK$M	2014 HK$M
Revenue	4	**12,095**	11,927
Operating expenses:			
Staff remuneration and benefits	5	**(4,813)**	(4,573)
Cost of direct material and job expenses		**(5,460)**	(5,322)
Depreciation, amortisation and impairment	12, 13	**(620)**	(639)
Insurance and utilities		**(187)**	(191)
Operating lease rentals – land and buildings		**(214)**	(275)
Repairs and maintenance		**(163)**	(188)
Other		**(237)**	(236)
		(11,694)	(11,424)
Other net gains	7	**14**	6
Operating profit		**415**	509
Finance income	8	**20**	30
Finance charges	8	**(96)**	(100)
Net operating profit		**339**	439
Share of after-tax results of joint venture companies	15	**246**	314
Profit before taxation		**585**	753
Taxation	9	**(33)**	(94)
Profit for the year		**552**	659
Profit attributable to:			
The Company's shareholders		**464**	573
Non-controlling interests		**88**	86
		552	659
Dividends			
First interim – paid		**100**	108
Second interim – declared/paid		**183**	241
	10	**283**	349
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	11	**HK$2.79**	HK$3.45

The notes on pages 63 to 115 (which include the principal accounting policies) form part of these financial statements.

Consolidated Statement of Other Comprehensive Income

for the year ended 31st December 2015

	2015 HK$M	2014 HK$M
Profit for the year	**552**	659
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Defined benefit retirement schemes		
– remeasurement losses recognised	**(253)**	(253)
– deferred tax	**43**	42
Share of other comprehensive income of joint venture companies	**(19)**	–
Items that can be reclassified subsequently to profit or loss		
Cash flow hedges		
– losses recognised	**(8)**	(18)
– transferred to revenue	**10**	8
– transferred to finance charges	**4**	2
– deferred tax	**(2)**	2
Share of other comprehensive income of joint venture companies	**(2)**	(27)
Net translation differences on foreign operations	**(136)**	(71)
Other comprehensive income for the year, net of tax	**(363)**	(315)
Total comprehensive income for the year	**189**	344
Total comprehensive income attributable to:		
The Company's shareholders	**153**	288
Non-controlling interests	**36**	56
	189	344

The notes on pages 63 to 115 (which include the principal accounting policies) form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2015

	Note	2015 HK$M	2014 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	**5,319**	5,319
Leasehold land and land use rights	12	**337**	360
Intangible assets	13	**2,531**	2,608
Joint venture companies	15	**1,262**	1,240
Deferred tax assets	18	**182**	96
Retirement benefit assets	17	**36**	53
Long-term prepayment		**17**	17
		9,684	9,693
Current assets			
Stocks	20	**775**	654
Work in progress	21	**878**	588
Trade and other receivables	22	**1,902**	1,767
Taxation recoverable		**6**	1
Derivative financial instruments	19	**–**	10
Cash and cash equivalents	31(b)	**1,413**	2,310
Short-term deposits	31(b)	**14**	21
		4,988	5,351
Current liabilities			
Trade and other payables	23	**2,377**	2,044
Taxation payable		**42**	38
Put option over a non-controlling interest in a subsidiary company	3(a)	**74**	–
Derivative financial instruments	19	**3**	9
Short-term loans	24	**–**	453
Long-term loans due within one year	24	**178**	1,167
Finance lease obligations due within one year	24	**3**	3
		2,677	3,714
Net current assets		**2,311**	1,637
Total assets less current liabilities		**11,995**	11,330
Non-current liabilities			
Long-term loans	24	**3,945**	3,304
Finance lease obligations	24	**11**	14
Receipt in advance	29	**16**	27
Deferred income		**20**	23
Advance from a related party	25	**295**	218
Put option over a non-controlling interest in a subsidiary company	3(a)	**–**	72
Deferred tax liabilities	18	**239**	273
Derivative financial instruments	19	**–**	2
Retirement benefit liabilities	17	**275**	–
Other payables		**8**	10
		4,809	3,943
NET ASSETS		**7,186**	7,387
EQUITY			
Share capital	26	**185**	185
Reserves	27	**5,696**	5,884
Equity attributable to the Company's shareholders		**5,881**	6,069
Non-controlling interests	28	**1,305**	1,318
TOTAL EQUITY		**7,186**	7,387

The financial statements have been approved by the Board of Directors and signed on their behalf by:

John Slosar
Peter Tse
Directors

Hong Kong, 8th March 2016

The notes on pages 63 to 115 (which include the principal accounting policies) form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2015

	Note	2015	2014
		HK$M	HK$M
Operating activities			
Cash generated from operations	*31(a)*	**868**	1,274
Interest paid		**(81)**	(81)
Interest received		**23**	34
Tax paid		**(114)**	(112)
Net cash generated from operating activities		**696**	1,115
Investing activities			
Purchase of property, plant and equipment		**(702)**	(664)
Purchase of intangible assets		**(14)**	(7)
Proceeds from disposals of property, plant and equipment		**109**	35
Dividends received from joint venture companies		**185**	251
Net cash outflow on purchase of shares in a subsidiary company		**–**	(2,942)
Decrease in deposits maturing after more than three months		**7**	1
Net cash used in investing activities		**(415)**	(3,326)
Net cash inflow/(outflow) before financing activities		**281**	(2,211)
Financing activities			
Proceeds from loans		**1,430**	5,738
Repayment of loans and finance leases		**(2,258)**	(3,378)
Net cash inflow on disposal of shares in a subsidiary company		**–**	79
Advance from a related party		**77**	128
Dividends paid to the Company's shareholders		**(341)**	(324)
Dividends paid to non-controlling interests		**(49)**	(38)
Net cash (used in)/generated from financing activities		**(1,141)**	2,205
Decrease in cash and cash equivalents		**(860)**	(6)
Cash and cash equivalents at 1st January		**2,310**	2,341
Currency adjustment		**(37)**	(25)
Cash and cash equivalents at 31st December	*31(b)*	**1,413**	2,310

The notes on pages 63 to 115 (which include the principal accounting policies) form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2015

	Attributable to the Company's shareholders					
	Share capital	Revenue reserve	Other reserves	Total	Non-controlling interests	Total equity
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 1st January 2015	**185**	**5,725**	**159**	**6,069**	**1,318**	**7,387**
Profit for the year	**–**	**464**	**–**	**464**	**88**	**552**
Other comprehensive income	**–**	**(229)**	**(82)**	**(311)**	**(52)**	**(363)**
Total comprehensive income for the year	**–**	**235**	**(82)**	**153**	**36**	**189**
Dividends paid	**–**	**(341)**	**–**	**(341)**	**(49)**	**(390)**
At 31st December 2015	**185**	**5,619**	**77**	**5,881**	**1,305**	**7,186**

		Attributable to the Company's shareholders					
	Note	Share capital	Revenue reserve	Other reserves	Total	Non-controlling interests	Total equity
		HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 1st January 2014		166	5,703	228	6,097	1,229	7,326
Profit for the year		–	573	–	573	86	659
Other comprehensive income		–	(235)	(50)	(285)	(30)	(315)
Total comprehensive income for the year		–	338	(50)	288	56	344
Transition to no-par value regime on 3rd March 2014	*26*	19	–	(19)	–	–	–
Dividends paid		–	(324)	–	(324)	(38)	(362)
Change in composition of the Group	*28, 34*	–	8	–	8	71	79
At 31st December 2014		185	5,725	159	6,069	1,318	7,387

The notes on pages 63 to 115 (which include the principal accounting policies) form part of these financial statements.

1. General information

Hong Kong Aircraft Engineering Company Limited is a limited liability company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The Company and its subsidiary companies are engaged in commercial aircraft overhaul, modification and maintenance mainly in Hong Kong, Mainland China and the United States.

The principal activities of the Group's major subsidiary and joint venture companies are set out in note 37. Segment information is provided in note 4. Financial summaries of the joint venture companies are provided in note 15.

2. Financial risk management

(a) Financial risk factors

The Group's activities are exposed to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. It is the Group's policy not to enter into derivative transactions for speculative purposes. Derivatives are used solely for management of an underlying risk, principally foreign exchange and interest rate risks, and the Group minimises its exposure to market risk since gains and losses on derivatives offset the losses and gains on the transactions being hedged.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and Renminbi. Foreign exchange risk arises from the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations.

The Group Treasury's risk management policy is to hedge not more than 100% of the net notional value of highly probable transactions (largely represented by sales transactions, operating and capital expenditure) in each major foreign currency, for a period of up to 36 months, where their value of time to execution gives rise to a significant currency exposure, provided that the cost of the foreign exchange forward or derivative contract is not prohibitively expensive having regard to the underlying exposure.

Exposure to movements in exchange rates on transactions is minimised by using forward foreign exchange contracts where active markets for the relevant currencies exist. The hedging positions of individual subsidiary companies are monitored regularly to ensure the forward foreign exchange transactions are entered into in accordance with the Group's foreign exchange hedging policy. At 31st December 2015, the Group had hedged its significant foreign currency funding exposures, by fixing the foreign exchange rates with forward contracts.

At 31st December 2015, if the HK dollar had weakened/strengthened by 5% against the Renminbi with all other variables held constant, profit before tax for the year would have been HK$5 million lower/higher (2014: HK$3 million higher/lower), arising mainly from the net foreign exchange gains/losses caused by the monetary assets and liabilities; equity would have been HK$9 million (2014: HK$14 million) higher/lower arising from the fair value gains/losses of foreign exchange forward contracts recognised in other comprehensive income.

(ii) Interest rate risk

The Group's interest rate risk mainly arises from borrowings at floating rates. During 2014 and 2015, the Group's borrowings were predominately at floating rates and were primarily denominated in HK dollars and US dollars. The Group earns interest income on cash deposits and loans due from joint venture companies.

The Group entered into interest rate swaps and forward rate agreements to manage a portion of its interest rate exposure. The Group's interest rate exposure is reviewed regularly to ensure hedging of interest risk is in compliance with the Group's interest rate hedging policy.

At 31st December 2015, if the market interest rates increased by 100 basis-points with all other variables held constant, profit before tax for the year would have been HK$22 million (2014: HK$23 million) lower arising mainly from the interest charges on borrowings; equity would have been HK$2 million (2014: HK$14 million) higher arising from the fair value gains of interest rate swaps recognised in other comprehensive income.

(iii) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables with customers, derivative financial instruments and cash and deposits with banks and financial institutions.

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iii) Credit risk (continued)

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.

When depositing surplus funds or entering into derivative contracts, the Group mitigates its exposure to non-performance by counterparties by dealing with investment grade counterparties, setting approved counterparty limits and applying monitoring procedures. Counterparty credit exposure limits for financial institutions are monitored regularly to ensure each individual subsidiary company and joint venture company complies with the approved counterparty limits.

(iv) Liquidity risk

The Group takes liquidity risk into consideration when deciding its sources of funds and their tenors, so as to avoid over reliance on funds from any one source and to prevent substantial refinancing in any one period. The Group maintains significant undrawn committed revolving credit facilities and cash deposits in order to reduce liquidity risk further and to allow for flexibility in meeting funding requirements.

The Group aims to maintain immediate access to committed funds to meet its capital commitments and refinancing for the following 12 months on a rolling basis.

The tables below analyse the contractual undiscounted cash flows of the Group's non-derivative financial liabilities and net-settled derivative financial liabilities by relevant maturity groupings based on the remaining period from the year-end date to the contractual maturity date:

	Total contractual undiscounted cash flow	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 31st December 2015					
Bank loans (including interest obligations)	**4,404**	**244**	**616**	**3,544**	**–**
Trade and other payables	**822**	**822**	**–**	**–**	**–**
Finance lease obligations	**19**	**4**	**4**	**5**	**6**
Derivative financial instruments	**3**	**3**	**–**	**–**	**–**
Advance from a related party (including interest obligations)	**311**	**6**	**6**	**299**	**–**
Put option over a non-controlling interest in a subsidiary company	**74**	**74**	**–**	**–**	**–**
	5,633	**1,153**	**626**	**3,848**	**6**

	Total contractual undiscounted cash flow	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2014					
Bank loans (including interest obligations)	5,132	1,692	889	2,551	–
Trade and other payables	1,002	1,002	–	–	–
Finance lease obligations	23	4	4	9	6
Derivative financial instruments	11	9	2	–	–
Advance from a related party (including interest obligations)	228	2	92	134	–
Put option over a non-controlling interest in a subsidiary company	78	–	78	–	–
	6,474	2,709	1,065	2,694	6

2. Financial risk management (continued)

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to operate as a going concern and to secure access to finance at a reasonable cost. Capital comprises total equity, as shown in the consolidated statement of financial position.

