

Notes to the Accounts

1. Principal activities

The Hong Kong Aircraft Engineering Company Limited Group is engaged in commercial aircraft overhaul, modification and maintenance mainly in Hong Kong and Mainland China. Segment information is provided in note 4.

The principal activities of the Group's subsidiary and jointly controlled companies are set out on page 76. Financial summaries of the jointly controlled companies are provided in note 16.

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 risk, 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 highly probable transactions (largely represented by 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.

At 31st December 2010, if the HK dollar had weakened/strengthened by 5% against the Renminbi with all other variables held constant, total equity would have been HK\$33 million (2009: HK\$3 million) higher/lower, arising mainly from the movement in the exchange translation reserve caused by the translation of the net investment in foreign operations.

(ii) Interest rate risk

The Group's interest rate risk arises from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group earns interest income on cash deposits. During 2009 and 2010, the Group's borrowings were at variable rates and were primarily denominated in HK dollars and US dollars.

The Group's results are not materially impacted by changes in interest rates due to the Group's low level of gearing.

(iii) Credit risk

Credit risk is managed on a group basis. 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 controls its exposure to non-performance by counterparties by dealing with investment grade counterparties, setting approved counterpart limits and applying monitoring procedures.

The maximum credit risk in respect of financial guarantees is outlined as follows:

	Company	
	2010	2009
	HK\$M	HK\$M
Financial guarantees in respect of bank loans of a subsidiary company	653	448

(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 refinancing and capital commitments for the following 12 months on a rolling basis.

The tables below analyse the contractual undiscounted cash flows of the Group's and the Company's financial liabilities by relevant maturity groupings based on the remaining period from the year-end date to the earliest date the Group and the Company can be required to make payment:

	Total contractual undiscounted cash flow HK\$M	Within 1 year or on demand HK\$M	Between 1 and 2 years HK\$M	Between 2 and 5 years HK\$M	More than 5 years HK\$M
At 31st December 2010					
Group					
Bank loans (including interest obligations)	1,444	873	571	–	–
Trade and other payables	972	972	–	–	–
	2,416	1,845	571	–	–

2. Financial risk management (continued)**(a) Financial risk factors** (continued)

(iv) Liquidity risk (continued)

	Total contractual undiscouted cash flow HK\$M	Within 1 year or on demand HK\$M	Between 1 and 2 years HK\$M	Between 2 and 5 years HK\$M	More than 5 years HK\$M
At 31st December 2009					
Group					
Bank loans (including interest obligations)	1,138	538	441	159	–
Trade and other payables	989	989	–	–	–
Derivative financial liabilities at notional value	318	318	–	–	–
	2,445	1,845	441	159	–

	Total contractual undiscouted cash flow HK\$M	Within 1 year or on demand HK\$M	Between 1 and 2 years HK\$M	Between 2 and 5 years HK\$M	More than 5 years HK\$M
At 31st December 2010					
Company					
Bank loans (including interest obligations)	102	1	101	–	–
Trade and other payables	576	576	–	–	–
Financial guarantees	653	391	262	–	–
	1,331	968	363	–	–

	Total contractual undiscouted cash flow HK\$M	Within 1 year or on demand HK\$M	Between 1 and 2 years HK\$M	Between 2 and 5 years HK\$M	More than 5 years HK\$M
At 31st December 2009					
Company					
Bank loans (including interest obligations)	200	200	–	–	–
Trade and other payables	605	605	–	–	–
Financial guarantees	448	41	320	87	–
	1,253	846	320	87	–

Note: Forward foreign exchange contracts are included in the derivative financial liabilities to reduce the Group's exposure to changes in exchange rates.

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to operate as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and to secure access to finance at a reasonable cost.

2. Financial risk management (continued)

(b) Capital management (continued)

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 90. The gearing ratio at 31st December 2010 was 2.7 % (2009: 2.3 %). The increase in the gearing ratio during 2010 principally reflects additional borrowing by subsidiary companies to finance capital expenditure.

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

(c) Fair value estimation

In accordance with the amendment to HKFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's only financial instruments impacted by such valuation methods are derivatives used for hedging. The fair value of derivatives used for hedging is based on inputs other than quoted prices included within level 1 that are observable for the instruments therefore are all categorised as level 2. The fair value of these derivatives used for hedging are assets of HK\$8 million (2009: HK\$17 million) and nil for liabilities (2009: HK\$15 million).

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each financial reporting date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates in the market at the reporting date.

The carrying value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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 on next page:

3. Critical accounting estimates and judgements (continued)

(a) Impairment of assets

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. Refer to note 14 for details of goodwill impairment testing.

(b) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the 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 outcomes become known.

4. Segment information

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

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

				HAESL		Other segments – subsidiary companies HK\$M	Inter-segment elimination/ unallocated adjustments HK\$M	Total HK\$M
	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
Year ended 31st December 2010								
External turnover	2,966	1,177	28	7,286	(7,286)	95	–	4,266
Inter-segment turnover	77	5	–	2	(2)	20	(102)	–
Total turnover	3,043	1,182	28	7,288	(7,288)	115	(102)	4,266
Operating profit/(loss)	399	89	(63)	854	(854)	(28)	–	397
Finance income	–	7	2	–	–	–	(1)	8
Finance charges	(3)	(3)	(7)	(3)	3	(4)	1	(16)
Share of after-tax results of jointly controlled companies	–	–	–	132	248	–	27	407
Profit/(loss) before taxation	396	93	(68)	983	(603)	(32)	27	796
Taxation (charge)/credit	(69)	5	2	(139)	139	(6)	(5)	(73)
Profit/(loss) for the year	327	98	(66)	844	(464)	(38)	22	723
Depreciation and amortisation	181	115	55	62	(62)	30	–	381
Reversal of provision for impairment of stock	–	–	–	(1)	1	–	–	–
Auditors' remuneration – statutory audit fees	1	1	–	–	–	–	–	2

