

HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00044)

2008 FINAL RESULTS

		2008	2007	Change %
Turnover	HK\$ million	4,901	4,619	+6.1%
Attributable profit	HK\$ million	1,138	1,073	+6.1%
Earnings per share	HK\$	6.84	6.45	+6.1%
Dividends per share				
- Interim and final dividends	HK\$	3.18	3.08	+3.2%

CHAIRMAN'S STATEMENT

Results

HAECO reported a profit attributable to shareholders in 2008 of HK\$1,138 million, an increase of 6% on the profit of HK\$1,073 million in 2007, driven primarily by heavy airframe maintenance operations in Hong Kong and engine overhaul work within Hong Kong Aero Engine Services Limited ("HAESL"). Despite relative weakness in the aviation industry, demand in general for the Group's services continued to be strong in 2008. The heavy airframe maintenance facilities in both Hong Kong and Xiamen have been at near capacity for much of the year although there were some signs of softening in the second half.

Your Directors have recommended a final dividend for 2008 of HK\$2.25 per share which, together with the interim dividend of HK\$0.93 per share paid on 23rd September 2008, results in a total distribution for the year of HK\$3.18 per share.

Investments

The Group continues to invest in a number of projects in order to underpin long-term growth. In Hong Kong, construction of the Company's third hangar is progressing well and the opening is scheduled for the middle of 2009. Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") opened a new training centre in December 2008 and is expected to open its sixth hangar in the first half of 2010. HAESL is constructing an additional component repair extension which is due to open in 2010. A landing gear overhaul facility in Xiamen was opened in June 2008, and a specialist advanced composite repair facility is expected to commence operations in early 2010.

In June, the Group acquired an 85.01% shareholding from General Electric in Taikoo Engine Services (Xiamen) Company Limited ("TEXL"), a Xiamen-based engine overhaul facility, with an exclusive globally branded service partnership covering GE90 engines for a period of 22 years. The facility is now being upgraded with first engine induction expected for the second quarter of 2010. In November, the Group acquired a 49% shareholding in Taikoo Sichuan Aircraft Engineering Services Company Limited which will provide heavy airframe maintenance services at Chengdu International Airport. The first hangar is scheduled to commence operations in the second half of 2010.

The Group continues to look at other opportunities to expand its aviation maintenance and repair services.

Staff

The Group continues to invest significantly in the recruitment and training of engineering staff to cope with anticipated growth in business. Its total headcount increased by 9% to 12,738 at the end of 2008.

On behalf of the shareholders, I would like to thank all staff for their hard work and continuing support.

Outlook

The HAECO Group's underlying businesses have shown themselves to be resilient so far in the face of a bleak general aviation outlook. In this it has been assisted by a strong and diversified customer base, a solid balance sheet and prudent financial management. The Group will not be immune from the sharp deterioration in aviation market conditions and a slowdown in demand for the Maintenance, Repair and Overhaul business in 2009 is anticipated. The Group will endeavour to contain costs over the next twelve months while continuing to deliver quality services to its customers.

Christopher Pratt

Chairman

Hong Kong, 10th March 2009

Hong Kong Aircraft Engineering Company Limited

REVIEW OF OPERATIONS

The Company's profit attributable to its shareholders comprises:

	2008	2007	Change
	HK\$M	HK\$M	%
HAECO Hong Kong operations	420	391	+7%
Share of:			
TAECO	275	301	-9%
HAESL and SAESL	397	338	+17%
Other subsidiary and jointly controlled companies	46	43	+7%
	<u>1,138</u>	<u>1,073</u>	+6%

HAECO Hong Kong Operations

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

The operations in Hong Kong achieved satisfactory growth in 2008, mainly attributable to continuing strong demand for heavy airframe maintenance services. The heavy airframe maintenance division provides a comprehensive range of scheduled maintenance checks, modifications and overhaul work on a wide variety of aircraft types. It competes on price, availability of space, turnaround time and quality of workmanship with other Maintenance, Repair and Overhaul facilities worldwide. Sold manhours increased from 2.53 million in 2007 to 2.65 million in 2008. Approximately 64% of the division's work was for airlines based outside Hong Kong.