The Group considers a number of factors in monitoring its capital structure, which principally include the gearing ratio and the return cycle of its various investments. The gearing ratio is calculated as net borrowings divided by total equity, as defined in the Glossary on page 118. The gearing ratio at 31st December 2015 was 37.7% (2014: 35.3%). The slight increase in the gearing ratio during 2015 mainly reflects the capital expenditure on property, plant and equipment.

The Group has entered into financial covenants in respective of the maintenance of minimum consolidated net worth in order to secure funding. To date, none of the covenants has been breached.

(c) Fair value estimation

The tables below analyse financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (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	Level 3	Total carrying amount
	HK$M	HK$M	HK$M
Assets			
At 31st December 2014			
Derivatives not qualifying as hedges	10	–	10
Total	10	–	10

At 31st December 2015, there are no financial assets measured at fair value.

	Level 2	Level 3	Total carrying amount
	HK$M	HK$M	HK$M
Liabilities			
At 31st December 2015			
Derivatives used for hedging	**3**	**–**	**3**
Put option over a non-controlling interest in a subsidiary company	**–**	**74**	**74**
Total	**3**	**74**	**77**
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

There were no transfers into or out of Level 3 fair value hierarchy classifications.

2. Financial risk management (continued)

(c) Fair value estimation (continued)

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.

The following table presents the changes in Level 3 financial instrument:

	Total HK$M
Financial liabilities at fair value through profit or loss	
At 1st January 2014 and 31st December 2014	72
Change in fair value recognised in profit or loss during the year	2
At 31st December 2015	**74**
Total loss for the year included in profit or loss in respect of financial instruments held at 31st December 2015	**2**
Change in unrealised loss for the year included in profit or loss in respect of financial instruments held at 31st December 2015	**2**

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

Information about fair value measurements using significant unobservable inputs (Level 3) in 2015 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%	52/(36)
	Discount rate	7.5%	The higher the discount rate, the lower the fair value	+/-1%	(59)/84

Information about fair value measurements using significant unobservable inputs (Level 3) in 2014 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%	56/(38)
	Discount rate	7.5%	The higher the discount rate, the lower the fair value	+/-1%	(55)/81

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

3. Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, inevitably, seldom be equal to the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below and in the relevant notes as follows:

(a) Estimate of fair value of put option over a non-controlling interest in a subsidiary company

The fair value of the put option over a non-controlling interest in a subsidiary company is determined by using valuation techniques. The Group uses its judgement and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for calculating the fair value of the put option in respect of non-controlling interest in a subsidiary company.

(b) Taxation (Note 9)

(c) Impairment of assets (Notes 12 and 13)

(d) Retirement benefits (Note 17)

4. Segment information

Accounting Policy

Operating segments are reported in a manner consistent with the Group's internal financial reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors of the Board.

Revenue represents the aggregate amounts invoiced to customers and changes in work in progress. Invoices are raised either on completion or on stage completion depending on the terms of individual contracts. Incomplete contract work is recognised based on a "percentage of completion method" to determine the appropriate amount. The stage of completion is measured by reference to the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Total revenue recognised for completed contracts is equal to the aggregated amounts invoiced for the contract. Sales of goods are recognised when the goods are delivered to the customer and the customer has accepted the related risk and rewards of ownership.

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.

4. Segment information (continued)

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

					HAESL				
	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	At 100%	Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Year ended 31st December 2015									
External revenue	3,628	2,554	1,712	3,719	7,761	(7,761)	482	–	12,095
Inter-segment revenue	84	2	34	–	20	(20)	37	(157)	–
Total revenue	3,712	2,556	1,746	3,719	7,781	(7,781)	519	(157)	12,095
Operating profit/(loss)	216	(217)	144	254	391	(391)	18	–	415
Finance income	11	–	25	2	1	(1)	1	(19)	20
Finance charges	(25)	(47)	(4)	(12)	(9)	9	(25)	17	(96)
Share of after-tax results of joint venture companies	–	–	–	–	112	82	–	52	246
Profit/(loss) before taxation	202	(264)	165	244	495	(301)	(6)	50	585
Taxation (charge)/credit	(35)	106	(43)	(39)	(63)	63	(18)	(4)	(33)
Profit/(loss) for the year	167	(158)	122	205	432	(238)	(24)	46	552
Depreciation	167	62	139	38	88	(88)	92	–	498
Amortisation	1	57	14	30	5	(5)	1	–	103
Provision for impairment of stock and property, plant and equipment	28	15	8	3	–	–	19	–	73
Auditors' remuneration – statutory audit fees	3	2	1	–	–	–	1	–	7

					HAESL				
	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	At 100%	Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Year ended 31st December 2014									
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
Auditors' remuneration – statutory audit fees	2	2	1	–	–	–	1	–	6

4. Segment information (continued)

	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 31st December 2015									
Total segment assets	**4,058**	**3,543**	**2,790**	**2,194**	**2,928**	**(2,928)**	**2,026**	**(1,201)**	**13,410**
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	**116**	**103**	**79**	**32**	**96**	**(96)**	**407**	**–**	**737**
Total segment liabilities	**2,315**	**2,889**	**415**	**1,118**	**1,198**	**(1,198)**	**1,941**	**(1,192)**	**7,486**

	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2014									
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, deferred tax assets and non-current assets acquired in business combination)	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

The goodwill which arose on the acquisitions of TEXL and TIMCO Aviation Services, Inc. in previous accounting periods has been accounted for under TEXL and HAECO Americas respectively.

	2015	2014
	HK$M	HK$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	**13,410**	13,804
Unallocated: investment in joint venture companies	**1,262**	1,240
Total assets	**14,672**	15,044

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

Reportable segments' liabilities are equal to total liabilities.

Transactions between segments are carried out on normal commercial terms. The revenue from external parties reported to the Executive Directors of the Board is measured in a manner consistent with that in the consolidated statement of profit or loss.

4. Segment information (continued)

HAESL has been determined as a reportable 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.

	2015	2014
	HK$M	HK$M
The Group's revenue derived from external customers:		
In Hong Kong	**2,609**	2,642
In the United States	**6,950**	6,799
In other countries	**2,536**	2,486
	12,095	11,927
Total non-current assets other than joint venture companies, financial instruments, deferred tax assets and retirement benefit assets:		
In Hong Kong	**2,826**	2,805
In the United States	**2,458**	2,476
In other countries (mainly in Mainland China)	**2,920**	3,023
	8,204	8,304
Single external customers amounting to 10% or more of the Group's revenue:		
Revenue in HAECO Hong Kong, HAECO Americas, HAECO Xiamen, TEXL and other segments derived from customer A	**2,548**	2,583
Revenue in HAECO Hong Kong, HAECO Americas, HAECO Xiamen, TEXL and other segments derived from customer B	**3,302**	3,218
Revenue in HAECO Hong Kong, HAECO Americas and HAECO Xiamen derived from customer C	**1,499**	1,455
	7,349	7,256

5. Staff remuneration and benefits

Total staff remuneration and benefits including pension scheme contributions, salaries, allowances, benefits in kind and staff benefit administration costs for 2015 amounted to HK$4,813 million (2014: HK$4,573 million). Of the five highest paid employees, one (2014: two) was a Director and four (2014: two) were Executive Officers whose emoluments are given in note 6. The emoluments of the remaining one individual during 2014 is as follows:

	2015	2014
	HK$000	HK$000
Cash:		
Basic salary	**–**	1,705
Bonus	**–**	534
Allowances, gratuities and benefits	**–**	1,129
Non cash:		
Retirement scheme contributions	**–**	17
Other benefits	**–**	1,374
	–	4,759

6. Directors' and Executive Officers' emoluments

The total number of Directors who served during the year was 14 (2014: 12) and the total number of Executive Officers who served during the year was six (2014: six). The total emoluments of Directors and Executive Officers disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and the Companies (Disclosure of Information about Benefits of Directors) Regulations are as follows:

	Group							
	Cash			Non Cash				
	Basic salary/ Directors' fees (note a)	Bonus (note b)	Allowances and benefits	Retirement schemes contributions	Bonus paid into retirement schemes	Housing and other benefits	**2015 Total**	2014 Total
	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	**HK$000**	HK$000
Executive Directors:								
John Slosar (from 14th March 2014)	228	387	6	77	121	166	**985**	841
Christopher Pratt (until 13th March 2014)	–	140	–	–	–	–	**140**	863
Augustus Tang	3,552	4,461	2,118	1,052	–	1	**11,184**	8,968
James Barrington (from 7th September 2015)	668	–	688	226	–	–	**1,582**	–
Mark Hayman (until 15th May 2015) (note c)	1,361	1,275	1,846	–	–	15	**4,497**	4,527
Gregory Hughes (from 17th September 2015)	616	–	530	208	–	765	**2,119**	–
Fanny Lung	2,559	1,318	99	668	–	1	**4,645**	3,997
	8,984	7,581	5,287	2,231	121	948	**25,152**	19,196
Non-Executive Directors:								
Christopher Gibbs	–	–	–	–	–	–	**–**	–
Peter Johansen (until 6th September 2015)	345	–	–	–	–	–	**345**	505
Merlin Swire	–	–	–	–	–	–	**–**	–
	345	–	–	–	–	–	**345**	505
Independent Non-Executive Directors:								
Robert Adams	520	–	–	–	–	–	**520**	520
Benjamin Cha (from 7th September 2015)	149	–	–	–	–	–	**149**	–
Lincoln Leong (until 15th May 2015)	205	–	–	–	–	–	**205**	555
Peter Tse	491	–	–	–	–	–	**491**	380
David Tong	391	–	–	–	–	–	**391**	380
	1,756	–	–	–	–	–	**1,756**	1,835
2015 total	**11,085**	**7,581**	**5,287**	**2,231**	**121**	**948**	**27,253**	
2014 total	10,804	7,094	2,468	835	–	335		21,536
Executive Officers:								
Kevin Carter (from 6th February 2014)	5,406	3,180	131	70	–	–	**8,787**	4,288
Stephen Chadwick (until 30th September 2014)	–	–	–	–	–	–	**–**	4,390
Summit Chan	2,371	1,055	260	613	–	453	**4,752**	3,654
William Chau	2,098	1,590	672	621	–	1	**4,982**	3,355
Richard Kendall (from 21st September 2015)	570	–	307	–	–	84	**961**	–
Ronald Lam	1,878	794	384	534	–	1	**3,591**	2,759
Kenny Tang (until 31st August 2015) (note d)	1,601	1,402	504	474	–	1,864	**5,845**	4,944
2015 total	**13,924**	**8,021**	**2,258**	**2,312**	**–**	**2,403**	**28,918**	
2014 total	13,794	3,782	2,783	1,206	–	1,825		23,390

6. Directors' and Executive Officers' emoluments (continued)

Notes:

a. *Annual Directors' fees are determined by the Board and for 2015 comprised Director's fee of HK$380,000 (2014: HK$380,000), fee for members serving on Audit Committee of HK$90,000 (2014: HK$90,000) and fee for members serving on Remuneration Committee of HK$35,000 (2014: HK$35,000) respectively. The fee for the Chairman of Audit Committee is HK$140,000 (2014: HK$140,000) and the fee for the Chairman of Remuneration Committee is HK$50,000 (2014: HK$50,000).*

   The amount relating to Kevin Carter includes a provision of HK$1,872,000 attributable to 2015 (2014: HK$936,000) which is payable in later years upon satisfaction of vesting conditions.

b. *Bonuses are not yet approved for 2015. The amounts disclosed above are related to services as Executive Directors and Officers for 2014 but paid and charged to the Group in 2015.*

c. *The remuneration for Mark Hayman covered the period from 1st January 2015 to 31st July 2015. He retired as an Executive Director at the conclusion of the Company's annual general meeting held on 15th May 2015 and as Group Director Engineering on 31st July 2015.*

d. *The remuneration for Kenny Tang covered the period from 1st January 2015 to 31st August 2015. He resigned as Chief Executive Officer of HAECO Xiamen on 31st August 2015.*

7. Other net gains

	2015	2014
	HK$M	HK$M
Net foreign exchange gains/(losses)	**6**	(10)
Loss on disposal of property, plant and equipment	**(18)**	(26)
Receipt of government subsidies	**20**	41
Others	**6**	1
	14	6

8. Finance income and finance charges

Accounting Policy

Finance income is recognised on a time-proportion basis using the effective interest method.