4. Segment information (continued)

	HAESL							
	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M	Inter-segment elimination/ unallocated adjustments HK\$M	Total HK\$M
Year ended 31st December 2009								
External turnover	2,708	1,260	–	7,033	(7,033)	36	–	4,004
Inter-segment turnover	116	5	–	2	(2)	9	(89)	41
Total turnover	2,824	1,265	–	7,035	(7,035)	45	(89)	4,045
Operating profit/(loss)	264	209	(43)	832	(832)	(45)	–	385
Finance income	1	5	1	–	–	–	–	7
Finance charges	(4)	(2)	(2)	(1)	1	(4)	–	(12)
Share of after-tax results of jointly controlled companies	–	–	–	104	259	–	57	420
Profit/(loss) before taxation	261	212	(44)	935	(572)	(49)	57	800
Taxation (charge)/credit	(33)	(20)	2	(129)	129	13	(2)	(40)
Profit/(loss) for the year	228	192	(42)	806	(443)	(36)	55	760
Depreciation and amortisation	156	126	26	59	(59)	26	–	334
Provision for impairment of stock and rotatable spares	26	5	–	8	(8)	–	–	31
Auditors' remuneration – statutory audit fees	1	1	–	–	–	–	–	2

	HAESL							
	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M	Inter-segment elimination/ unallocated adjustments HK\$M	Total HK\$M
At 31st December 2010								
Total segment assets	4,204	2,549	1,300	2,678	(2,678)	373	(184)	8,242
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	60	130	143	195	(195)	29	–	362
Total segment liabilities	1,071	634	938	1,186	(1,186)	370	(160)	2,853

4. Segment information (continued)

	HAECO HK\$M	TAECO HK\$M	TEXL HK\$M	HAESL At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M	Inter-segment elimination/ unallocated adjustments HK\$M	Total HK\$M
At 31st December 2009								
Total segment assets	3,963	2,388	1,073	2,238	(2,238)	411	(192)	7,643
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	426	199	167	157	(157)	2	–	794
Total segment liabilities	1,140	539	659	916	(916)	369	(187)	2,520

	2010 HK\$M	2009 HK\$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	8,242	7,643
Unallocated: investment in jointly controlled companies	1,064	988
Unallocated: intangible assets – goodwill	31	30
Total assets	9,337	8,661

The Group's jointly controlled companies, except for SAESL, are held by HAECO and TAECO.

Reportable segments' liabilities are equal to total liabilities.

Turnover between segments are carried out on an arm's length basis. The turnover from external parties reported to the Board of Directors is measured in a manner consistent with that in the income statement.

HAESL has been determined as a segment, although it is a jointly controlled company. The Board of Directors reviews the full income statement and net assets of this entity as part of its performance review and resource allocation decisions. Full information on turnover, profit, assets and liabilities has been included in the above, although these amounts do not appear in the Group's income statement and 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 income statement and statement of financial position.

	2010 HK\$M	2009 HK\$M
The Group's turnover derived from external customers:		
In Hong Kong	1,894	1,957
In other countries	2,372	2,088
	4,266	4,045
Total non-current assets other than financial instruments, deferred tax assets and retirement benefit assets:		
In Hong Kong	2,460	2,594
In other countries (mainly in Mainland China)	3,037	2,892
	5,497	5,486
Turnover in HAECO and TAECO derived from a single external customer	1,818	1,891

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 2010 amounted to HK\$1,963 million (2009: HK\$1,980 million). Of the five highest paid employees, three (2009: three) were Directors and two (2009: two) were Executive Officers. Remuneration details are given in note 6.

6. Directors' and Executive Officers' remuneration

Total number of Directors who served during the year was fourteen (2009: sixteen) and total number of Executive Officers who served during the year was four (2009: four). Their remuneration was as follows:

	Group						2010 Total HK\$000	2009 Total HK\$000
	Cash			Non Cash				
	Basic salary/ Directors’ fees (note a) HK\$000	Bonus (note b) HK\$000	Allowances, gratuities, and benefits HK\$000	Retirement schemes contributions HK\$000	Bonus paid to retirement benefits HK\$000	Housing & other benefits HK\$000		
Executive Directors:								
Christopher Pratt	564	265	40	210	78	313	1,470	1,543
Chan Ping Kit (until 19th March 2010)	746	–	3,152	4	–	2,127	6,029	13,409
Augustus Tang	2,804	2,370	1,361	80	–	1	6,616	4,379
Charles Bremridge (until 1st April 2009)	–	148	–	–	111	–	259	3,239
Mark Hayman	1,906	947	909	–	–	17	3,779	3,881
Michelle Low (until 4th August 2010)	1,024	1,120	374	49	–	1	2,568	3,474
Fanny Lung (from 4th August 2010)	539	–	181	–	–	–	720	–
Ashokumar Sathianathan (until 31st January 2009)	–	–	–	–	–	–	–	1,726
	7,583	4,850	6,017	343	189	2,459	21,441	31,651
Non-Executive Directors:								
Martin Cubbon (until 13th May 2009)	–	–	–	–	–	–	–	–
Christopher Gibbs	–	–	–	–	–	–	–	–
Davy Ho (until 1st April 2010)	–	–	–	–	–	–	–	–
Peter Johansen	415	–	–	–	–	–	415	415
Merlin Swire	–	–	–	–	–	–	–	–
	415	–	–	–	–	–	415	415
Independent Non-Executive Directors:								
Robert Adams	405	–	–	–	–	–	405	405
Albert Lam (until 6th June 2010)	128	–	–	–	–	–	128	300
Lincoln Leong	430	–	–	–	–	–	430	430
David Tong	300	–	–	–	–	–	300	300
	1,263	–	–	–	–	–	1,263	1,435
2010 total	9,261	4,850	6,017	343	189	2,459	23,119	
2009 total	13,057	8,526	3,896	1,160	753	6,109		33,501
Executive Officers:								
Summit Chan (from 1st February 2009)	1,304	631	444	37	–	2	2,418	1,737
John Chi	1,833	813	897	–	–	1,495	5,038	4,364
Patrick Healy	1,415	473	804	526	352	1,451	5,021	7,070
Merlin Swire (until 30th June 2008)	–	–	–	–	–	–	–	313
Kenny Tang (from 7th September 2009)	1,932	315	632	55	–	1	2,935	820
	6,484	2,232	2,777	618	352	2,949	15,412	14,304
2010 total	6,484	2,232	2,777	618	352	2,949	15,412	
2009 total	4,958	1,632	1,713	1,763	290	3,948		14,304