Construction of the third heavy maintenance hangar in Hong Kong is progressing well, with an opening scheduled for mid-2009. Space has also been provided for further expansion on an adjacent site to be built at a later date.

Line maintenance experienced modest growth in activities linked with the level of aircraft movements at Hong Kong International Airport. The average number of movements handled by HAECO was 274 per day in 2008, 3% up from 266 per day in 2007.

The component overhaul division occupies 7,000 square metres of workshop space at Tseung Kwan O. The Company has been continuing to invest to enhance capabilities in this area of business, with component repair activity totalling 0.26 million manhours in 2008, 8% up from 0.24 million in 2007.

The Company provides inventory technical management services for rotatable spares for various aircraft, including Airbus A300-600F, A320-200 and A330-300 as well as Boeing 747-200F aircraft.

Total headcount for the Hong Kong operations increased by 7% during the year, reaching 4,861 at the end of 2008.

Taikoo (Xiamen) Aircraft Engineering Company Limited

TAECO performs heavy airframe maintenance and passenger to freighter conversions using five wide-body double bay hangars at Xiamen Gaoqi International Airport. It also performs line maintenance operations in Beijing, Shanghai and Xiamen, handling an average of 44 movements per day during the year.

TAECO's revenue enjoyed satisfactory growth in 2008, with sold manhours increasing from 3.87 million in 2007 to 4.07 million in 2008. However, the company reported a reduction in profitability, with profit attributable to the Company's shareholders down by 9% to HK\$275 million, due to margin erosion from Renminbi appreciation combined with cost inflation in Mainland China. The passenger to freighter conversion business softened in the second half of 2008, with eight Boeing 747-400 passenger to freighter conversion aircraft completed during the year and two in progress at the year-end. Heavy airframe maintenance business remained firm with Cathay Pacific Airways, Japan Airlines and All Nippon Airlines ranking among the significant customers.

An agreement had been signed with Airbus in March 2008 for TAECO to create a qualified cabin completion centre in Mainland China for Airbus corporate and business aircraft. The company opened a new training centre in December 2008 and is expected to open its sixth hangar in the first half of 2010. At the end of 2008, TAECO's headcount totalled 5,268, compared to 5,086 at the end of 2007.

Hong Kong Aero Engine Services Limited

HAESL (45% owned) repairs and overhauls Rolls-Royce engines and engine components at its facility at Tseung Kwan O. Demand continued to be strong throughout the year and the business operated at close to maximum capacity, handling 223 engine equivalents in 2008 compared to 224 in 2007. Singapore Aero Engine Services Pte. Limited ("SAESL"), in which HAESL has a 20% interest, also had a strong year with satisfactory increases in both turnover and profitability. The Group's share of the after-tax profit of HAESL including its interest in SAESL rose by 17% from HK\$338 million to HK\$397 million.

HAESL opened an engine-build extension in March 2008, with an added 3,000 square metres of workshop space. It is constructing an additional component repair extension which is due to open in 2010.

Liquidity and financing

At 31st December 2008, the Group had surplus funds, less short-term loans, of HK\$603 million and long-term loans of HK\$388 million. In addition, committed banking facilities amounted to HK\$1,229 million, of which HK\$615 million remained undrawn.

Corporate governance

The Board is committed to a high standard of corporate governance and has adopted the Code on Corporate Governance Practices (the “Code”) promulgated by The Stock Exchange of Hong Kong Limited. It has complied throughout the year with all the mandatory code provisions and with all the recommended best practices with the following exceptions:

- Independent Non-Executive Directors representing one-third of the Board (Section A.3.2 of the Code).
- quarterly reporting (Section C.1.4 of the Code) which the Board considers would provide little information of additional value to shareholders while increasing administrative costs and pressure to focus on short-term results rather than long-term value creation.
- establishing a nomination committee (Section A.4.4 of the Code) as the Board considers it is in the best interest of the Company and potential new appointees that they collectively review and approve the appointment of new directors.