Finance costs incurred are charged to the statement of profit or loss except for those finance charges attributable to the acquisition, construction or production of qualifying assets (i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale) which are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

8. Finance income and finance charges (continued)

	2015 HK$M	2014 HK$M
Finance income:		
Short-term deposits and bank balances	**20**	30
Finance charges:		
Bank loans	**(88)**	(96)
Advance from a related party	**(4)**	(1)
Finance lease obligations	**(1)**	(1)
Fair value losses on derivative instruments:		
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	**(4)**	(2)
Fair value loss on a put option over a non-controlling interest in a subsidiary company	**(2)**	–
Capitalised on property, plant and equipment	**3**	–
Total finance charges	**(96)**	(100)
Net finance charges	**(76)**	(70)

The capitalised interest rates on loans borrowed and used for the construction of property, plant and equipment were between 2.81% and 3.22% per annum.

9. Taxation

Accounting Policy

The tax charge comprises current and deferred tax. The tax charge is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Critical accounting estimates and judgements

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations relating to the Group's ordinary business activities for which the ultimate tax determination is uncertain. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the year in which the outcome becomes known.

9. Taxation (continued)

	2015 HK$M	2014 HK$M
Current taxation:		
Hong Kong profits tax	**40**	13
Overseas taxation	**80**	97
(Over)/under-provisions in prior years	**(6)**	2
	114	112
Deferred taxation (note 18):		
Decrease/(increase) in deferred tax assets	**7**	(18)
Decrease in deferred tax liabilities	**(88)**	–
	33	94

Hong Kong profits tax is calculated at 16.5% (2014: 16.5%) on the estimated assessable profits for the year. 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 charge of HK$35 million (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.

The tax charge on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate of the Company as follows:

	2015 HK$M	2014 HK$M
Profit before taxation	**585**	753
Calculated at a tax rate of 16.5% (2014: 16.5%)	**97**	124
Share of after-tax results of joint venture companies	**(41)**	(52)
Effect of different tax rates in other countries	**(69)**	19
Income not subject to tax	**(8)**	(9)
Expenses not deductible for tax purposes	**14**	19
Unused tax losses not recognised	**28**	5
Utilisation of previously unrecognised tax losses	**(1)**	(52)
(Over)/under-provisions in prior years	**(6)**	2
Effect of change in tax rates	**11**	–
Deferred tax assets written off	**–**	15
Temporary differences not recognised	**–**	12
Recognition of previously unrecognised temporary differences	**–**	(9)
Withholding tax	**9**	19
Others	**(1)**	1
Tax charge	**33**	94

10. Dividends

Accounting Policy

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or Board of Directors, where appropriate.

	Company	
	2015	2014
	HK$M	HK$M
First interim dividend paid on 22nd September 2015 of HK$0.60 per share (2014: HK$0.65 per share)	**100**	108
Second interim dividend declared on 8th March 2016 of HK$1.10 per share (2014: HK$1.45 per share)	**183**	241
	283	349

The Directors have declared a second interim dividend of HK$1.10 per share for the year ended 31st December 2015. Together with the first interim dividend of HK$0.60 per share paid on 22nd September 2015, this results in total dividends for the year of HK$1.70 per share and represents a total distribution of HK$283 million. The second interim dividend will be paid on 26th April 2016 to shareholders registered at the close of business on the record date, being Friday, 1st April 2016. Shares of the Company will be traded ex-dividend as from Wednesday, 30th March 2016.

The register of members will be closed on Friday, 1st April 2016 during which day no transfer of shares will be effected. In order to qualify for entitlement to the second 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 Thursday, 31st March 2016.

The second interim dividend is not accounted for in 2015 because it had not been declared and approved at the year end date. The actual amount payable in respect of 2015 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2016.

11. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders of HK$464 million (2014: HK$573 million) by the weighted average number of 166,324,850 ordinary shares in issue during the year (2014: 166,324,850).

12. Property, plant and equipment and leasehold land and land use rights

Accounting Policy

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated statement of profit or loss during the financial period in which they are incurred.

All property, plant and equipment and leasehold land and land use rights are depreciated at rates sufficient to write off their original costs to estimated residual values using the straight-line method over their anticipated useful lives in the following manner:

Buildings and building facilities	2% to 10% per annum
Equipment, plant, machinery and tools	5% to 33% per annum
Motor vehicles	20% to 25% per annum
Rotable spares	5% to 10% per annum
Assets under construction	Nil
Leasehold land and land use rights	Over the lease term

The assets' anticipated useful lives and residual values are regularly reviewed and adjusted, if appropriate, at each period-end date to take into account operational experience and changing circumstances.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other net gains" in the statement of profit or loss.

Critical accounting estimates and judgements

At each period-end date or whenever a change in circumstances occurs, both internal and external sources of information are considered to assess whether there is an indication that assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated using fair value less costs to sell and/or value in use calculations as appropriate. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the statement of profit or loss.

During the year, the carrying amounts of certain plant, machinery and tools have been written down by HK$19 million (2014: HK$24 million) to their recoverable amount.

The municipal government of Xiamen has announced that the proposed new airport at Xiang'an will commence operations in 2020. This is subject to the National Development and Reform Commission's approval. Management has engaged an independent consultant to perform preliminary compensation assessments in order to evaluate the recoverable amounts of the Group's property, plant and equipment and land use rights at the existing Xiamen airport (with net book value totalling HK$1,494 million at the end of 31st December 2015 (2014: HK$1,648 million)) which might be affected by the proposal to develop a new airport and has concluded that there was no impairment loss on those assets at 31st December 2015. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

12. Property, plant and equipment and leasehold land and land use rights (continued)

	Property, plant and equipment						
	Buildings and building facilities	Plant, machinery and tools	Vehicles, equipment and furniture	Rotable spares	Assets under construction	Total	Leasehold land and land use rights
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Cost							
At 1st January 2014	5,634	2,221	183	807	128	8,973	477
Translation differences	(50)	(26)	(2)	–	(2)	(80)	(8)
Acquisition of a subsidiary company	231	117	25	–	2	375	18
Additions and transfers	46	237	43	331	13	670	–
Disposals	(17)	(218)	(20)	(71)	–	(326)	–
At 31st December 2014	5,844	2,331	229	1,067	141	9,612	487
Translation differences	(98)	(52)	(3)	–	(3)	(156)	(17)
Additions and transfers	125	232	25	316	23	721	–
Disposals	(17)	(56)	(16)	(122)	–	(211)	–
At 31st December 2015	**5,854**	**2,455**	**235**	**1,261**	**161**	**9,966**	**470**
Accumulated depreciation, amortisation and impairment							
At 1st January 2014	2,258	1,460	134	212	–	4,064	118
Translation differences	(22)	(18)	(2)	(1)	–	(43)	(2)
Depreciation and amortisation charge for the year	240	166	39	58	–	503	11
Impairment charge for the year	–	24	–	–	–	24	–
Disposals	(13)	(214)	(21)	(7)	–	(255)	–
At 31st December 2014	2,463	1,418	150	262	–	4,293	127
Translation differences	(47)	(33)	(2)	–	–	(82)	(5)
Depreciation and amortisation charge for the year	244	159	30	65	–	498	11
Impairment charge for the year	–	19	–	–	–	19	–
Disposals	(7)	(53)	(16)	(5)	–	(81)	–
At 31st December 2015	**2,653**	**1,510**	**162**	**322**	**–**	**4,647**	**133**
Net book value							
At 31st December 2015	**3,201**	**945**	**73**	**939**	**161**	**5,319**	**337**
At 31st December 2014	3,381	913	79	805	141	5,319	360

At 31st December 2015 and 2014, none of the Group's property, plant and equipment was pledged as security for the Group's loans.

Assets under construction mainly relate to building acquired and plant and machinery not yet ready for use.

Of the leasehold land and land use rights of HK$337 million (2014: HK$360 million), HK$14 million (2014: HK$14 million) relates to the net book value of leasehold land held in Hong Kong by the Company and HK$323 million (2014: HK$346 million) relates to the net book value of land use rights held in Mainland China by HAECO Xiamen, HAECO Landing Gear Services and TEXL, and the leasehold land held in the United States by HAECO Americas. Both leasehold land and land use rights are held on medium-term leases.

13. Intangible assets

Accounting Policy

(a) Goodwill
Goodwill represents the excess of cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary company on consolidation at the date of acquisition. Goodwill is treated as an asset of the entity acquired and where attributable to a foreign entity will be translated at the closing exchange rates. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing, which is performed at least annually. Impairment losses recognised on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Computer software
Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the acquisition and development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Computer software costs are amortised over their estimated useful lives (three to ten years).

(c) Technical licences
Separately acquired technical licences are shown at historical cost. Technical licences acquired in a business combination are recognised at fair value at the acquisition date. Technical licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical licences over their estimated useful life of twenty two years.

(d) Development costs
Costs that are directly associated with development of an identifiable model controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the development staff costs and cost of raw materials consumed. Development costs are amortised over their estimated useful life of ten years.

(e) Customer relationships
Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are carried at cost less accumulated amortisation. They are amortised over their estimated useful life of fifteen years.

Assets that have an indefinite useful life are not subject to amortisation. These assets are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

13. Intangible assets (continued)

	Goodwill	Technical licences	Customer relationships	Others	Total
	HK$M	HK$M	HK$M	HK$M	HK$M
Cost					
At 1st January 2014	31	535	–	59	625
Translation differences	(2)	–	(1)	(1)	(4)
Acquisition of a subsidiary company	1,390	–	740	72	2,202
Additions and transfers	–	–	–	8	8
At 31st December 2014	1,419	535	739	138	2,831
Translation differences	(1)	–	–	(2)	(3)
Additions and transfers	–	–	–	16	16
Disposals	–	–	–	(26)	(26)
At 31st December 2015	**1,418**	**535**	**739**	**126**	**2,818**
Accumulated amortisation					
At 1st January 2014	–	98	–	24	122
Amortisation charge for the year	–	26	45	30	101
At 31st December 2014	–	124	45	54	223
Translation differences	–	(1)	–	(1)	(2)
Amortisation charge for the year	–	27	50	15	92
Disposals	–	–	–	(26)	(26)
At 31st December 2015	**–**	**150**	**95**	**42**	**287**
Net book value					
At 31st December 2015	**1,418**	**385**	**644**	**84**	**2,531**
At 31st December 2014	1,419	411	694	84	2,608

Impairment test of goodwill

Critical accounting estimates and judgements

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is determined using fair value less costs to sell or value-in-use calculations as appropriate. These calculations require the use of estimates.

The following is a summary of goodwill allocated to each entity.

	2015	2014
	HK$M	HK$M
HAECO Americas	**1,387**	1,388
TEXL	**31**	31
	1,418	1,419

13. Intangible assets (continued)

Impairment test of goodwill (continued)

Although management considers the business primarily from an entity perspective, for the purposes of impairment reviews, goodwill is monitored at the lowest cash generating unit ("CGU"). This is the entity level for TEXL, whereas for HAECO Americas, this is split into two CGUs of airframe services and cabin solutions.

The recoverable amount of HAECO Americas has been determined on a value-in-use basis. The key assumptions for the recoverable value of its CGUs are the underlying cash flow forecasts, revenue growth rate and discount rate used. The discount rate is based on the Group's weighted average cost of capital, adjusted for country specific risk relating to the CGUs. The valuation uses cash flow forecasts based on detailed financial budgets prepared by management covering a five year (2014: five year) period for the CGU of airframe services and a ten year (2014: five year) period for the CGU of cabin solutions. A ten year forecast is considered appropriate for the CGU of cabin solutions to take into account the expectation of significant growth in the business following the development of new product models over the next three to five years whose success the model is highly dependent upon.

The key assumptions are illustrated as follows:

	Airframe Services		Cabin Solutions	
	2015	2014	**2015**	2014
Discount rate	**8.5%**	8.5%	**8.5%**	8.5%
Revenue growth – cumulative average growth rate per annum	**5.9%**	1.9%	**16.8%**	17.8%

Revenue growth is based on past performance, current industry trends and management's expectations of market development. Assumptions of no growth in cash flows after year five of the CGU of airframe services and year ten of the CGU of cabin solutions are made respectively.

In HAECO Americas, the recoverable amount calculated based on value in use exceeded carrying value by HK$347 million (2014: HK$969 million) for the CGU of airframe services and HK$333 million (2014: HK$1,677 million) for the CGU of cabin solutions. The below changes taken in isolation, would remove the remaining headroom.

	Airframe Services		Cabin Solutions	
	2015	2014	**2015**	2014
Discount rate	**10.1%**	16.9%	**10.1%**	15.6%
Revenue growth – cumulative average growth rate per annum	**4.3%**	(8.7%)	**15.1%**	8.0%

14. Subsidiary companies

Accounting Policy

Subsidiary companies are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The principal subsidiary companies of Hong Kong Aircraft Engineering Company Limited are shown on page 111.