Notes:

- Annual Directors' fees are determined by the Board and for 2010 comprised Director's fee of HK\$300,000 (2009: HK\$300,000), fee for members serving on Audit Committee of HK\$75,000 (2009: HK\$75,000) and fee for members serving on Remuneration Committee of HK\$30,000 (2009: HK\$30,000) respectively. The fee for Chairman of Audit Committee is HK\$100,000 (2009: HK\$100,000) and fee for Chairman of Remuneration Committee is HK\$40,000 (2009: HK\$40,000).
- Bonuses paid to the Executive Directors and Executive Officers are based on previous years' results.

7. Other net gains

	Group	
	2010	2009
	HK\$M	HK\$M
Net foreign exchange gains	27	40
Loss on disposal of property, plant and equipment	(6)	–
	21	40

8. Net finance charges

	Group	
	2010	2009
	HK\$M	HK\$M
Finance income:		
Short-term deposits and bank balances	8	7
Finance charges:		
Bank loans	(16)	(12)
	(8)	(5)

9. Taxation

	Group	
	2010	2009
	HK\$M	HK\$M
Current taxation:		
Hong Kong profits tax	65	–
Overseas taxation	8	9
Over-provisions in prior years	(8)	(8)
	65	1
Deferred taxation (note 19):		
Increase in deferred tax liabilities	8	39
	73	40

Hong Kong profits tax is calculated at 16.5 % (2009: 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 jointly controlled companies' tax charge of HK\$70 million (2009: HK\$70 million) is included in the share of after-tax results of jointly controlled companies shown in the consolidated income statement.

9. Taxation (continued)

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:

	Group	
	2010	2009
	HK\$M	HK\$M
Profit before taxation	796	800
Calculated at a tax rate of 16.5% (2009: 16.5%)	131	132
Share of after-tax results of jointly controlled companies	(67)	(69)
Effect of different tax rates in other countries	(1)	(9)
Income not subject to tax	(5)	(9)
Expenses not deductible for tax purposes	1	–
Unused tax losses not recognised	8	10
Over-provisions in prior years	(8)	(8)
Effect of changes in tax rates	–	(17)
Others	14	10
Total charge	73	40

10. Profit attributable to the Company's shareholders

Of the profit attributable to the Company's shareholders, HK\$697 million (2009: HK\$648 million) is dealt with in the financial statements of the Company.

11. Dividends

	Company	
	2010	2009
	HK\$M	HK\$M
Interim dividend, paid on 21st September 2010, of HK\$0.45 per share (2009: HK\$0.50 per share)	75	83
Proposed final dividend of HK\$1.65 per share (2009 actual dividend paid: HK\$1.50 per share)	274	249
	349	332

The proposed final dividend is not accounted for until it has been approved at the Annual General Meeting. The actual amount will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2011.

12. Earnings per share (basic and diluted)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders of HK\$701 million (2009: HK\$688 million) by the weighted average number of 166,324,850 ordinary shares in issue during the year (2009: 166,324,850).

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

	Group						
	Property, plant and equipment						Leasehold land and land use rights HK\$M
	Buildings and building facilities HK\$M	Plant, machinery and tools HK\$M	Vehicles, equipment and furniture HK\$M	Rotable spares HK\$M	Assets under construction HK\$M	Total HK\$M	
Cost							
At 1st January 2009	3,935	1,386	214	262	576	6,373	383
Translation differences	1	–	–	–	–	1	1
Additions and transfers	854	186	(6)	3	(250)	787	–
Disposals	(3)	(27)	(12)	(15)	–	(57)	–
At 31st December 2009	4,787	1,545	196	250	326	7,104	384
Translation differences	13	9	–	–	4	26	4
Additions and transfers	16	162	(38)	9	197	346	–
Disposals	–	(32)	(12)	(14)	–	(58)	–
At 31st December 2010	4,816	1,684	146	245	527	7,418	388
Accumulated depreciation, amortisation and impairment							
At 1st January 2009	1,183	756	163	74	–	2,176	57
Depreciation and amortisation charge/ (transfer) for the year	164	143	(3)	19	–	323	10
Impairment charge for the year	–	–	–	24	–	24	–
Disposals	(1)	(22)	(11)	(3)	–	(37)	–
At 31st December 2009	1,346	877	149	114	–	2,486	67
Translation differences	3	4	–	–	–	7	–
Depreciation and amortisation charge/ (transfer) for the year	185	186	(32)	15	–	354	9
Disposals	–	(28)	(11)	(5)	–	(44)	–
At 31st December 2010	1,534	1,039	106	124	–	2,803	76
Net book value							
At 31st December 2010	3,282	645	40	121	527	4,615	312
At 31st December 2009	3,441	668	47	136	326	4,618	317

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

	Company						
	Property, plant and equipment						Leasehold land HK\$M
	Buildings and building facilities HK\$M	Plant, machinery and tools HK\$M	Vehicles, equipment and furniture HK\$M	Rotable spares HK\$M	Assets under construction HK\$M	Total HK\$M	
Cost							
At 1st January 2009	2,177	539	159	262	495	3,632	21
Additions and transfers	848	61	(12)	3	(474)	426	–
Disposals	–	(9)	(10)	(15)	–	(34)	–
At 31st December 2009	3,025	591	137	250	21	4,024	21
Additions and transfers	7	97	(43)	9	(10)	60	–
Disposals	–	(15)	(10)	(14)	–	(39)	–
At 31st December 2010	3,032	673	84	245	11	4,045	21
Accumulated depreciation, amortisation and impairment							
At 1st January 2009	710	378	131	74	–	1,293	5
Depreciation and amortisation charge/ (transfer) for the year	86	59	(10)	19	–	154	–
Impairment charge for the year	–	–	–	24	–	24	–
Disposals	–	(7)	(9)	(3)	–	(19)	–
At 31st December 2009	796	430	112	114	–	1,452	5
Depreciation and amortisation charge/ (transfer) for the year	113	94	(41)	15	–	181	–
Disposals	–	(14)	(9)	(5)	–	(28)	–
At 31st December 2010	909	510	62	124	–	1,605	5
Net book value							
At 31st December 2010	2,123	163	22	121	11	2,440	16
At 31st December 2009	2,229	161	25	136	21	2,572	16

At 31st December 2010 and 2009, none of the Group's and Company's property, plant and equipment was pledged as security for the Group's and Company's loans.