Details of corporate governance can be found in the 2008 annual report.

The annual results for the year have been reviewed by the Audit Committee of the Company.

Consolidated Profit and Loss Account
for the year ended 31st December 2008

	Note	2008 <u>HK\$M</u>	2007 <u>HK\$M</u>
Turnover	2	4,901	4,619
Operating expenses:			
Staff remuneration and benefits		(1,965)	(1,833)
Cost of direct material and job expenses		(1,208)	(1,160)
Depreciation, amortisation and impairment		(305)	(258)
Insurance and utilities		(101)	(90)
Operating lease rentals - land and buildings		(116)	(82)
Repairs and maintenance		(154)	(136)
Other operating expenses		(134)	(112)
		<u>(3,983)</u>	<u>(3,671)</u>
Other gains - net	3	92	31
Operating profit		<u>1,010</u>	<u>979</u>
Net finance income	4	7	21
Net operating profit		<u>1,017</u>	<u>1,000</u>
Share of after-tax results of jointly controlled companies		462	399
Profit before taxation		<u>1,479</u>	<u>1,399</u>
Taxation	5	(129)	(84)
Profit for the year		<u><u>1,350</u></u>	<u><u>1,315</u></u>
Attributable to:			
The Company's shareholders		1,138	1,073
Minority interests		212	242
		<u>1,350</u>	<u>1,315</u>
Dividends			
Interim - paid		155	146
Final - proposed		374	366
	6	<u>529</u>	<u>512</u>
Earnings per share attributable to the Company's shareholders (basic and diluted)	7	<u>HK\$6.84</u>	<u>HK\$6.45</u>

Consolidated Balance Sheet

at 31st December 2008

	Note	2008 HK\$M	2007 HK\$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		4,197	3,397
Leasehold land and land use rights		326	238
Intangible assets		545	2
Jointly controlled companies		910	801
Retirement benefit assets		211	168
Deferred tax assets		32	8
Derivative financial instruments		9	102
		<u>6,230</u>	<u>4,716</u>
Current assets			
Stocks of aircraft parts		130	103
Work in progress		195	190
Trade and other receivables	8	625	685
Derivative financial instruments		49	59
Deposits and bank balances		892	876
		<u>1,891</u>	<u>1,913</u>
Current liabilities			
Trade and other payables	9	1,112	1,017
Taxation		45	58
Derivative financial instruments		7	-
Short-term loans		289	109
		<u>1,453</u>	<u>1,184</u>
Net current assets		<u>438</u>	<u>729</u>
Total assets less current liabilities		<u>6,668</u>	<u>5,445</u>
Non-current liabilities			
Receipt in advance		90	101
Deferred tax liabilities		272	226
Long-term loans		388	-
Other payables		-	224
Derivative financial instruments		18	-
		<u>768</u>	<u>551</u>
NET ASSETS		<u>5,900</u>	<u>4,894</u>
Equity attributable to the Company's shareholders			
Share capital	10	166	166
Reserves	11	4,795	4,243
		<u>4,961</u>	<u>4,409</u>
Minority interests		<u>939</u>	<u>485</u>
TOTAL EQUITY		<u>5,900</u>	<u>4,894</u>

1. Basis of principal accounting policies

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and the disclosure requirements set out in the Listing Rules of the Hong Kong Stock Exchange.

Accounting policies have been changed to comply with changes in HKFRS requirements. The adoption of these HKFRS standards and interpretations does not have any material effect on the accounts.

2. Turnover and segmental information

Turnover represents the aggregated amounts invoiced to customers and changes in work in progress.

Since the Group is primarily engaged in the business of commercial aircraft overhaul, modification and maintenance in Hong Kong and Mainland China and has no significant secondary activity, no further business segmental information has been reported.