15. Joint venture companies

Accounting Policy

Joint venture companies are those companies held for the long-term, over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements, and has rights to the net assets of those companies.

In the Group's consolidated statement of financial position, its investments in joint venture companies are accounted for using the equity method of accounting and are initially recognised at cost. The excess of the cost of investment in joint venture companies over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition represents goodwill. The Group's investments in joint venture companies include goodwill identified on acquisitions, net of any accumulated impairment losses.

The Group's share of its joint venture companies' post-acquisition profits or losses is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are included in the carrying amount of the investment. When the Group's interest, including any other unsecured receivables in a joint venture company is reduced to nil, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture company.

The Group recognises the disposal of an interest in a joint venture company when it ceases to have joint control and the risks and rewards of ownership have passed to the acquirer.

The Group assesses at the end of each reporting period whether there is any objective evidence that its interests in joint venture companies are impaired. Such objective evidence includes whether there has been any significant adverse changes in the technological, market, economic or legal environment in which the joint venture companies operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in a joint venture company is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is lower than the higher of the investment's fair value less costs to sell or value in use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

	HAESL		Others		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**901**	901	**339**	312	**1,240**	1,213
Translation differences	**–**	(1)	**(18)**	(8)	**(18)**	(9)
Share of profit	**194**	267	**52**	47	**246**	314
Share of other comprehensive income	**(21)**	(27)	**–**	–	**(21)**	(27)
Dividends received from joint venture companies	**(160)**	(239)	**(25)**	(12)	**(185)**	(251)
At 31st December	**914**	901	**348**	339	**1,262**	1,240

The principal joint venture companies are shown on page 111.

The Group has one individually material joint venture company, HAESL, in which the Group has a 45% equity interest. HAESL is engaged in commercial aero engine overhaul services.

15. Joint venture companies (continued)

Set out below are the summarised financial information for HAESL which is accounted for using the equity method. HAESL is a private company incorporated in Hong Kong and there is no quoted market price available for its shares.

Summarised statement of comprehensive income

	2015	2014
	HK$M	HK$M
Revenue	7,781	8,373
Depreciation and amortisation	(93)	(103)
Other operating expenses	(7,297)	(7,745)
Operating profit	391	525
Finance income	1	–
Finance charges	(9)	(8)
Share of after-tax results of a joint venture company	112	162
Profit before taxation	495	679
Taxation	(63)	(86)
Profit for the year	432	593
Other comprehensive income	(45)	(61)
Total comprehensive income	387	532
Dividends received from the joint venture company	160	239

Summarised statement of financial position

	At 31st December	
	2015	2014
	HK$M	HK$M
Non-current assets	1,307	1,329
Current assets		
Cash and cash equivalents	48	91
Other current assets	1,877	1,235
Total current assets	1,925	1,326
Current liabilities		
Financial liabilities (excluding trade payables)	796	–
Other current liabilities (including trade payables)	248	202
Total current liabilities	1,044	202
Non-current liabilities		
Financial liabilities	–	349
Other non-current liabilities	154	101
Total non-current liabilities	154	450
Net assets	2,034	2,003

15. Joint venture companies (continued)

Reconciliation of the summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture company.

	2015 HK$M	2014 HK$M
Net assets		
At 1st January	**2,003**	2,002
Profit for the year	**432**	593
Other comprehensive income	**(45)**	(61)
Dividends paid	**(356)**	(531)
At 31st December	**2,034**	2,003
Carrying value of 45% interest in the joint venture company	**914**	901

On 23rd November 2015, conditional agreements were entered into for the restructuring of shareholdings in HAESL and SAESL. As part of the restructuring (and subject to satisfaction of the conditions to which the agreements are subject), HAESL will sell its 20% shareholding in SAESL for a consideration of US$270 million. HAECO will increase its shareholding in HAESL from 45% to 50% for a consideration of US$58 million. Completion of the agreements is conditional on, among other things, filings being made with certain national competition authorities and such filings not resulting in the transactions not being permitted to proceed.

16. Financial instruments by category

Accounting Policy

Classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, derivatives used for hedging, available-for-sale, loans and receivables and amortised cost. The classification depends on the purpose of the financial instrument. The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

(a) At fair value through profit or loss
A financial instrument is classified within this category if the intention is to settle it in the short-term or if it is designated as at fair value through profit or loss by management. Derivatives are included within this category unless they are designated as hedges. Put options over non-controlling interests in subsidiary companies are measured at fair value through profit or loss. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the period-end date.

(b) Derivatives used for hedging
Derivative instruments are classified within this category if they qualify for hedge accounting.

(c) Available-for-sale
Available-for-sale assets are non-derivative investments and other assets that are either designated in this category or not classified in any of the other categories. Available-for-sale assets are included in non-current assets unless management intends to dispose of the asset within 12 months of the period-end date.

16. Financial instruments by category (continued)

Accounting Policy (continued)

Classification (continued)

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the period-end date where these are classified as non-current assets.

(e) Amortised cost

The amortised cost category comprises instruments that are non-derivative financial liabilities with fixed or determinable payments and fixed maturities. They are included in non-current liabilities, except for maturities less than 12 months after the period-end date where these are classified as current liabilities.

Recognition and measurement

Purchases and sales of financial instruments are recognised on their trade-date, which is the date when the Group contracts with the purchaser or seller. Financial instruments are initially recognised at fair value. Transaction costs are included for all financial instruments not carried at fair value through profit or loss. Financial instruments are derecognised when the rights to receive or obligations to pay cash have expired or have been transferred and the Group has transferred substantially all risks and rewards.

Financial instruments classified as at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value are included in the statement of profit or loss in the period in which they arise. Derivatives used for hedging are subsequently carried at fair value. Accounting for the realised and unrealised gains and losses arising from changes in the fair value of derivatives are set out in Note 19.

Financial assets classified as available-for-sale are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income. When available-for-sale assets are sold or impaired, the accumulated fair value adjustments are included in the statement of profit or loss as gains and losses from investments.

Financial instruments classified as loans and receivables and amortised cost are subsequently measured using the effective interest method.

The Group assesses at each period-end date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably measured.

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	At fair value through profit or loss	Derivatives used for hedging	Total
	HK$M	HK$M	HK$M	HK$M
At 31st December 2015				
Assets				
Trade and other receivables	**1,902**	–	–	**1,902**
Bank balances and short-term deposits	**1,427**	–	–	**1,427**
Total	**3,329**	–	–	**3,329**

16. Financial instruments by category (continued)

	Amortised cost	At fair value through profit or loss	Derivatives used for hedging	Total
	HK$M	**HK$M**	**HK$M**	**HK$M**
At 31st December 2015				
Liabilities				
Derivative financial instruments	**–**	**–**	**3**	**3**
Trade and other payables	**822**	**–**	**–**	**822**
Advance from a related party	**295**	**–**	**–**	**295**
Put option over a non-controlling interest in a subsidiary company	**–**	**74**	**–**	**74**
Borrowings	**4,137**	**–**	**–**	**4,137**
Total	**5,254**	**74**	**3**	**5,331**

	Loans and receivables	At fair value through profit or loss	Derivatives used for hedging	Total
	HK$M	HK$M	HK$M	HK$M
At 31st December 2014				
Assets				
Derivative financial instruments	–	10	–	10
Trade and other receivables	1,767	–	–	1,767
Bank balances and short-term deposits	2,331	–	–	2,331
Total	4,098	10	–	4,108

	Amortised cost	At fair value through profit or loss	Derivatives used for hedging	Total
	HK$M	HK$M	HK$M	HK$M
At 31st December 2014				
Liabilities				
Derivative financial instruments	–	2	9	11
Trade and other payables	1,002	–	–	1,002
Advance from a related party	218	–	–	218
Put option over a non-controlling interest in a subsidiary company	–	72	–	72
Borrowings	4,941	–	–	4,941
Total	6,161	74	9	6,244

17. Retirement benefits

Accounting Policy

For defined benefit schemes, retirement benefit costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the statement of profit or loss so as to spread the regular cost over the service lives of employees.

The asset or liability recognised on the statement of financial position is the present value of the cost of providing these benefits (the defined benefit obligation) less the fair value of the plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries and is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds. The plan assets are valued on a bid price basis.

17. Retirement benefits (continued)

Accounting Policy (continued)

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in the statement of profit or loss. Any differences between the implicit and actual return on assets are charged as remeasurements to other comprehensive income.

For defined contribution schemes, the Group's contributions are charged to the statement of profit or loss in the period to which the contributions relate.

Critical accounting estimates and judgements

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net retirement benefit expense/income include the discount rate. The Group reviewed the discount rate at the end of each year. Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

(a) Overall

Staff employed by the Company before 1st December 2000 were offered an one-off choice between Hong Kong's Mandatory Provident Fund ("MPF") and the defined benefits retirement schemes upon the launch of MPF. Since 1st December 2000, all new staff employed, unless specially approved by the Company, have been enrolled in the MPF scheme. Staff are required to contribute 5% of the employees' relevant income (contribution capped at HK$1,250 per month until 31st May 2014; HK$1,500 per month effective from 1st June 2014). Staff may elect to contribute more than the minimum as a voluntary contribution. With effect from 1st January 2015, the Company increased the monthly employer's contribution rate under MPF scheme from 5% to not exceeding 10% of the employees' relevant income with the monthly contribution capped at HK$5,000 per staff member.

The Hong Kong Aircraft Engineering Company Limited Local Staff Retirement Benefits Scheme ("Local Scheme") provides resignation and retirement benefits to its members upon their cessation of service with the Company. The Company meets the full cost of all benefits due by the Local Scheme to members, who are not required to contribute to the Scheme.

Similarly, the Hong Kong Aircraft Engineering Company Retirement Scheme ("Expatriate Scheme") is for staff employed on expatriate terms. Both members and the Company contribute to the Expatriate Scheme.

HAECO Americas provides eligible employees with a qualified defined contribution plan. This qualified plan provides that employees may contribute up to 92% of pre-tax earnings as allowed by the U.S. tax code (capped at US$18,000 for 2015 (2014: US$17,500)) and the company may elect, at its discretion, to make contributions to the plan in any year. For the year ended 31st December 2015, HAECO Americas elected to make discretionary contributions to the plan, matching 50% (2014: 25%) of employees' contributions up to a maximum employer contribution of 4% (2014: 3%) of employees' salaries. With effect from 1st October 2015, HAECO Americas provides eligible employees with a non-qualified deferred compensation plan, in addition to the qualified plan. Plan participants may elect to defer base salary, bonus, and/or return of excess contributions from the company's qualified defined contribution plan up to the maximum percentages for each deferral election as described in the plan. The plan does not currently incorporate provisions for company matching or discretionary contributions.

17. Retirement benefits (continued)

(a) Overall (continued)

The subsidiary companies operating in Mainland China pay contributions to the required statutory retirement scheme for their local employees. The scheme is operated by the Mainland China government. In addition, HAECO Xiamen also operates a defined contribution scheme for employees who have worked for more than five years. Both the employers and the employees are required to contribute to the scheme.

Local staff employed by HAECO Line Services (Singapore) are covered by the Central Provident Fund in Singapore.

Contributions to the defined benefit retirement schemes are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past service liabilities, on an on-going basis, as computed by reference to actuarial valuations. Both the Local Scheme and the Expatriate Scheme are valued using the projected unit credit method in accordance with Hong Kong Accounting Standard ("HKAS") 19. The principal schemes are valued annually by qualified actuaries for funding purposes under the provisions of Hong Kong's Occupational Retirement Schemes Ordinance.

For the year ended 31st December 2015, the funding level was 114% (2014: 114%) of the accrued liabilities on an on-going basis. The Group expects to make contributions of HK$61 million to Local Scheme and nil to Expatriate Scheme in 2016.

For the year ended 31st December 2015, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015. For the year ended 31st December 2014, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2012, which were updated at 31st December 2014 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes.

The net retirement benefit expense recognised in the statement of profit or loss was as follows:

	2015	2014
	HK$M	HK$M
Local Scheme	**98**	78
MPF, statutory and other defined contribution schemes	**204**	167
	302	245

(b) Defined benefits retirement schemes

Net expenses recognised in the statement of profit or loss are as follows:

	Local Scheme		Expatriate Scheme		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Current service cost	**97**	88	**2**	2	**99**	90
Net interest expense/(income)	**1**	(10)	**(2)**	(2)	**(1)**	(12)
Total	**98**	78	**–**	–	**98**	78

The above net expenses are included in staff remuneration and benefits in the consolidated statement of profit or loss.

17. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

The actual returns on plan assets are as follows:

	Local Scheme		Expatriate Scheme		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Actual return on plan assets – (loss)/gain	**(36)**	95	**(2)**	5	**(38)**	100

The amounts recognised in the statement of financial position are as follows:

	Local Scheme		Expatriate Scheme		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 31st December:						
Fair value of plan assets	**2,294**	2,436	**129**	151	**2,423**	2,587
Present value of obligations	**(2,569)**	(2,442)	**(93)**	(92)	**(2,662)**	(2,534)
Net retirement benefit (liabilities)/assets	**(275)**	(6)	**36**	59	**(239)**	53

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

	Local Scheme		Expatriate Scheme		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
(Liabilities)/assets at 1st January	**(6)**	270	**59**	63	**53**	333
Movement due to:						
Total expense – as shown above	**(98)**	(78)	**–**	–	**(98)**	(78)
Actuarial losses recognised in other comprehensive income	**(230)**	(249)	**(23)**	(4)	**(253)**	(253)
Contributions paid	**59**	51	**–**	–	**59**	51
(Liabilities)/assets at 31st December	**(275)**	(6)	**36**	59	**(239)**	53

The significant actuarial assumptions used are as follows:

	Local Scheme		Expatriate Scheme	
	2015	2014	**2015**	2014
Discount rate	**3.22%**	3.27%	**3.22%**	3.27%
Expected rate of future salary increases	**4.00%**	4.00%	**4.00%**	4.00%

The sensitivity of the defined benefit obligation to changes in actuarial assumptions is:

	Impact on defined benefit obligation					
	Change in assumption		Increase in assumption		Decrease in assumption	
	2015	2014	**2015**	2014	**2015**	2014
			HK$M	HK$M	**HK$M**	HK$M
Discount rate	**0.5%**	0.5%	**(102)**	(113)	**109**	118
Expected rate of future salary increases	**0.5%**	0.5%	**107**	116	**(102)**	(111)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the retirement benefit liability recognised within the statement of financial position.

17. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

The movement in the fair value of plan assets of the year is as follows:

	Local Scheme		Expatriate Scheme		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,436**	2,452	**151**	164	**2,587**	2,616
Transfer of members	**7**	13	**–**	–	**7**	13
Employer contributions	**59**	51	**–**	–	**59**	51
Employee contributions	**–**	–	**2**	1	**2**	1
Interest income	**77**	100	**4**	6	**81**	106
Return on plan assets, excluding interest income	**(113)**	(5)	**(6)**	(1)	**(119)**	(6)
Benefits paid	**(172)**	(175)	**(22)**	(19)	**(194)**	(194)
At 31st December	**2,294**	2,436	**129**	151	**2,423**	2,587

The movement in the present value of defined benefit obligations of the year is as follows:

	Local Scheme		Expatriate Scheme		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,442**	2,182	**92**	101	**2,534**	2,283
Transfer of members	**7**	13	**–**	–	**7**	13
Employee contributions	**–**	–	**2**	1	**2**	1
Current service cost	**97**	88	**2**	2	**99**	90
Interest expense	**78**	90	**2**	4	**80**	94
Benefits paid	**(172)**	(175)	**(22)**	(19)	**(194)**	(194)
Experience losses	**106**	27	**16**	–	**122**	27
Actuarial losses from changes in:						
financial assumptions	**10**	217	**1**	3	**11**	220
demographic assumptions	**1**	–	**–**	–	**1**	–
At 31st December	**2,569**	2,442	**93**	92	**2,662**	2,534

The weighted average duration of the defined benefit obligations is 8.2 years (2014: 9 years).

There were no plan amendments, curtailments and settlements during the year.

The plan assets are invested in the Swire Group Unitised Trust ("the Trust"). The Trust has three sub-funds in which the assets are invested in accordance with separate and distinct investment policies and objectives. The Trust and sub-funds are overseen by an investment committee, which meets four times a year.

The make-up of the Trust is the result of the asset allocation of each plan. The asset allocation of each plan targets a mix of equities and bonds.

17. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

The management of the assets within the sub-funds is delegated by the investment committee to a number of reputable investment managers. The plan assets comprise:

	Local Scheme		Expatriate Scheme		Total	
	2015	2014	**2015**	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Equities						
Asia Pacific	**286**	319	**11**	14	**297**	333
Europe	**130**	134	**5**	6	**135**	140
North America	**267**	276	**11**	13	**278**	289
Emerging markets	**200**	234	**8**	11	**208**	245
Bonds						
Global	**1,199**	1,102	**79**	81	**1,278**	1,183
Emerging markets	**40**	325	**3**	23	**43**	348
Cash	**172**	46	**12**	3	**184**	49
	2,294	2,436	**129**	151	**2,423**	2,587

At 31st December 2015, the prices of 95.9% of equities and 76.4% of bonds were quoted on active markets (31st December 2014: 95.4% and 66.1% respectively). The remainder of the prices were not quoted on active markets.

The most significant risk facing the defined benefit schemes of the Group is market risk. This risk embodies the potential for loss and gains and includes price risk, interest rate risk and currency risk as well as factors specific to an individual investment or its issuer or risk specific to a certain market. Market risk is managed principally through diversification of investments by the investment managers appointed. Investment managers enter into agreements that stipulate the performance objective of the investments, which is referenced to a recognised benchmark and the predicted tracking error around this benchmark. The investment committee monitors the overall market risk position on a quarterly basis.

18. Deferred taxation

Accounting Policy

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the recognition, has no impact on taxable nor accounting profit or loss, it is not recognised. Tax rates enacted or substantially enacted by period-end date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiary and joint venture companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

The movement on deferred income tax assets and liabilities (prior to offsetting balances within the same tax jurisdiction) during the year is as follows:

	Provisions	Retirement benefit liabilities	Tax losses	Others	Total
	HK$M	HK$M	HK$M	HK$M	HK$M
Deferred tax assets					
At 1st January 2014	136	–	112	18	266
Translation differences	(3)	–	(1)	–	(4)
Acquisition of a subsidiary company	146	–	199	–	345
Credited/(charged) to statement of profit or loss	26	–	(2)	(6)	18
Credited to other comprehensive income	–	–	–	2	2
At 31st December 2014	305	–	308	14	627
Translation differences	(4)	–	(1)	–	(5)
(Charged)/credited to statement of profit or loss	(51)	6	39	(1)	(7)
Credited/(charged) to other comprehensive income	–	40	–	(2)	38
At 31st December 2015	**250**	**46**	**346**	**11**	**653**

	Accelerated tax depreciation	Retirement benefit assets	Fair value adjustments arising from business combination	Others	Total
	HK$M	HK$M	HK$M	HK$M	HK$M
Deferred tax liabilities					
At 1st January 2014	285	55	25	121	486
Translation differences	–	–	–	(3)	(3)
Acquisition of a subsidiary company	–	–	362	1	363
Charged/(credited) to statement of profit or loss	27	(4)	(32)	9	–
Credited to other comprehensive income	–	(42)	–	–	(42)
At 31st December 2014	312	9	355	128	804
Translation differences	–	–	–	(3)	(3)
Charged/(credited) to statement of profit or loss	20	–	(38)	(70)	(88)
Credited to other comprehensive income	–	(3)	–	–	(3)
At 31st December 2015	**332**	**6**	**317**	**55**	**710**

18. Deferred taxation (continued)

Deferred tax is calculated in full on temporary differences under the liability method. The tax rate used in respect of Hong Kong deferred tax is 16.5% (2014: 16.5%). Overseas deferred tax is calculated using tax rates prevailing in the respective jurisdictions.

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$540 million (2014: HK$173 million) to carry forward against future taxable income. These amounts are analysed as follows:

	2015	2014
	HK$M	HK$M
No expiry date	**43**	49
Expiring in 2017	**255**	–
Expiring in 2018 or after	**242**	124
	540	173

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position.

	2015	2014
	HK$M	HK$M
Deferred tax assets:		
To be recovered after more than 12 months	**160**	16
To be recovered within 12 months	**22**	80
	182	96

	2015	2014
	HK$M	HK$M
Deferred tax liabilities:		
To be settled after more than 12 months	**250**	266
To be settled within 12 months	**(11)**	7
	239	273

19. Derivative financial instruments

Accounting Policy

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); (b) hedges of highly probable forecast transactions (cash flow hedges); or (c) hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

19. Derivative financial instruments (continued)

Accounting Policy (continued)

(a) Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised through the statement of profit or loss over the period to maturity.

(b) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item will affect the profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to interest rate swaps hedging variable rate borrowings, whether effective or ineffective, is recognised in the statement of profit or loss within finance charges. The gain or loss relating to the effective portion of forward foreign exchange contracts is recognised in the statement of profit or loss within revenue. The gain or loss relating to the ineffective portion of forward foreign exchange contracts is recognised in the statement of profit or loss within other net gains/(losses). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

(c) Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Gains and losses accumulated in equity are included in the statement of profit or loss when the foreign operation is disposed of.

(d) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of profit or loss.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the period-end date.

19. Derivative financial instruments (continued)

	Assets		Liabilities	
	2015	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M
Forward foreign exchange contracts				
– cash flow hedges	**–**	–	**2**	8
– not qualifying as hedges	**–**	10	**–**	2
Interest rate swaps				
– cash flow hedges	**–**	–	**1**	1
Total	**–**	10	**3**	11
Less non-current portion				
Forward foreign exchange contracts				
– not qualifying as hedges	**–**	–	**–**	1
Interest rate swaps				
– cash flow hedges	**–**	–	**–**	1
	–	–	**–**	2
Current portion	**–**	10	**3**	9

The fair value of a derivative is classified as a non-current asset or liability if the remaining maturity of the derivative is more than 12 months and, as a current asset or liability, if the maturity of the derivative is not more than 12 months. These values are level 2 valuations in relation to the fair value hierarchy as explained in Note 2(c).

Forward foreign exchange contracts

The total notional principal amount of the outstanding forward foreign exchange contracts at 31st December 2015 was HK$199 million (2014: HK$345 million).

Interest rate swaps

The total notional principal amount of the outstanding interest rate swap contracts at 31st December 2015 was HK$1,248 million (2014: HK$1,148 million).

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the statement of financial position.

20. Stocks

Accounting Policy

Stocks are stated at the lower of cost and net realisable value. Cost represents weighted average unit cost and net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. The costs of manufactured goods comprise direct material and labour costs and an appropriate proportion of production overhead expenses.

	2015	2014
	HK$M	HK$M
Carrying amounts at net realisable value:		
Materials	**507**	407
Manufactured goods	**95**	92
	602	499

The remaining balances are carried at cost.

21. Work in progress

Accounting Policy

Work in progress represents the gross amount due from customers for all contract work in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers are included within "trade and other receivables".

	2015	2014
	HK$M	HK$M
The aggregate costs incurred and recognised profits to date	**1,036**	686
Less: Progress billings	**158**	98
	878	588

22. Trade and other receivables

Accounting Policy

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Trade and other receivables in the statement of financial position are stated net of such provisions.

Objective evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in the statement of profit or loss.

22. Trade and other receivables (continued)

	2015 HK$M	2014 HK$M
Trade receivables – in HK dollars	**27**	21
– in US dollars	**959**	957
– in Renminbi	**41**	45
– in other currencies	**2**	1
	1,029	1,024
Less: Provision for impairment of receivables	**(91)**	(89)
	938	935
Amounts due from joint venture companies	**15**	9
Amounts due from related parties	**583**	433
Other receivables and prepayments	**366**	390
	1,902	1,767

The fair values of trade and other receivables are not materially different from their book values. The amounts due from joint venture companies and related parties are unsecured. The balances are interest free and on normal trade credit terms.

The analysis of the age of trade receivables at year-end (based on the invoice date) is as follows:

	2015 HK$M	2014 HK$M
Under three months	**888**	898
Between three and six months	**44**	27
Over six months	**97**	99
	1,029	1,024

At 31st December 2015, the Group had trade debtors of HK$262 million (2014: HK$428 million) which were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The period of time since the due date of these trade debtors is as follows:

	2015 HK$M	2014 HK$M
Under three months	**240**	383
Between three and six months	**11**	23
Over six months	**11**	22
	262	428

At 31st December 2015, trade receivables of the Group of HK$91 million (2014: HK$89 million) were impaired and provided for. The impaired trade receivables relate to customers which are in unexpectedly difficult financial situations. The ageing of these receivables is as follows:

	2015 HK$M	2014 HK$M
Current	**–**	2
Up to three months overdue	**3**	16
Three to six months overdue	**8**	–
Over six months overdue	**80**	71
	91	89

22. Trade and other receivables (continued)

Movements on the Group's provision for impairment of trade receivables are as follows:

	2015 HK$M	2014 HK$M
At 1st January	**89**	59
Acquisition of a subsidiary company	**–**	12
Provision for impairment of receivables	**18**	21
Receivables written off as uncollectible	**(7)**	–
Unused amounts reversed	**(9)**	(3)
At 31st December	**91**	89

The creation and release of the provision for impaired receivables has been included in cost of direct material and job expenses in the statement of profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional settlement.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

23. Trade and other payables

Accounting Policy

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

	2015 HK$M	2014 HK$M
Trade payables	**601**	492
Amounts due to joint venture companies	**10**	1
Amounts due to related parties	**30**	38
Accrued capital expenditure	**62**	45
Accruals	**1,088**	985
Deferred income	**404**	244
Other payables	**182**	239
	2,377	2,044

The analysis of the age of trade payables at year-end is as follows:

	2015 HK$M	2014 HK$M
Under three months	**586**	485
Between three and six months	**7**	5
Over six months	**8**	2
	601	492

23. Trade and other payables (continued)

The fair values of trade payables and other payables are not materially different from their book values. The amounts due to subsidiary companies, joint venture companies and related parties are unsecured. The balances are interest free and on normal trade credit terms.