Assets under construction mainly relate to the construction of a sixth hangar by TAECO and engine overhaul facilities by TEXTL at Xiamen, Mainland China.

Of the leasehold land and land use rights of HK\$312 million (2009: HK\$317 million), HK\$16 million (2009: HK\$16 million) relates to the net book value of leasehold land held in Hong Kong by the Company and HK\$296 million (2009: HK\$301 million) relates to the net book value of land use rights held in Mainland China by TAECO, TALSCO and TEXTL. Both leasehold land and land use rights are held on medium-term leases.

14. Intangible assets

	Group				Company
	Computer software HK\$M	Goodwill HK\$M	Technical licences HK\$M	Total HK\$M	Computer software HK\$M
Cost					
At 1st January 2009	14	29	511	554	10
Translation differences	–	1	–	1	–
Additions	–	–	6	6	–
At 31st December 2009	14	30	517	561	10
Translation differences	–	1	21	22	–
Additions	15	–	1	16	–
At 31st December 2010	29	31	539	599	10
Accumulated amortisation					
At 1st January 2009	9	–	–	9	9
Amortisation charge for the year	1	–	–	1	1
At 31st December 2009	10	–	–	10	10
Translation differences	–	–	1	1	–
Amortisation charge for the year	1	–	17	18	–
At 31st December 2010	11	–	18	29	10
Net book value					
At 31st December 2010	18	31	521	570	–
At 31st December 2009	4	30	517	551	–

The technical licences have a remaining amortisation period of 20 years (2009: 21 years).

Impairment test of goodwill

Goodwill relates to TEXL which is a cash-generating unit (“CGU”) of the Group and an operating segment in its own right. The recoverable amount attributable to this CGU is determined based on a value in use calculation. This calculation uses the financial budget and plan covering a period of ten years. Cash flows beyond this period are extrapolated at the same level as in the tenth year. The discount rate used at 31st December 2010 was 5.3% (2009: 5.6%). The discount rate is pre-tax and reflects the specific risks relating to the CGU.

15. Subsidiary companies

	Company	
	2010 HK\$M	2009 HK\$M
Unlisted shares at cost	801	738

The principal subsidiary companies are shown on page 76.

A loan due from a subsidiary company of HK\$8 million (2009: HK\$11 million) is unsecured and interest free (2009: same). The loan is repayable in 2012.

16. Jointly controlled companies

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Unlisted shares at cost	183	183	135	135
Attributable post-acquisition reserves	881	805	–	–
	1,064	988	135	135
Dividends received and receivable from jointly controlled companies during the year	342	392	325	376

The principal jointly controlled companies are shown on page 76.

Included in trade and other receivables are loans due from a jointly controlled company to the Group of HK\$26 million (2009: HK\$19 million) which are unsecured and carry interest at 3.6% per annum (2009: 3.6% per annum). The loans are repayable at various dates in 2011.

The Group's share of the results, assets and liabilities of the jointly controlled companies for the year ended and at 31st December are as follows:

	HAESL		Others		Total	
	2010	2009	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Turnover	3,280	3,166	335	329	3,615	3,495
Operating expenses	(2,896)	(2,791)	(298)	(260)	(3,194)	(3,051)
Operating profit	384	375	37	69	421	444
Net finance charges	(1)	(1)	(3)	–	(4)	(1)
Share of after-tax results of jointly controlled companies	60	47	–	–	60	47
Profit before taxation	443	421	34	69	477	490
Taxation	(63)	(58)	(7)	(12)	(70)	(70)
Profit for the year	380	363	27	57	407	420
Dividends paid and/or declared	297	350	45	42	342	392
Net assets employed:						
Non-current assets	537	468	356	301	893	769
Current assets	765	628	225	174	990	802
	1,302	1,096	581	475	1,883	1,571
Current liabilities	(405)	(313)	(285)	(171)	(690)	(484)
Non-current liabilities	(129)	(99)	–	–	(129)	(99)
	768	684	296	304	1,064	988
Financed by:						
Shareholders' equity	768	684	296	304	1,064	988

17. Financial instruments by category

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

	Group			Company
	Loans and receivables HK\$M	Derivatives used for hedging HK\$M	Total HK\$M	Loans and receivables HK\$M
At 31st December 2010				
Assets				
Derivative financial instruments	–	8	8	–
Trade and other receivables	740	–	740	572
Loan to a subsidiary company	–	–	–	8
Bank balances and short-term deposits	1,252	–	1,252	589
Total	1,992	8	2,000	1,169
	Derivatives HK\$M	Other financial liabilities HK\$M	Total HK\$M	Other financial liabilities HK\$M
At 31st December 2010				
Liabilities				
Trade and other payables	–	972	972	576
Borrowings	–	1,428	1,428	100
Total	–	2,400	2,400	676
	Loans and receivables HK\$M	Derivatives used for hedging HK\$M	Total HK\$M	Loans and receivables HK\$M
At 31st December 2009				
Assets				
Derivative financial instruments	–	17	17	–
Trade and other receivables	538	–	538	464
Loan to a subsidiary company	–	–	–	11
Bank balances and short-term deposits	983	–	983	393
Total	1,521	17	1,538	868
	Derivatives HK\$M	Other financial liabilities HK\$M	Total HK\$M	Other financial liabilities HK\$M
At 31st December 2009				
Liabilities				
Derivative financial instruments	15	–	15	–
Trade and other payables	–	989	989	605
Borrowings	–	1,126	1,126	200
Total	15	2,115	2,130	805

Note: No derivatives are recognised at fair value through profit and loss (2009: same)

18. Retirement benefits

(a) Overall

Staff employed by the Company before 1st December 2000 were offered a choice between Hong Kong's Mandatory Provident Fund ("MPF") and the defined benefits retirement schemes as described below. Since 1st December 2000, all new staff employed, unless specially approved by the Company, have been enrolled in the MPF scheme. This scheme requires both the Company and staff to contribute 5% of the staff's relevant income (capped at HK\$1,000 per month).