(a) Reporting by geographical segment for the year ended 31st December:

	Operating principally in Hong Kong		Operating in Mainland China		Inter-segment elimination		Total	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Turnover	3,133	3,022	1,768	1,597	-	-	4,901	4,619
Inter-segment sales	88	84	4	4	(92)	(88)	-	-
	<u>3,221</u>	<u>3,106</u>	<u>1,772</u>	<u>1,601</u>	<u>(92)</u>	<u>(88)</u>	<u>4,901</u>	<u>4,619</u>
Operating profit	493	414	517	565			1,010	979
Net finance income/(charges)	9	11	(2)	10			7	21
Share of after-tax results of jointly controlled companies	418	363	44	36			462	399
Profit before taxation	<u>920</u>	<u>788</u>	<u>559</u>	<u>611</u>			<u>1,479</u>	<u>1,399</u>
Profit for the year	<u>865</u>	<u>746</u>	<u>485</u>	<u>569</u>			<u>1,350</u>	<u>1,315</u>
Profit attributable to the Company's shareholders	<u>866</u>	<u>746</u>	<u>272</u>	<u>327</u>			<u>1,138</u>	<u>1,073</u>
Capital expenditure	484	294	385	439			869	733
Depreciation	150	140	133	111			283	251
Amortisation	2	2	6	5			8	7
Impairment of rotatable spares								
- provision	14	-	-	-			14	-
Impairment of stocks - provision	4	-	-	18			4	18
Auditor's remuneration								
- statutory audit fees	<u>1</u>	<u>1</u>	<u>1</u>	<u>-</u>			<u>2</u>	<u>1</u>

2. Turnover and segmental information (cont'd)

(b) Analysis of net assets and equity of the Group by geographical segment at 31st December:

	Operating principally in Hong Kong		Operating in Mainland China		Inter-segment elimination		Total	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Segment assets	3,356	3,357	3,088	2,041	(157)	(454)	6,287	4,944
Jointly controlled companies	678	648	232	153	-	-	910	801
Deferred tax assets	-	-	32	8	-	-	32	8
Deposit and bank balances	329	729	563	147	-	-	892	876
Total assets	4,363	4,734	3,915	2,349	(157)	(454)	8,121	6,629
Segment liabilities	789	750	595	1,046	(157)	(454)	1,227	1,342
Deferred tax liabilities and taxation	233	271	84	13	-	-	317	284
Borrowings	-	-	677	109	-	-	677	109
Total liabilities	1,022	1,021	1,356	1,168	(157)	(454)	2,221	1,735
Net assets	3,341	3,713	2,559	1,181	-	-	5,900	4,894
Equity attributable to the Company's shareholders	3,336	3,707	1,625	702	-	-	4,961	4,409
Minority interests	5	6	934	479	-	-	939	485
Total equity	3,341	3,713	2,559	1,181	-	-	5,900	4,894

3. Other gains – net

	Group	
	2008 HK\$M	2007 HK\$M
Net foreign exchange gains	58	27
Fair value (losses)/gains on financial derivative instruments:		
Forward foreign exchange contracts not qualified as cash flow hedges	(4)	4
Profit on sale of jointly controlled companies	38	-
	92	31

4. Net finance income

	Group	
	2008	2007
	HK\$M	HK\$M
Interest income:		
Deposits and bank balances	18	27
Interest expenses:		
Bank loans	(11)	(6)
	<u>7</u>	<u>21</u>

5. Taxation

	Group	
	2008	2007
	HK\$M	HK\$M
Current taxation:		
Hong Kong profits tax	53	55
Overseas tax	86	38
	<u>139</u>	<u>93</u>
Deferred taxation:		
(Increase)/decrease in deferred tax assets	(24)	4
Increase/(decrease) in deferred tax liabilities	14	(13)
	<u>129</u>	<u>84</u>

Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year. Overseas tax is calculated at tax rates prevailing in the respective jurisdictions.

Share of after-tax results of jointly controlled companies is stated after taxation charge of HK\$83 million for the year (2007: HK\$72 million).

