

Hong Kong Operations



Airframe heavy
maintenance
manhours sold were
2.74 million in
the year

An average of
278 aircraft
handled per day on
line maintenance

44%
increase in
profit



HAECO's Hong Kong operations comprise airframe heavy maintenance and line maintenance at Hong Kong International Airport, component overhaul at Tseung Kwan O, third party inventory technical management and fleet technical management.

Review of Operations

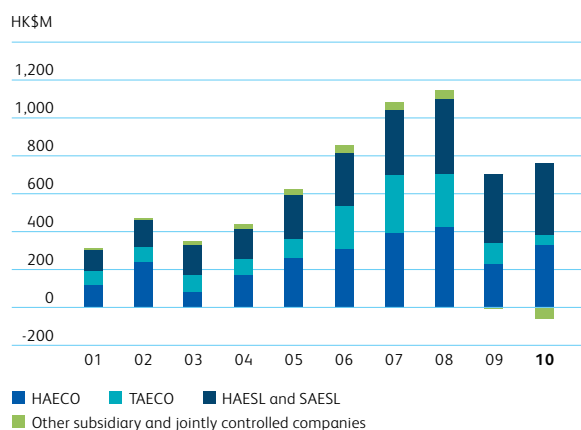
HAECO and TAECO sold 5.26 million manhours for airframe heavy maintenance during 2010. More airframe heavy maintenance work was done at HAECO and less at TAECO than in 2009. Both HAECO and TAECO did more line maintenance, reflecting increased aircraft movements.

The profit attributable to the Company's shareholders comprises:

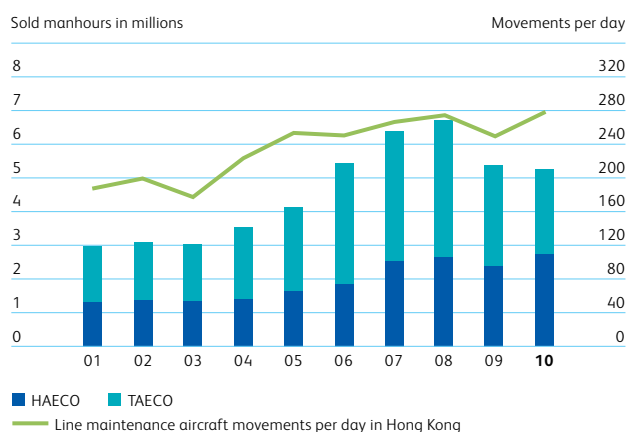
	2010 HK\$M	2009 HK\$M	Change
HAECO	327	227	+44%
Share of:			
TAECO	53	106	-50%
HAESL and SAESL	380	363	+5%
Other subsidiary and jointly controlled companies	(59)	(8)	-638%
	701	688	+2%

	2010	2009	Change
Airframe heavy maintenance sold manhours (per year in millions)			
HAECO	2.74	2.39	+15%
TAECO	2.52	2.98	-15%
Line maintenance movements in Hong Kong (per day)	278	249	+12%

Attributable Profits by Company



Airframe Heavy Maintenance Sold Manhours and Line Maintenance Aircraft Movements



HAECO

The Company's Hong Kong operations comprise airframe heavy maintenance in its hangars, line maintenance at the passenger and cargo terminals at Hong Kong International Airport ("HKIA"), component overhaul at Tseung Kwan O, inventory technical management and fleet technical management services.

Airframe Maintenance

The airframe heavy maintenance division does scheduled maintenance checks, modifications and overhaul work on a wide variety of aircraft types. HAECO competes on turnaround time and quality of workmanship with other maintenance, repair and overhaul facilities worldwide. Manhours sold increased from 2.39 million in 2009 to 2.74 million in 2010. The increase reflected robust demand for airframe heavy maintenance services following the recovery of the aviation industry. HAECO was able to meet this increase in demand partly as a result of the opening of a third hangar at HKIA in September 2009. Approximately 67% of airframe heavy maintenance work was for airlines based outside Hong Kong.

Line Maintenance

The line maintenance division provides technical and non-technical line maintenance services to airlines operating at HKIA. There was an increase in aircraft movements at HKIA in 2010 as the demand for cargo and passenger services grew. The average number of movements handled by HAECO was 278 per day in 2010, a 12% increase from 2009.

Component Overhaul

The component overhaul division occupies 7,000 square metres of workshop space at Tseung Kwan O. Despite competition from the equipment manufacturers, who are engaging more in the component overhaul business as part of their after sales service, HAECO has continued to invest with a view to enhancing its capabilities in this business. Manhours sold for component overhaul activities were 0.27 million in 2010, a 3% reduction from 2009. Utilisation of the component overhaul facilities during the year was reasonable.

Inventory Technical Management and Fleet Technical Management

HAECO provides inventory technical management services for rotatable spares for Airbus A300-600F, A319, A320 and A330 aircraft and for Boeing 747-200F aircraft. The Company also provides fleet technical management services. Such services are provided for Airbus A319 and A320 aircraft and for Boeing 747-400F and 747-200F aircraft.

Total headcount for the Hong Kong operations increased by 7% during the year to 4,967 at the end of 2010.