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 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 Scheme.

TAECO's local staff are covered by a statutory scheme and a defined contribution scheme in Mainland China. Local staff of other subsidiary companies operating in Mainland China are covered by a statutory scheme. Local staff employed by Singapore HAECO Pte. Limited and HAECO Bahrain Aircraft Services Company Limited are covered by the Central Provident Fund in Singapore and the Social Insurance Fund in Bahrain respectively.

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 plans are valued annually by qualified actuaries, Towers Watson Hong Kong Limited ("Towers Watson") (formerly known as Watson Wyatt Hong Kong Limited), for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance. For the year ended 31st December 2009, the HKAS 19 disclosures shown in the financial statements were based on valuations prepared by Towers Watson at 31st December 2009. For the year ended 31st December 2010, the HKAS 19 disclosures were based on valuations prepared by Towers Watson at 31st December 2009, which were updated at 31st December 2010 by Cannon Trustees Limited, the main administration manager of the Company's defined benefit schemes.

The retirement benefit (income)/expense was recognised in the income statement as described in note 24 under principal accounting policies and was as follows:

	Group	
	2010	2009
	HK\$M	HK\$M
Local Scheme	(11)	57
Expatriate Scheme	(4)	3
MPF, statutory and other defined contribution schemes	65	60
	50	120

(b) Defined benefits retirement schemes

The amounts recognised in the consolidated income statement were as follows:

	Group					
	Local Scheme		Expatriate Scheme		Total	
	2010	2009	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Current service cost	82	82	4	4	86	86
Interest cost	89	93	5	6	94	99
Expected return on plan assets – gain	(182)	(121)	(13)	(9)	(195)	(130)
Net actuarial losses recognised	–	3	–	2	–	5
Total	(11)	57	(4)	3	(15)	60
Actual return on plan assets – gain	287	581	21	48	308	629

18. Retirement benefits (continued)**(b) Defined benefits retirement schemes** (continued)

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2010	2009	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
At 31st December:						
Fair value of plan assets	2,481	2,312	174	166	2,655	2,478
Present value of obligations	(2,010)	(1,924)	(104)	(107)	(2,114)	(2,031)
Net assets	471	388	70	59	541	447
Net unrecognised actuarial gains	(225)	(167)	(15)	(8)	(240)	(175)
Net retirement benefit assets recognised in the statement of financial position	246	221	55	51	301	272

Movement in the retirement benefit assets recognised in the statement of financial position:

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2010	2009	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Assets at 1st January	221	157	51	54	272	211
Increase due to:						
Total income/(expense) – as shown above	11	(57)	4	(3)	15	(60)
Contributions paid	14	121	–	–	14	121
Assets at 31st December	246	221	55	51	301	272

None (2009: HK\$67 million) of the contributions paid represent supplementary lump-sum funding contributions.

Principal actuarial assumptions for the year:

	Group and Company			
	Local Scheme		Expatriate Scheme	
	2010	2009	2010	2009
Discount rate	4.40%	4.75%	4.40%	4.75%
Expected rate of return on plan assets	8.00%	8.00%	8.00%	8.00%
Expected rate of future salary increases	3.61%	4.00%	3.01%	4.00%

The expected return on plan assets reflects the portfolio mix of assets, which itself is determined by the Group's current investment policy. Expected returns on equities and bonds reflect long-term real rates of return in the respective markets.

18. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2010	2009	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
At 1st January	2,312	1,735	166	142	2,478	1,877
Employer contributions	14	121	–	–	14	121
Employee contributions	–	–	2	2	2	2
Expected return	182	121	13	9	195	130
Benefits paid	(132)	(125)	(15)	(26)	(147)	(151)
Actuarial gains	105	460	8	39	113	499
At 31st December	2,481	2,312	174	166	2,655	2,478

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

	Group and Company					
	Local Scheme		Expatriate Scheme		Total	
	2010	2009	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
At 1st January	1,924	1,790	107	115	2,031	1,905
Employee contributions	–	–	2	2	2	2
Current service cost	82	82	4	4	86	86
Interest cost	89	93	5	6	94	99
Benefits paid	(132)	(125)	(15)	(26)	(147)	(151)
Actuarial losses	47	84	1	6	48	90
At 31st December	2,010	1,924	104	107	2,114	2,031

The major categories of plan assets are as follows:

	Group and Company							
	Local Scheme				Expatriate Scheme			
	2010	2010	2009	2009	2010	2010	2009	2009
	HK\$M	%	HK\$M	%	HK\$M	%	HK\$M	%
Equities	1,802	73%	1,678	73 %	121	70%	115	69%
Bonds	674	27%	634	27 %	53	30%	51	31 %
Cash and others	5	–	–	–	–	–	–	–
Total	2,481	100%	2,312	100 %	174	100%	166	100%

Allowing for current market condition, a range of potential returns may be expected for the Schemes' invested assets. Based on the Schemes' benchmark asset allocation of 70 % in equities and 30 % in bonds and cash, and allowing for administration fees and other expense charged to the Schemes, the Company has decided to adopt a long-term return of 8.0 % per annum.