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.

24. Borrowings

Accounting Policy

Borrowings are recognised initially at fair value. Transaction costs are incremental costs that are directly attributable to the initiation of the borrowings, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised costs, with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the period-end date.

	2015	2014
	HK$M	HK$M
Short-term loans – in HK dollars	**–**	262
– in US dollars	**–**	191
	–	453
Long-term loans at cost		
– in HK dollars	**1,823**	1,612
– in US dollars	**2,300**	2,859
	4,123	4,471
Less: amounts due within one year included under current liabilities		
– in HK dollars	**–**	817
– in US dollars	**178**	350
	3,945	3,304

All the loans are unsecured. The carrying amounts approximate their fair values because the loans are either on a floating rate basis or on a fixed rate basis having a contract interest rate comparable to the prevailing market rate at 31st December 2015.

The maturity of long-term loans at 31st December is as follows:

	2015	2014
	HK$M	HK$M
Bank loans:		
Repayable within one year	**178**	1,167
Repayable between one and two years	**554**	847
Repayable between two and five years	**3,391**	2,457
	4,123	4,471

24. Borrowings (continued)

The exposure of the Group's loans to interest rate changes (after interest rate swaps) and the contractual repricing dates at 31st December is as follows:

	2015 HK$M	2014 HK$M
6 months or less	**2,793**	3,776

The Group's weighted average cost of debt in 2015 is 2.06% (2014: 1.88%).

Accounting Policy

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

The Group has commitments under finance lease agreements in respect of buildings and building facilities and plant and machinery and tools. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	2015 HK$M	2014 HK$M
Gross finance lease liabilities (denominated in US dollars)		
No later than one year	**4**	4
Later than one year and no later than five years	**9**	13
Later than five years	**6**	6
	19	23
Future finance charges on finance leases	**(5)**	(6)
Present value of finance lease liabilities	**14**	17

The present value of finance lease liabilities at 31st December is repayable as follows:

	2015 HK$M	2014 HK$M
Repayable within one year	**3**	3
Repayable between one and five years	**7**	10
Repayable after five years	**4**	4
	14	17

25. Advance from a related party

Advance from a related party is at an interest rate of 1.90% per annum and unsecured. It is repayable in 2018. The carrying amounts approximate their fair values because the advance is on a floating rate basis at 31st December 2015.

(2014: Out of the advance from a related party, HK$90 million is interest-free and unsecured. It has no fixed term of repayment and the related party has confirmed that they will not seek repayment within 12 months from the balance sheet date. HK$128 million is at an interest rate of 1.26% per annum and unsecured. It is repayable in 2019.)

26. Share capital

Accounting Policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

	Number of shares	HK$M
Ordinary shares		
Issued and fully paid:		
At 1st January 2014	166,324,850	166
Transition to no-par value regime on 3rd March 2014	–	19
At 31st December 2014 and 31st December 2015	**166,324,850**	**185**

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year.

The transition to the no-par value regime under the Hong Kong Companies Ordinance occurred automatically on 3rd March 2014. On that date, the capital redemption reserve became part of share capital in accordance with section 37 of Schedule 11 to the Ordinance. These changes did not affect the number of shares in issue or the relative entitlements of any of the members. Since that date, all changes in share capital have been made in accordance with the requirements of Parts 4 and 5 of the Ordinance.

27. Reserves

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**5,725**	5,703	**–**	19	**167**	210	**(8)**	(1)	**5,884**	5,931
Profit for the year	**464**	573	**–**	–	**–**	–	**–**	–	**464**	573
Other comprehensive income										
Defined benefit retirement schemes										
– remeasurement losses recognised	**(253)**	(253)	**–**	–	**–**	–	**–**	–	**(253)**	(253)
– deferred tax	**43**	42	**–**	–	**–**	–	**–**	–	**43**	42
Cash flow hedges										
– recognised during the year	**–**	–	**–**	–	**–**	–	**(6)**	(12)	**(6)**	(12)
– transferred to revenue	**–**	–	**–**	–	**–**	–	**6**	5	**6**	5
– transferred to finance charges	**–**	–	**–**	–	**–**	–	**4**	2	**4**	2
– deferred tax	**–**	–	**–**	–	**–**	–	**(1)**	1	**(1)**	1
Share of other comprehensive income of joint venture companies	**(19)**	(24)	**–**	–	**–**	–	**(2)**	(3)	**(21)**	(27)
Net translation differences on foreign operations	**–**	–	**–**	–	**(83)**	(43)	**–**	–	**(83)**	(43)
Total comprehensive income for the year	**235**	338	**–**	–	**(83)**	(43)	**1**	(7)	**153**	288
Previous year's second interim dividend paid (note 10)	**(241)**	(216)	**–**	–	**–**	–	**–**	–	**(241)**	(216)
Current year's first interim dividend paid (note 10)	**(100)**	(108)	**–**	–	**–**	–	**–**	–	**(100)**	(108)
Change in composition of the Group (note 34)	**–**	8	**–**	–	**–**	–	**–**	–	**–**	8
Transition to no-par value regime on 3rd March 2014 (note 26)	**–**	–	**–**	(19)	**–**	–	**–**	–	**–**	(19)
At 31st December	**5,619**	5,725	**–**	–	**84**	167	**(7)**	(8)	**5,696**	5,884

The Group revenue reserve includes HK$183 million (2014: HK$241 million) representing the second interim dividend declared for the year (note 10).

28. Non-controlling interests

	2015 HK$M	2014 HK$M
At 1st January	**1,318**	1,229
Share of profit for the year	**88**	86
Share of cash flow hedge reserve		
– loss recognised during the year	**(2)**	(6)
– transferred to revenue	**4**	3
– deferred tax	**(1)**	1
Share of net translation differences on foreign operations	**(53)**	(28)
Share of total comprehensive income	**36**	56
Disposal of interest in a subsidiary company	**–**	71
Dividends paid	**(49)**	(38)
At 31st December	**1,305**	1,318

The Group has two subsidiary companies having non-controlling interests that are material to the Group, being HAECO Xiamen and TEXL.

HAECO Xiamen is incorporated in Xiamen, Mainland China, and the Group has an equity interest of 58.55%. The remaining 41.45% is held by non-controlling interests.

TEXL is incorporated in Xiamen, Mainland China, and the Group has an equity interest of 72.86%. The remaining 27.14% is held by non-controlling interests.

Set out below are the summarised financial information for HAECO Xiamen and TEXL.

Summarised statement of comprehensive income

	HAECO Xiamen		TEXL	
	2015 HK$M	2014 HK$M	2015 HK$M	2014 HK$M
Revenue	**1,746**	1,938	**3,719**	3,538
Profit before taxation	**165**	228	**244**	205
Taxation (charge)/credit	**(43)**	(69)	**(39)**	4
Profit for the year	**122**	159	**205**	209
Other comprehensive income	**(116)**	(67)	**(2)**	(1)
Total comprehensive income	**6**	92	**203**	208
Total comprehensive income allocated to non-controlling interests	**3**	38	**55**	43
Dividends paid to non-controlling interests	**48**	38	**–**	–

28. Non-controlling interests (continued)

Summarised statement of financial position

	HAECO Xiamen At 31st December		TEXL At 31st December	
	2015	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M
Non-current assets	**1,750**	1,921	**1,043**	1,079
Current assets	**1,202**	1,395	**1,151**	1,056
Current liabilities	**395**	552	**890**	815
Non-current liabilities	**20**	139	**228**	447
Net assets	**2,537**	2,625	**1,076**	873

Summarised cash flows

	HAECO Xiamen		TEXL	
	2015	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M
Net cash generated from operating activities	**154**	466	**465**	240
Net cash used in investing activities	**(366)**	(56)	**(36)**	(33)
Net cash used in financing activities	**(300)**	(108)	**(390)**	–
Net (decrease)/increase in cash and cash equivalents	**(512)**	302	**39**	207
Cash and cash equivalents at 1st January	**995**	715	**227**	22
Currency adjustment	**(33)**	(22)	**(2)**	(2)
Cash and cash equivalents at 31st December	**450**	995	**264**	227

The information above is the amount before inter-company eliminations.

29. Receipt in advance

An advanced payment was received from Cathay Pacific Airways Limited in 2005 for storage service charges up to June 2018. At 31st December 2015, the current portion included in trade and other payables under current liabilities is HK$11 million (2014: HK$10 million) while the non-current portion is HK$16 million (2014: HK$27 million).

30. Company Statement of Financial Position and Reserves

(a) Statement of Financial Position at 31st December 2015

	Note	2015 HK$M	2014 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**1,873**	1,936
Leasehold land		**14**	14
Intangible assets		**2**	2
Subsidiary companies		**1,315**	1,272
Joint venture companies		**113**	113
Loans due from subsidiary companies		**2,145**	1,687
Retirement benefit assets		**36**	53
		5,498	5,077
Current assets			
Stocks of aircraft parts		**249**	221
Work in progress		**82**	50
Trade and other receivables		**624**	520
Cash and cash equivalents		**489**	744
		1,444	1,535
Current liabilities			
Trade and other payables		**614**	581
Taxation payable		**37**	1
Derivative financial instruments		**1**	–
Long-term loans due within one year		**–**	817
		652	1,399
Net current assets		**792**	136
Total assets less current liabilities		**6,290**	5,213
Non-current liabilities			
Long-term loans		**1,823**	795
Receipt in advance		**16**	27
Deferred tax liabilities		**142**	194
Derivative financial instruments		**–**	1
Retirement benefit liabilities		**275**	–
		2,256	1,017
NET ASSETS		**4,034**	4,196
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	*26*	**185**	185
Reserves	*30(b)*	**3,849**	4,011
TOTAL EQUITY		**4,034**	4,196

The financial statements have been approved by the Board of Directors and signed on their behalf by:

John Slosar
Peter Tse
Directors

Hong Kong, 8th March 2016

30. Company Statement of Financial Position and Reserves (continued)

(b) The movement of reserves during the year is as follows:

	Revenue reserve		Capital redemption reserve		Cash flow hedge reserve		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**4,012**	4,146	**–**	19	**(1)**	–	**4,011**	4,165
Profit for the year	**389**	401	**–**	–	**–**	–	**389**	401
Other comprehensive income								
Defined benefit retirement schemes								
– remeasurement losses recognised	**(253)**	(253)	**–**	–	**–**	–	**(253)**	(253)
– deferred tax	**43**	42	**–**	–	**–**	–	**43**	42
Cash flow hedges								
– recognised during the year	**–**	–	**–**	–	**(4)**	(3)	**(4)**	(3)
– transferred to finance charges	**–**	–	**–**	–	**4**	2	**4**	2
Total comprehensive income for the year	**179**	190	**–**	–	**–**	(1)	**179**	189
Previous year's second interim dividend paid (note 10)	**(241)**	(216)	**–**	–	**–**	–	**(241)**	(216)
Current year's first interim dividend paid (note 10)	**(100)**	(108)	**–**	–	**–**	–	**(100)**	(108)
Transition to no-par value regime on 3rd March 2014 (note 26)	**–**	–	**–**	(19)	**–**	–	**–**	(19)
At 31st December	**3,850**	4,012	**–**	–	**(1)**	(1)	**3,849**	4,011

Distributable reserves of the Company at 31st December 2015 amounted to HK$3,850 million (2014: HK$4,012 million).

The Company revenue reserve includes HK$183 million (2014: HK$241 million) representing the second interim dividend declared for the year (note 10).