TAECO

TAECO performs airframe heavy maintenance and passenger to freighter conversions using five wide body double bay hangars at Xiamen Gaoqi International Airport, with a sixth wide body double bay hangar due to open in mid 2011. TAECO also performs line maintenance operations in Beijing, Tianjin, Shanghai and Xiamen, handling an average of 48 aircraft movements per day in 2010.

TAECO reported a significant reduction in profitability in 2010, with profit attributable to the Company's shareholders down by 50% to HK\$53 million. Its facilities were severely under-utilised during the year; the passenger to freighter conversion business remained weak, with only three Boeing 747-400 aircraft being converted, and major customers for other airframe heavy maintenance required less work because of capacity reductions. Manhours sold decreased by 15% from 2.98 million in 2009 to 2.52 million in 2010. Despite measures taken to contain costs, the fact that a significant proportion of costs are fixed meant that profit fell substantially.

At the end of 2010, TAECO's headcount totalled 4,739, a 7% reduction compared to 5,094 at the end of 2009.

HAESL

HAESL (45% owned) repairs and overhauls Rolls-Royce engines and engine components at its facility at Tseung Kwan O. HAESL recorded a 1% increase in profit attributable to the Company's shareholders to HK\$320 million. A small reduction in volume was offset by a favourable work mix and by measures taken to control costs. The return to service of parked Cathay Pacific Boeing 747-400 aircraft resulted in increased work in the second half of 2010 and the increase is expected to continue in 2011.

SAESL, in which HAESL has a 20% interest, reported a strong profit growth in 2010, assisted by a faster than expected recovery in regional airline activity. A 12,000 square metre extension of SAESL's facilities was opened in February 2010.

The Group's share of the after-tax profit of HAESL, including its interest in SAESL, increased by 5% in 2010 to HK\$380 million.

Other Principal Subsidiary and Jointly Controlled Companies

The other principal subsidiary and jointly controlled companies' profit attributable to its shareholders comprises:

	2010	2009	Change
	HK\$M	HK\$M	
TEXL	(53)	(34)	-56%
TALSCO	(19)	(20)	+5%
Other subsidiary and jointly controlled companies	13	46	-72%
	(59)	(8)	-638%

- TEXL (owned 75.01% by HAECO and 10% by TAECO), a Xiamen-based engine overhaul facility, has a service agreement with General Electric for overhauling GE90 engines. Operations commenced in June 2010. Eight quick turn engines and one test only engine were completed in the remainder of the year. TEXL made a loss in 2010 because of the pre-operating costs and the light workscope of the engines completed in its first year of operation.
- TALSCO (owned 50% by HAECO and 10% by TAECO) provides landing gear overhaul services in Xiamen. TALSCO can overhaul landing gear for Boeing 737, 747, 757 and 767 aircraft and is developing the capability to overhaul landing gear for Boeing 777 aircraft. Although more landing gears were overhauled in 2010 than in 2009, the utilisation of the company's capacity was still low and it reported a similar loss in 2010.

- SHAECO (100% owned) provides line maintenance services at Changi Airport in Singapore. SHAECO's performance declined in 2010 due to higher staff costs incurred in preparation for new contracts.
- Dunlop Taikoo (owned 28% by HAECO and 9% by TAECO) sells and retreads aircraft tyres at Jinjiang in Fujian Province. A loss was reported in 2010, the first full year of operation. This reflected strong competition and a delay in obtaining tyre retreading approvals.
- Goodrich Asia-Pacific Limited (49% owned) refurbishes carbon brakes and wheel hubs at Fanling in Hong Kong. Sales and profits increased modestly in 2010.
- Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited (35% owned by TAECO) overhauls fuel control systems and pumps in Xiamen. Sales and profits increased in 2010.
- Honeywell TAECO (owned 25% by HAECO and 10% by TAECO) overhauls auxiliary power units and other rotatable spares. Profits decreased in 2010 because of higher costs and the expiry of a tax holiday.
- STAECO (owned 30% by HAECO and 10% by TAECO) provides airframe heavy maintenance services at Jinan in Shandong Province for Boeing 737 and other narrow body aircraft. It also undertakes Boeing 737 passenger to freighter conversions. Sales and profits decreased in 2010 because of airlines' building up their own heavy maintenance capability and a loss of customers following airline mergers in Mainland China.
- Taikoo Sichuan (owned 40% by HAECO and 9% by TAECO) provides airframe heavy maintenance services at Chengdu in Sichuan Province for Airbus aircraft. The company opened its first hangar in August. A loss was incurred in its first year of operation.
- Taikoo Spirit (owned 41.8% by HAECO and 10.76% by TAECO) repairs aircraft parts and systems at Jinjiang in Fujian Province. A loss was reported in 2010, its first year of operation.

Mainland Operations



Mainland operations include airframe heavy maintenance, line maintenance, engine overhaul, landing gear overhaul, component overhaul and aircraft tyres retread. Airframe heavy maintenance services are provided in Xiamen, Jinan and Chengdu while line maintenance services are provided in Beijing, Tianjin, Shanghai and Xiamen.



TAECO's **6th**
hangar is scheduled
to open in mid 2011

Geographical Coverage



TEXL's overhaul and
repair facilities are
expected to be
completed in the **2nd**
quarter of 2011