Expected employer contributions for the year ending 31st December 2011 are HK\$16 million for Local Scheme and nil for Expatriate Scheme.

18. Retirement benefits (continued)**(b) Defined benefits retirement schemes** (continued)

Amounts for the current and previous four periods are as follows:

	Group and Company				
	Total				
	2010	2009	2008	2007	2006
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Fair value of plan assets	2,655	2,478	1,877	3,039	2,676
Present value of defined benefit obligations	(2,114)	(2,031)	(1,905)	(2,334)	(2,155)
Surplus/(deficit)	541	447	(28)	705	521
Experience gains/(losses) on plan liabilities	31	(26)	11	(11)	87
Experience gains/(losses) on plan assets	113	499	(1,251)	288	276

19. Deferred taxation

The movements on deferred income tax assets and liabilities, without taking into consideration the offsetting balances within the same tax jurisdiction, are as follows:

	Group Provisions HK\$M
Deferred tax assets	
At 1st January 2009	32
Credited to other comprehensive income	7
At 31st December 2009 and 2010	39

	Group			
	Accelerated tax depreciation HK\$M	Retirement benefit assets HK\$M	Others HK\$M	Total HK\$M
Deferred tax liabilities				
At 1st January 2009	219	10	43	272
Charged to income statement	30	–	9	39
At 31st December 2009	249	10	52	311
(Credited)/charged to income statement	(5)	–	13	8
At 31st December 2010	244	10	65	319

19. Deferred taxation (continued)

	Company			
	Accelerated tax depreciation HK\$M	Retirement benefit assets HK\$M	Others HK\$M	Total HK\$M
Deferred tax liabilities				
At 1st January 2009	219	10	(14)	215
Charged to income statement	30	–	11	41
At 31st December 2009	249	10	(3)	256
(Credited)/charged to income statement	(5)	–	10	5
At 31st December 2010	244	10	7	261

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% (2009: 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\$205 million (2009: HK\$96 million) to carry forward against future taxable income. Tax losses of HK\$44 million will expire in 2013, HK\$66 million will expire in 2014, HK\$59 million will expire in 2015 and HK\$36 million have no expiry date (2009: HK\$23 million in 2013; HK\$46 million in 2014; HK\$27 million no expiry date).

The following amounts are shown separately on the statement of financial position.

	Group	
	2010 HK\$M	2009 HK\$M
Deferred tax assets:		
To be recovered after more than 12 months	36	38
To be recovered within 12 months	3	1
	39	39

	Group	
	2010 HK\$M	2009 HK\$M
Deferred tax liabilities:		
To be settled after more than 12 months	270	299
To be settled within 12 months	49	12
	319	311

	Company	
	2010 HK\$M	2009 HK\$M
Deferred tax liabilities:		
To be settled after more than 12 months	217	247
To be settled within 12 months	44	9
	261	256

20. Derivative financial instruments

	Group			
	Assets		Liabilities	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Forward foreign exchange contracts:				
Cash flow hedges	8	17	–	15
Less non-current portion				
Forward foreign exchange contracts:				
Cash flow hedges	1	4	–	–
Current portion	7	13	–	15

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is not more than 12 months.

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31st December 2010 were HK\$212 million (2009: HK\$726 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 24 months. Gains and losses recognised in the cash flow hedge reserve in equity (note 27) on forward foreign exchange contracts as of 31st December 2010 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the consolidated income statement. This is generally within two years from the reporting date.

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

21. Financial guarantees

The Company has guaranteed the drawn components of bank loans of a subsidiary company. Under the terms of the financial guarantee contracts, the Company will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due.

The liabilities guaranteed will mature at various dates in 2011 and 2012. Their face values are as follows:

	Company	
	2010	2009
	HK\$M	HK\$M
Bank loans of a subsidiary company	653	448

22. Stocks

Stocks are stated at the lower of cost, calculated on a weighted average basis, and net realisable value.

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Carrying amounts at net realisable value:				
Stocks	269	192	203	154

The remaining balances are carried at cost.

23. Trade and other receivables

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Trade receivables – in HK dollars	57	97	57	97
– in US dollars	291	204	161	131
– in other currencies	42	29	–	–
	390	330	218	228
Less: Provision for impairment of receivables	–	(2)	–	(2)
	390	328	218	226
Amounts due from subsidiary companies	–	–	145	122
Amounts due from jointly controlled companies	52	33	17	10
Amounts due from related parties	101	49	60	22
Other receivables and prepayments	197	126	132	82
	740	536	572	462

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

The ageing analysis of these trade receivables is as follows:

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Current	166	177	93	116
Up to 3 months overdue	132	78	65	50
3 to 6 months overdue	15	5	1	1
Over 6 months overdue	77	70	59	61
	390	330	218	228

The above ageing analysis includes the receivables due from OASIS Hong Kong Airlines Limited arising from various services performed by the Group. OASIS Hong Kong Airlines Limited and OASIS Growth and Income Investments Limited entered into liquidation on 11th June 2008. In accordance to a consent summons filed jointly together with the Provisional Liquidator, which was granted by the court in early May 2008, an amount of HK\$78 million from the net proceeds of aircraft sales had been deposited into a separate bank account pending determination of the Group's claim by the court.

23. Trade and other receivables (continued)

At 31st December 2010, no trade receivables of the Group (2009: HK\$2 million) and of the Company (2009: HK\$2 million) were considered 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:

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Up to 3 months overdue	–	2	–	2
	–	2	–	2

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

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
At 1st January	2	20	2	19
Provision for impairment of receivables	–	2	–	2
Utilised during the year	–	(20)	–	(19)
Unused amounts reversed	(2)	–	(2)	–
At 31st December	–	2	–	2

The creation and release of the provision for impaired receivables has been included in cost of direct material and job expenses in the income statement. 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 fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

24. Trade and other payables

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Trade payables	71	77	25	32
Amounts due to subsidiary companies	–	–	5	34
Amounts due to jointly controlled companies	3	2	–	2
Amounts due to related parties	17	21	16	10
Other payables and accruals	881	889	530	527
	972	989	576	605

24. Trade and other payables (continued)

The ageing analysis of trade payables is as follows:

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Current	67	70	25	30
Up to 3 months overdue	4	7	–	2
	71	77	25	32

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

25. Borrowings

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Short-term loans – in HK dollars	92	267	–	200
– in US dollars	128	158	–	–
– in other currency	3	–	–	–
	223	425	–	200
Long-term loans at amortised cost				
– in HK dollars	204	30	100	–
– in US dollars	1,001	671	–	–
	1,205	701	100	–
Less: amount due within one year included under current liabilities				
– in US dollars	639	106	–	–
	566	595	100	–

All the loans are unsecured. The carrying amounts approximate their fair values.