31. Notes to the consolidated statement of cash flows

(a) Reconciliation of operating profit to cash generated from operations

	2015 HK$M	2014 HK$M
Operating profit	**415**	509
Depreciation, amortisation and impairment	**620**	639
Other items	**33**	31
Operating profit before working capital changes	**1,068**	1,179
Decrease in retirement benefit assets	**–**	27
Increase in retirement benefit liabilities	**39**	–
Increase in stocks and work in progress	**(422)**	(341)
(Increase)/decrease in trade and other receivables in relation to operating activities	**(139)**	661
Increase/(decrease) in trade and other payables in relation to operating activities	**329**	(273)
Decrease in receipt in advance	**(11)**	(10)
Decrease in derivative financial instruments	**7**	19
(Decrease)/increase in deferred income	**(3)**	12
Cash generated from operations	**868**	1,274

(b) Analysis of deposits and bank balances at 31st December

Accounting Policy

Cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions and short-term highly liquid investments which were within three months of maturity when acquired, less bank overdrafts.

	2015 HK$M	2014 HK$M
Cash and cash equivalents	**1,413**	2,310
Short-term deposits maturing after more than three months	**14**	21
	1,427	2,331

The Group's weighted average interest rate per annum on cash and cash equivalents and deposits in 2015 is 1.12% (2014: 1.29%). The deposits have an average maturity of 37 days (2014: 63 days) for the Group.

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2015 and 31st December 2014 is the carrying value of the bank balances and short-term deposits disclosed above.

32. Capital commitments

	2015 HK$M	2014 HK$M
Contracted but not provided for in the financial statements	**657**	166
Authorised by Directors but not contracted for	**1,271**	1,126
	1,928	1,292
The Group's share of capital commitments of joint venture companies not included above:		
Contracted but not provided for in the financial statements	**165**	41
Authorised by Directors but not contracted for	**91**	242

Capital commitments mainly relate to the consideration in respect of the acquisition of 5% interest in HAESL, construction of new buildings and the acquisition of rotable spares and other machinery and tools.

33. Lease commitments

Accounting Policy

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases are recognised as income or expenses in the statement of profit or loss on a straight-line basis over the period of the lease.

(a) Lessor

At 31st December 2015, the future aggregate minimum lease receipts under non-cancellable operating leases receivable by the Group were as follows:

	2015 HK$M	2014 HK$M
Land and buildings		
Not later than 1 year	**11**	–
Later than 1 year but not later than 5 years	**34**	–
	45	–

(b) Lessee

At 31st December 2015, the future aggregate minimum lease payments under non-cancellable operating leases payable by the Group were as follows:

	2015 HK$M	2014 HK$M
Land and buildings and plant and equipment		
Not later than 1 year	**208**	177
Later than 1 year but not later than 5 years	**744**	717
Later than 5 years	**2,492**	2,602
	3,444	3,496

34. Transactions with non-controlling interests

(a) Disposal of interest in a subsidiary company without loss of control

On 26th September 2014, HAECO and HAECO Xiamen completed the disposal of 7.43% and 0.99% of equity interests in TEXL at a consideration of HK$70 million and HK$9 million respectively. After the disposal, the Group's shareholding in TEXL reduced from 80.87% to 72.86%. The effect of changes in the ownership interest of TEXL on the equity attributable to the Company's shareholders is summarised as follows:

	2015	2014
	HK$M	HK$M
Consideration received from non-controlling interest	**–**	79
Less: carrying amount of non-controlling interests disposed of	**–**	71
Gain on disposal within equity	**–**	8

(b) Effect of transactions with non-controlling interests on the equity attributable to the Company's shareholders at year end

	2015	2014
	HK$M	HK$M
Total comprehensive income attributable to the Company's shareholders	**153**	288
Changes in equity attributable to the Company's shareholders arising from:		
Disposal of interest in a subsidiary company without loss of control	**–**	8
	153	296

35. Immediate and ultimate holding company

The immediate holding company is Swire Pacific Limited, a company incorporated in Hong Kong.

The ultimate holding company is John Swire & Sons Limited, a company incorporated in England and Wales.

36. Related party and continuing connected transactions

Accounting Policy

Related parties of the Group are individuals and companies, including subsidiary and joint venture companies and key management of the Group or parent of the Group (including close members of their families), where the individual, company or Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Group has a number of transactions with its related parties and connected persons. Remuneration of key management which includes executive and non-executive directors and executive officers is disclosed in note 6. 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 and balances which are material to the Group and which have not been disclosed elsewhere in the annual report are summarised below:

		Joint venture companies		Immediate holding company		Other related parties		Total	
	Notes	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
		HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Revenue from rendering of services	*a*	**46**	36	**–**	–	**2,548**	2,583	**2,594**	2,619
		46	36	**–**	–	**2,548**	2,583	**2,594**	2,619
Purchases of:									
Services from John Swire & Sons (H.K.) Limited under services agreement									
– Service fees payable during the year		**–**	–	**–**	–	**14**	18	**14**	18
– Expenses reimbursed at cost		**–**	–	**–**	–	**70**	61	**70**	61
Subtotal		**–**	–	**–**	–	**84**	79	**84**	79
– Share of administrative services		**–**	–	**–**	–	**5**	5	**5**	5
Total		**–**	–	**–**	–	**89**	84	**89**	84
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		**–**	–	**–**	–	**7**	7	**7**	7
Risk management service		**–**	–	**–**	2	**–**	–	**–**	2
Services from Cathay Pacific Airways Limited Group		**–**	–	**–**	–	**18**	26	**18**	26
Other services	*b*	**22**	17	**–**	–	**22**	23	**44**	40
		22	17	**–**	2	**136**	140	**158**	159

36. Related party and continuing connected transactions (continued)

Notes:

a. *Revenue from other related parties mainly came from the provision of aircraft maintenance service. Revenue from joint venture companies mainly came from the provision to HAESL of engine component repairs and facilities rental on a commercial arm's length basis.*

b. *Purchases from joint venture companies comprised mainly aircraft component overhaul charges by HAESL.*

c. *Amounts due from and due to joint venture companies and other related parties at 31st December 2015 are disclosed in notes 22 and 23 to the financial statements.*

d. *Continuing connected transactions during 2015:*
The following transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

(a) *Cathay Pacific and HAECO ITM*
Pursuant to the Framework Agreement dated 13th November 2013 with Cathay Pacific and HAECO ITM, services (being maintenance and related services in respect of aircraft, aircraft engines and aircraft parts and components and including inventory technical management services and the secondment of personnel) are provided by the HAECO Group to the Cathay Pacific Group and vice versa and by HAECO ITM to the HAECO Group and vice versa. Payment is made in cash within 30 days of receipt invoices. The term of the Framework Agreement is for 10 years ending on 31st December 2022.

Cathay Pacific is an associate of the Company's holding company Swire Pacific Limited and therefore a connected person of the Company under the Listing Rules. As Cathay Pacific, a connected person of HAECO at the listed company level, owns more than 10% of the voting rights in HAECO ITM, HAECO ITM is also a connected person of HAECO. The transactions under the Framework Agreement are continuing connected transactions in respect of which an announcement dated 13th November 2013 was published and a circular dated 10th December 2013 was sent to shareholders.

For the year ended 31st December 2015 and under the Framework Agreement, the amounts payable by the Cathay Pacific Group to the HAECO Group totalled HK$3,363 million, the amounts payable by the HAECO Group to the Cathay Pacific Group totalled HK$18 million, no amounts were payable by the HAECO Group to HAECO ITM and the amounts payable by HAECO ITM to the HAECO Group totalled HK$225 million.

(b) *John Swire & Sons (H.K.) Limited ("JSSHK")*
Pursuant to an agreement dated 1st December 2004, as amended and restated on 18th September 2008, ("JSSHK Services Agreement") with JSSHK, JSSHK provides services to the Company and its subsidiaries. The services comprise full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may be agreed from time to time. They also include advice and expertise of the directors and senior officers of the John Swire & Sons Limited ("Swire") group including (but not limited to) assistance in negotiating with regulatory and other governmental or official bodies, and in procuring for the Company and its subsidiary, jointly controlled and associated companies the use of relevant trademarks of the Swire group. No fee is payable in consideration of such procuration obligation or such use.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of the Company's consolidated profit before taxation and non-controlling interests after certain adjustments. The fees for each year are payable in cash in arrear in two instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. The Company also reimburses the Swire group at cost for all the expenses incurred in the provision of the services.

The current term of the JSSHK Services Agreement is from 1st January 2014 to 31st December 2016 and is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Swire is the ultimate holding company of Swire Pacific Limited, which owns approximately 74.99% of the issued capital of the Company, and JSSHK, a wholly owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the JSSHK Services Agreement are continuing connected transactions in respect of which announcements dated 1st December 2004, 7th March 2006, 1st October 2007, 1st October 2010 and 14th November 2013 were published.

For the year ended 31st December 2015, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$14 million and expenses of HK$70 million were reimbursed at cost.

37. Principal subsidiary and joint venture companies at 31st December 2015

	Place of incorporation and operation	Principal activities	Issued share capital	Owned directly	Owned by subsidiary and joint venture companies	Attributable to the Group
Subsidiary Companies:						
HAECO Component Overhaul (Xiamen) Limited ~	Xiamen	Aircraft component overhaul	Registered capital of US$18,600,000	100%	–	100%
HAECO ITM Limited	Hong Kong	Aircraft inventory technical management	100 shares	70%	–	100%
HAECO Private Jet Solutions, LLC #	United States	Certification, engineering design and programme management for cabin completion and reconfiguration	Capital of US$10,000	90.01%	–	90.01%
HAECO USA Holdings, Inc.	United States	Aircraft overhaul and maintenance, cabin modification and interior products manufacturing	2,000 shares of US$0.01 each	100%	–	100%
Shanghai Taikoo Aircraft Engineering Services Company Limited *#+	Shanghai	Line services	Registered capital of US$3,700,000	60%	15%	68.78%
Singapore HAECO Pte. Limited	Singapore	Line services	Registered capital of SGD1	100%	–	100%
Taikoo (Xiamen) Aircraft Engineering Company Limited *	Xiamen	Aircraft overhaul and maintenance	Registered capital of US$41,500,000	58.55%	–	58.55%
Taikoo (Xiamen) Landing Gear Services Company Limited *	Xiamen	Landing gear repair and overhaul	Registered capital of US$36,890,000	63.80%	10%	69.66%
Taikoo Engine Services (Xiamen) Company Limited *	Xiamen	Commercial aero engine overhaul services	Registered capital of US$113,000,000	67.58%	9.01%	72.86%
Joint Venture Companies:						
Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited *	Jinjiang	Tyre services for commercial aircraft	Registered capital of US$7,500,000	28%	9%	33.27%
Goodrich Asia-Pacific Limited	Hong Kong	Carbon brake machining and wheel hub overhaul	9,200,000 shares	49%	–	49%
Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited *	Xiamen	Aircraft fuel control, flight control and electrical component repairs	Registered capital of US$5,000,000	–	35%	20.49%
Honeywell TAECO Aerospace (Xiamen) Company Limited *#	Xiamen	Aircraft hydraulic, pneumatic, avionic component and other aviation equipment repairs	Registered capital of US$5,000,000	25%	10%	30.86%
Hong Kong Aero Engine Services Limited	Hong Kong	Commercial aero engine overhaul services	20 shares	45%	–	45%
Singapore Aero Engine Services Pte. Limited #	Singapore	Commercial aero engine overhaul services	Share capital of US$54,000,000	–	20%	9%
Taikoo (Shandong) Aircraft Engineering Company Limited *#	Jinan	Airframe maintenance services for narrow-body aircraft	Registered capital of RMB200,000,000	30%	10%	35.86%
Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited *^	Jinjiang	Composite material aeronautic parts/systems repair, manufacturing and sales	Registered capital of US$11,663,163	41.8%	10.76%	48.10%

Principal subsidiary and joint venture companies are those which, in the opinion of the Directors, materially affect the results or assets of the Group.

* *Equity joint venture incorporated in Mainland China.*
~ *Wholly foreign owned enterprise incorporated in Mainland China.*
# *Companies not audited by PricewaterhouseCoopers.*
^ *Company in which the Group does not have control despite holding more than 50% share capital.*
\+ *Translated name.*

The principal accounting policies of the Group are set out in the relevant Notes to the Financial Statements if they relate to a particular item. Other principal accounting policies are set out as follows.

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with HKFRS and have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

(a) The following amendments to standards 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 adoption of these amendments has had no significant impact on the Group's financial statements.

(b) New Hong Kong Companies Ordinance (Cap. 622)

The requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) came into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) The Group has not early adopted the following relevant new and revised standards that have been issued but are not yet effective.

