

## Chairman's Letter

The HAECO Group reported an attributable profit of HK\$701 million in 2010, 2% higher than the attributable profit of HK\$688 million reported in 2009. Your Directors have recommended a final dividend for the year of HK\$1.65 per share which, together with the interim dividend of HK\$0.45 per share paid on 21st September 2010, results in a total distribution for the year of HK\$2.10 per share, compared to total dividends of HK\$2.00 per share in 2009.

As expected, 2010 was a mixed and challenging year for the Group. The results of Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") were adversely affected by reductions in demand for Boeing 747 passenger to freighter conversions and for airframe heavy maintenance. These factors were reflected in reduced utilisation of TAECO's hangars, a 15% reduction in TAECO's manhours sold. The new joint ventures in Mainland China suffered from start-up losses as expected. On the other hand, demand for line and heavy maintenance services in Hong Kong was strong, reflecting the general recovery in the aviation business. HAECO handled 12% more aircraft movements in Hong Kong in 2010 than in 2009 and sold 15% more manhours for airframe heavy maintenance. The results of the Group's engine overhaul jointly controlled companies (Hong Kong Aero Engine Services Limited ("HAESL") and Singapore Aero Engine Services Pte. Limited ("SAESL")) benefited from a stronger than expected recovery in demand for engine overhaul services, especially in the second half of the year.

The Group continued to invest in both Hong Kong and Mainland China in order to expand its facilities and technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure for 2010 was HK\$432 million. Committed capital expenditure at the end of the year was HK\$934 million. Taikoo Sichuan Aircraft Engineering Services Company Limited ("Taikoo Sichuan"), in which the Group holds a 45.27% effective interest, opened its first hangar in Chengdu in August.

In September, the Company acquired an additional 2% shareholding in TAECO for HK\$62 million. The Company now owns 58.55% of TAECO.

The prospects for the Group in 2011 remain mixed. Assuming continued strength in the aviation industry generally, demand for HAECO's heavy and line maintenance services in Hong Kong is expected to remain strong in 2011. HAESL is also expected to perform well. TAECO's base maintenance operations are expected to recover modestly. The joint ventures in Mainland China are expected to be adversely affected by continued start up losses and by inflation and increased competition.

In 2010, HAECO celebrated the 60th anniversary of its commencement of operations in Hong Kong. During the year, HAECO organised a number of events and activities to communicate its past successes to staff and customers. These successes were largely due to the commitment and reliability of HAECO's professional work force. HAECO will continue to spend significant amounts on training and systems with a view to improving operational efficiency. On behalf of the shareholders, I would like to thank all staff for their hard work and continuing support.

**Christopher Pratt**

*Chairman*

Hong Kong, 8th March 2011