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

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Bank loans:				
Repayable within one year	639	106	–	–
Repayable between one and two years	566	437	100	–
Repayable between two and five years	–	158	–	–
	1,205	701	100	–

25. Borrowings (continued)

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

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
6 months or less	1,428	1,126	100	200

The Group's and Company's weighted average effective interest rates per annum at 31st December 2010 are 1.35 % (2009: 0.95 %) and 1.12 % (2009: 0.62 %) respectively.

26. Share capital

	Company			
	2010		2009	
	Number of shares	HK\$M	Number of shares	HK\$M
Authorised:				
Ordinary shares of HK\$1.00 each				
At 31st December	210,000,000	210	210,000,000	210
Issued and fully paid:				
Ordinary shares of HK\$1.00 each				
At 31st December	166,324,850	166	166,324,850	166

During the year, no purchase, sale or redemption of the Company's shares has been effected on the Hong Kong Stock Exchange by the Company or its subsidiary companies.

27. Reserves

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Group										
At 1st January	4,980	4,749	19	19	11	10	1	17	5,011	4,795
Profit for the year	701	688	–	–	–	–	–	–	701	688
Other comprehensive income										
Cash flow hedges										
– recognised during the year	–	–	–	–	–	–	3	6	3	6
– deferred tax	–	–	–	–	–	–	–	4	–	4
– transferred to other net gains	–	–	–	–	–	–	–	(26)	–	(26)
Net translation differences on foreign operations	–	–	–	–	27	1	–	–	27	1
Total comprehensive income/(loss) for the year	701	688	–	–	27	1	3	(16)	731	673
Previous year's final dividend paid	(249)	(374)	–	–	–	–	–	–	(249)	(374)
Current year's interim dividend paid	(75)	(83)	–	–	–	–	–	–	(75)	(83)
Change in composition of Group (note 33)	(21)	–	–	–	–	–	–	–	(21)	–
At 31st December	5,336	4,980	19	19	38	11	4	1	5,397	5,011
Company										
At 1st January	3,511	3,320	19	19	–	–	–	–	3,530	3,339
Total comprehensive income for the year	697	648	–	–	–	–	–	–	697	648
Previous year's final dividend paid	(249)	(374)	–	–	–	–	–	–	(249)	(374)
Current year's interim dividend paid	(75)	(83)	–	–	–	–	–	–	(75)	(83)
At 31st December	3,884	3,511	19	19	–	–	–	–	3,903	3,530

The Group and Company revenue reserves include HK\$274 million (2009: HK\$249 million) representing the proposed final dividend for the year (note 11).

28. Non-controlling interests

	Group	
	2010	2009
	HK\$M	HK\$M
At 1st January	964	939
Share of profit for the year	22	72
Share of cash flow hedge reserve	2	(13)
Share of net translation differences on foreign operations	7	–
Share of total comprehensive income for the year	31	59
Acquisition of non-controlling interests in a subsidiary company	(42)	–
Dividends payable	(32)	(34)
At 31st December	921	964

29. Receipt in advance

An advanced payment was received from Cathay Pacific Airways Limited in 2005 for storage services charges up to June 2018. At 31st December 2010, the current portion included in other payables under current liabilities is HK\$10 million (2009: HK\$11 million) while the non-current portion is HK\$69 million (2009: HK\$79 million).

30. Notes to the consolidated statement of cash flows

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

	Group	
	2010	2009
	HK\$M	HK\$M
Operating profit	397	385
Depreciation, amortisation and impairment provision	381	358
Other net gains	(18)	10
Operating profit before working capital changes	760	753
Increase in retirement benefit assets	(29)	(61)
Increase in stocks and work in progress	(104)	(7)
(Increase)/decrease in trade and other receivables in relation to operating activities	(190)	96
Increase in trade and other payables in relation to operating activities	51	20
Decrease in receipt in advance	(10)	(11)
Cash generated from operations	478	790

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

	Group	
	2010	2009
	HK\$M	HK\$M
Cash and cash equivalents	1,098	844
Deposits maturing after three months	154	139
	1,252	983

The Group's and Company's weighted average effective interest rates per annum on deposits at 31st December 2010 are 1.14% (2009: 0.73%) and 0.26% (2009: 0.05%) respectively. The deposits have an average maturity of 69 days (2009: 59 days) for the Group and 46 days (2009: 28 days) for the Company.

31. Capital commitments

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
Contracted but not provided for in the financial statements	303	201	136	12
Authorised by Directors but not contracted for	631	1,182	149	124
	934	1,383	285	136
The Group's share of capital commitments of jointly controlled companies not included above:				
Contracted but not provided for in the financial statements	29	149		
Authorised by Directors but not contracted for	44	80		

Capital commitments mainly relate to the acquisition of rotatable spares by the Company, the construction of a sixth hangar by TAECO and engine overhaul facilities by TEXTL at Xiamen, Mainland China.