		Effective for accounting periods beginning on or after
HKFRSs (Amendment)	Annual Improvements to HKFRSs 2012-2014 Cycle	1st January 2016
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed indefinitely
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations	1st January 2016
HKAS 1 (Amendment)	Disclosure Initiative	1st January 2016
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation	1st January 2016
HKFRS 9	Financial Instruments	1st January 2018
HKFRS 15	Revenue from Contracts with Customers	1st January 2018

1. Basis of preparation (continued)

(c) (continued)

None of these new and revised standards is expected to have a significant effect on the Group's financial statements, except the following set out below:

The complete version of HKFRS 9 replaces the guidance in HKAS 39. HKFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The incurred loss impairment model used in HKAS 39 has been replaced by an expected credit loss model, with the result that a loss event will no longer need to occur before an impairment allowance is recognised. There are no changes to classification and measurement of financial liabilities except for the recognition of changes relating to an entity's own credit risk, which are recognised in other comprehensive income for liabilities designated at fair value through profit or loss. Hedge accounting under HKFRS 9 requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one used by an entity's management for risk management purposes. This replaces the hedge effectiveness test under the current standard. The Group has yet to assess the full impact of the new standard.

HKFRS 15 deals with revenue recognition and establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The new standard replaces HKAS 18 and HKAS 11 and related interpretations and provides a comprehensive revenue recognition model that can be applied to a wide range of transactions and industries. The model uses a five-step analysis of transactions to determine whether, how much and when revenue is recognised. The Group has yet to assess the full impact of the new standard.

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiary companies and the Group's interests in joint venture companies made up to 31st December.

The results of subsidiary companies are included in the consolidated statement of profit or loss and non-controlling interests therein are disclosed separately as a component of the consolidated profit after tax. Results attributable to subsidiary company interests acquired or disposed of during the year are included from the date on which control is transferred to the Group or to the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiary companies by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The cost of an acquisition includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary company acquired, the difference is recognised directly in profit or loss.

2. Basis of consolidation (continued)

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiary companies and joint venture companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the consolidated statement of financial position comprise the proportion of the net assets of subsidiary companies attributable to shareholders external to the Group. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between the cost of consideration and the relevant share acquired of the carrying value of net assets of the subsidiary company is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate company, joint venture company or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Where the Group enters into a contract that contains an obligation (for example a written put option exercisable by the contract counterparty) to acquire shares in a partly-owned subsidiary company from the non-controlling interest, which is not part of a business combination, the Group records a financial liability for the present value of the redemption amount which is reclassified from equity. Changes to the value of the financial liability are recognised in the statement of profit or loss within finance income or finance charges.

3. Subsidiary companies

Investments in subsidiary companies in the Company's statement of financial position are stated at cost less provision for any impairment losses. Income from subsidiary companies is accounted for on the basis of dividends received and receivable. Loans to subsidiary companies with no fixed term of repayments or the Group has demonstrated its intention to renew at maturity are accounted for as a capital contribution.

4. Joint venture companies

In the Company's statement of financial position in Note 30, its investments in joint venture companies are stated at cost less provision for any impairment losses. Income from joint venture companies is recognised by the Company on the basis of dividends received and receivable.

5. Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Group's presentation currency.

Foreign currency transactions are translated into the Group's functional currencies using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges. When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, any associated translation difference is also recognised directly in other comprehensive income. When a gain or loss on a non-monetary item is recognised in the statement of profit or loss, any associated translation difference is also recognised in the statement of profit or loss.

5. Foreign currency translation (continued)

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) Income and expenses for each statement of profit or loss are translated at average exchange rates; and

(c) All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component in equity.

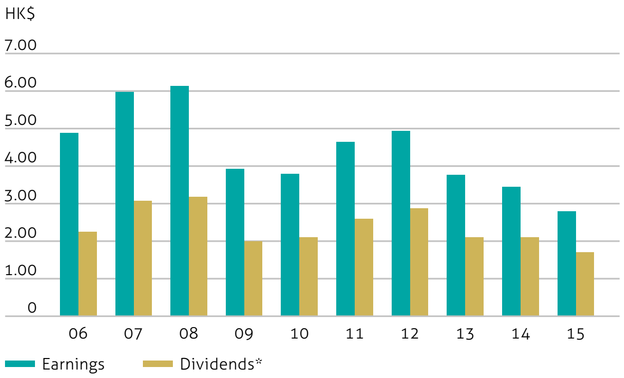
On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income and accumulated in a separate component of equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statement of profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Ten-Year Financial Summary

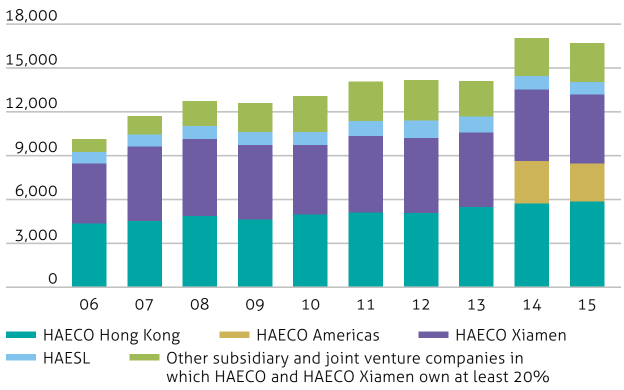
	2006	2007	2008
	HK$M	HK$M	HK$M
Revenue	3,844	4,619	4,901
Net operating profit	738	909	892
Share of after-tax results of joint venture companies	328	394	453
Profit attributable to the Company's shareholders	811	993	1,022
Interim and final dividends	374	512	529
Special dividend	416	–	–
Net assets employed			
Non-current assets	4,448	5,283	5,967
Net current (liabilities)/assets excluding deposits, loans and lease obligations	(212)	(38)	(162)
Cash surplus/(net borrowings)	834	767	215
Less: non-current liabilities excluding loans and lease obligations	(402)	(645)	(341)
	4,668	5,367	5,679
Financed by			
Equity attributable to the Company's shareholders	3,986	4,882	4,740
Non-controlling interests	682	485	939
	4,668	5,367	5,679
	HK$	HK$	HK$
Results per share			
Earnings attributable to the Company's shareholders	4.88	5.97	6.14
Interim and final dividends	2.25	3.08	3.18
Special dividend	2.50	–	–
Equity attributable to the Company's shareholders	23.97	29.35	28.50
Number of staff			
HAECO Hong Kong	4,356	4,523	4,861
HAECO Americas	–	–	–
HAECO Xiamen	4,098	5,086	5,268
HAESL	805	844	908
Other subsidiary and joint venture companies in which HAECO and HAECO Xiamen own at least 20%	859	1,245	1,701
	10,118	11,698	12,738
Ratio			
Return on equity	21.4%	22.4%	21.2%
Profit margin	17.3%	18.2%	15.9%
Dividend cover – times *	2.17	1.94	1.93
Gearing ratio	–	–	–
Interest cover – times	N/A	N/A	N/A
	HK$	HK$	HK$
Share prices			
High	120.00	246.20	215.00
Low	59.50	104.00	44.60
Year-end	106.00	212.20	63.70
Market information			
Price/earnings – times	21.72	35.54	10.37
Market capitalisation (HK$ Million)	17,630	35,294	10,595

Earnings and Dividends Per Share *



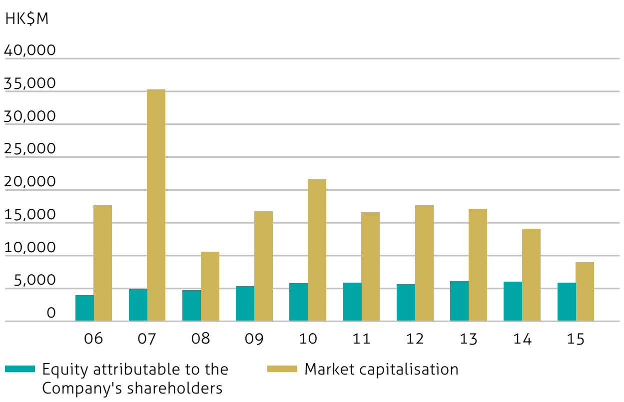
* Dividends represent the interim and final dividends.

Number of Staff



2009	2010	2011	2012	2013	2014	**2015**
HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	**HK$M**
4,045	4,266	5,171	5,830	7,387	11,927	**12,095**
341	310	471	417	228	439	**339**
417	402	431	560	501	314	**246**
652	630	772	822	625	573	**464**
332	349	432	479	349	349	**283**
–	–	566	–	–	–	**–**
6,978	7,159	7,121	7,037	7,424	9,693	**9,684**
(115)	146	276	534	608	929	**1,065**
(143)	(176)	(106)	(261)	(193)	(2,610)	**(2,710)**
(419)	(428)	(365)	(503)	(513)	(625)	**(853)**
6,301	6,701	6,926	6,807	7,326	7,387	**7,186**
5,337	5,780	5,911	5,671	6,097	6,069	**5,881**
964	921	1,015	1,136	1,229	1,318	**1,305**
6,301	6,701	6,926	6,807	7,326	7,387	**7,186**
HK$	HK$	HK$	HK$	HK$	HK$	**HK$**
3.92	3.79	4.64	4.94	3.76	3.45	**2.79**
2.00	2.10	2.60	2.88	2.10	2.10	**1.70**
–	–	3.40	–	–	–	**–**
32.09	34.75	35.54	34.10	36.66	36.49	**35.36**
4,621	4,967	5,102	5,070	5,492	5,734	**5,857**
–	–	–	–	–	2,894	**2,597**
5,094	4,739	5,240	5,144	5,091	4,902	**4,736**
892	901	1,023	1,165	1,073	915	**843**
2,008	2,471	2,689	2,776	2,460	2,612	**2,670**
12,615	13,078	14,054	14,155	14,116	17,057	**16,703**
12.9%	11.3%	13.2%	14.2%	10.6%	9.4%	**7.8%**
7.6%	5.9%	7.7%	5.1%	2.6%	2.9%	**2.5%**
1.96	1.80	1.79	1.72	1.79	1.64	**1.64**
2.3%	2.6%	1.5%	3.8%	2.6%	35.3%	**37.7%**
69.20	39.75	68.29	25.53	7.00	7.27	**5.46**
HK$	HK$	HK$	HK$	HK$	HK$	**HK$**
112.00	150.00	130.70	113.48	114.03	101.77	**88.32**
64.00	79.00	92.00	94.33	101.50	84.60	**53.80**
100.80	129.90	100.00	106.40	103.00	84.90	**54.20**
25.71	34.27	21.55	21.54	27.39	24.61	**19.43**
16,766	21,606	16,632	17,697	17,131	14,121	**9,015**

Equity Attributable to the Company's Shareholders and Market Capitalisation



Glossary

Terms

EBITDA Total of operating profit (before depreciation and amortisation) and share of after-tax results of joint venture companies.

Net borrowings Total loans and finance lease obligations less bank deposits and bank balances.

Total equity Total of equity attributable to the Company's shareholders and non-controlling interests.

Ratios

$$\text{Dividend cover} = \frac{\text{Profit attributable to the Company's shareholders}}{\text{Interim and final dividends paid and proposed}}$$

$$\text{Earnings per share} = \frac{\text{Profit attributable to the Company's shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{EBITDA margin} = \frac{\text{EBITDA}}{\text{Revenue}}$$

$$\text{Gearing ratio} = \frac{\text{Net borrowings}}{\text{Total equity}}$$

$$\text{Interest cover} = \frac{\text{Operating profit}}{\text{Net finance charges}}$$

$$\text{Market capitalisation} = \text{Year-end share price} \times \text{Number of shares in issue at year-end}$$

$$\text{Price/earnings} = \frac{\text{Year-end share price}}{\text{Earnings per share}}$$

$$\text{Profit margin} = \frac{\text{Profit for the year excluding share of after-tax results of joint venture companies}}{\text{Revenue}}$$

$$\text{Return on equity} = \frac{\text{Profit attributable to the Company's shareholders}}{\text{Average equity during the year attributable to the Company's shareholders}}$$

Financial Calendar and Information for Investors

Financial Calendar 2016

Shares trade ex-dividend	30th March 2016
Share register closed for second interim dividend entitlement	1st April 2016
Annual Report available to shareholders	6th April 2016
Payment of 2015 second interim dividend	26th April 2016
Share register closed for attending and voting at Annual General Meeting	3rd – 6th May 2016
Annual General Meeting	6th May 2016
Interim results announcement	August 2016
First interim dividend payable	September 2016

Registered Office

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

Registrars

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Hong Kong
Website: www.computershare.com

Stock Code

Hong Kong Stock Exchange: 00044

Auditors

PricewaterhouseCoopers

Public Affairs

E-mail: corpcomm@haeco.com
Tel: (852) 2767 6639
Fax: (852) 2260 6998
Website: www.haeco.com

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