32. Lease commitments

At 31st December 2010, the future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	Group		Company	
	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M
<i>Land and buildings</i>				
Not later than 1 year	104	106	103	105
Later than 1 year but not later than 5 years	394	408	394	407
Later than 5 years	2,138	2,362	2,138	2,362
	2,636	2,876	2,635	2,874

33. Transactions with non-controlling interests

On 1st April 2010, the Company accepted an offer by Kin Kuen Development Company Limited ("Kin Kuen") to sell 2% of the registered capital of TAECO to the Company for a consideration of HK\$62.4 million. On completion of the transaction on 9th September 2010, the Company's interest in TAECO increased from 56.55% to 58.55% and Kin Kuen ceased to be a shareholder of TAECO. The carrying amount of the non-controlling interest at the date of acquisition was HK\$41.8 million which resulted in an excess of consideration over the share of interest acquired of HK\$20.6 million. This amount has been recognised directly in equity.

The effect of this transaction with the non-controlling interests on the equity attributable to the Company's shareholders for the year ended 31st December 2010 is as follows:

	2010
	HK\$M
Total comprehensive income for the year attributable to the Company's shareholders	731
Changes in equity attributable to the Company's shareholders arising from the acquisition of additional interests in a subsidiary company	(21)
	710

34. 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.

35. Related party and continuing connected transactions

The Group has a number of transactions with its related parties and connected persons. Details of the remuneration of key management are set out 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 aggregated transactions and balances which are material to the Group and which have not been disclosed elsewhere in the annual report are summarised below:

Notes	Jointly controlled companies		Immediate holding company		Other related parties		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Revenue from provision of services:								
Cathay Pacific Airways Limited Group	<i>a</i>	–	–	–	1,818	1,891	1,818	1,891
Other revenue	<i>b</i>	66	49	–	–	–	66	49
		66	49	–	–	1,818	1,884	1,940
Purchases:								
Costs payable to John Swire & Sons (H.K.) Limited under services agreement								
– Service fees payable during the year	<i>a</i>	–	–	–	19	20	19	20
– Expenses reimbursed at cost	<i>a</i>	–	–	–	41	36	41	36
Subtotal	<i>a</i>	–	–	–	60	56	60	56
– Share of administrative services		–	–	–	3	4	3	4
Total		–	–	–	63	60	63	60
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		–	–	–	4	4	4	4
Risk management service		–	5	–	–	–	5	–
Spares purchases from Cathay Pacific Airways Limited Group		–	–	–	20	16	20	16
Other purchases	<i>c</i>	18	3	–	10	9	28	12
		18	3	5	–	89	120	92

35. Related party and continuing connected transactions (continued)

Notes:

- a. These transactions fall under the definition of “continuing connected transactions” in Chapter 14A of the Listing Rules as detailed in note e. The other transactions are not connected transactions or continuing connected transactions which give rise to any disclosure or other obligations under Chapter 14A of the Listing Rules.
- b. Other revenue from jointly controlled companies mainly came from the provision to HAESL of engine component repairs and facilities rental on a commercial arm’s length basis and of certain administrative services charged at cost.
- c. Purchases from jointly controlled companies comprised mainly aircraft maintenance support charges from STAECS, and aircraft component overhaul charges by HAESL and SAESL.
- d. Amounts due from and due to jointly controlled companies and other related parties at 31st December 2010 are disclosed in notes 23 and 24 to the accounts.
- e. Continuing connected transactions during 2010:

The Group had the following continuing connected transactions, details of which are set out below:

(a) Cathay Pacific Airways Limited (“CX”)

The Company entered into a framework agreement (“Framework Agreement”) with CX on 21st May 2007 for the provision of services by the Company and its subsidiaries (“HAECO Group”) to the aircraft fleets of CX and its subsidiaries (“CX Group”). The services comprise line maintenance, base maintenance, comprehensive stores and logistics support, component and avionics overhaul, material supply, engineering services and ancillary services at Hong Kong International Airport, Xiamen or other airports. Payment is made in cash by CX Group to HAECO Group within 30 days upon receipt of the invoice. The term of the Framework Agreement is for 10 years ending on 31st December 2016.

CX is an associate of the Company’s holding company Swire Pacific Limited and therefore a connected person of the Company under the Listing Rules. The transactions under the Framework Agreement are continuing connected transactions in respect of which an announcement dated 21st May 2007 was published and a circular dated 5th June 2007 was sent to shareholders.

For the year ended 31st December 2010, the fees payable by CX Group to HAECO Group under the Framework Agreement totalled HK\$1,818 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 procurement 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 2011 to 31st December 2013 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% (2009: 45.96%) 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 and 1st October 2010 were published.

For the year ended 31st December 2010, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK\$19 million and expenses of HK\$41 million were reimbursed at cost.

36. Principal subsidiary and jointly controlled companies at 31st December 2010

	Place of incorporation and operation	Principal activities	Issued share capital	Owned directly	Owned by subsidiary and jointly controlled companies	Attributable to the Group
Subsidiary Companies:						
HAECO ATE Component Service Limited	Hong Kong	Aircraft component repair services	Share capital of HK\$2,000,000	100 %	–	100 %
Singapore HAECO Pte. Limited	Singapore	Line maintenance	Share 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 Engine Services (Xiamen) Company Limited *	Xiamen	Commercial aero engine overhaul services	Registered capital of US\$63,000,000	75.01 %	10 %	80.87 %
Taikoo (Xiamen) Landing Gear Services Company Limited *	Xiamen	Landing gear repair and overhaul	Registered capital of US\$13,890,000	50 %	10 %	55.86 %
Jointly Controlled Companies:						
Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited *	Jinjiang	Tyre services for commercial aircraft	Registered capital of US\$5,000,000	28 %	9 %	33.27 %
Goodrich Asia-Pacific Limited	Hong Kong	Carbon brake machining and wheel hub overhaul	Share capital of HK\$9,200,000	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, avionics 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	Share capital of HK\$200	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	Heavy maintenance services for narrow body aircraft	Registered capital of RMB200,000,000	30 %	10 %	35.86 %
Taikoo Sichuan Aircraft Engineering Services Company Limited * #	Chengdu	Line maintenance and aircraft maintenance	Registered capital of RMB60,000,000	40 %	9 %	45.27 %
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 jointly controlled 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.

Companies not audited by PricewaterhouseCoopers.