6. Dividends

	Company	
	2008	2007
	HK\$M	HK\$M
Interim, paid on 23rd September 2008, of HK\$0.93 per share (2007: HK\$0.88 per share)	155	146
Final, proposed, of HK\$2.25 per share (2007: HK\$2.20 per share)	374	366
	<u>529</u>	<u>512</u>

6. Dividends (cont'd)

Subject to shareholders' approval of the final dividend at the Annual General Meeting on 12th May 2009, payment of the final dividend will be made on 15th May 2009 to shareholders registered at the close of business on the record date, 12th May 2009. The register of members will be closed from 6th May 2009 to 12th May 2009, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the final 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 Tuesday, 5th May 2009.

7. Earnings per share (basic and diluted)

Earnings per share are calculated by reference to the profit attributable to the Company's shareholders of HK\$1,138 million (2007: HK\$1,073 million) and to the weighted average of 166,324,850 (2007: 166,324,850) ordinary shares in issue.

8. Trade and other receivables

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.

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Trade receivables - in HK dollars	102	82	102	82
in US dollars	209	219	99	115
in other currencies	12	2	-	-
	<u>323</u>	<u>303</u>	<u>201</u>	<u>197</u>
Less: Provision for impairment of receivables	<u>(20)</u>	<u>(22)</u>	<u>(19)</u>	<u>(19)</u>
	303	281	182	178
Amounts due from subsidiary companies	-	-	99	69
Amounts due from jointly controlled companies	12	11	7	9
Amounts due from related parties	152	163	136	139
Other receivables and prepayments	158	230	123	203
	<u>625</u>	<u>685</u>	<u>547</u>	<u>598</u>

8. Trade and other receivables (cont'd)

The ageing analysis of trade receivables is as follows:

	Group		Company	
	2008	2007	2008	2007
	HK\$M	HK\$M	HK\$M	HK\$M
Current	137	157	83	89
Up to 3 months overdue	105	128	39	101
3 to 6 months overdue	3	17	2	7
Over 6 months overdue	78	1	77	-
	<u>323</u>	<u>303</u>	<u>201</u>	<u>197</u>

At 31st December 2008, trade receivables of the Group of HK\$20 million (2007: HK\$35 million) and of the Company of HK\$19 million (2007: HK\$19 million) were considered impaired and provided for. The impaired trade receivables relate to customers which are in unexpectedly difficult financial situations and it was assessed that a portion of the receivables would be recoverable. The ageing of these receivables is as follows:

	Group		Company	
	2008	2007	2008	2007
	HK\$M	HK\$M	HK\$M	HK\$M
Up to 3 months overdue	-	25	-	13
3 to 6 months overdue	-	10	-	6
Over 6 months overdue	20	-	19	-
	<u>20</u>	<u>35</u>	<u>19</u>	<u>19</u>

9. Trade and other payables

	Group		Company	
	2008	2007	2008	2007
	HK\$M	HK\$M	HK\$M	HK\$M
Trade payables	133	112	14	23
Amounts due to subsidiary companies	-	-	4	6
Amounts due to jointly controlled companies	-	1	-	1
Amounts due to related parties	26	25	24	24
Other payables and accruals	953	1,103	651	570
	<u>1,112</u>	<u>1,241</u>	<u>693</u>	<u>624</u>
Less: non-current portion:				
Other payables	-	224	-	-
	<u>1,112</u>	<u>1,017</u>	<u>693</u>	<u>624</u>

The ageing analysis of trade payables is as follows:

Current	124	99	6	10
Up to 3 months overdue	9	11	8	11
3 to 6 months overdue	-	1	-	1
Over 6 months overdue	-	1	-	1
	<u>133</u>	<u>112</u>	<u>14</u>	<u>23</u>

10. Share capital

During 2008, no purchase, sale or redemption of the shares of the Company has been effected by the Company or its subsidiary companies (2007: nil).

11. Reserves

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Group										
At 1st January	4,132	3,471	19	19	11	7	81	2	4,243	3,499
Profit attributable to the Company's shareholders	1,138	1,073	-	-	-	-	-	-	1,138	1,073
Previous year's final dividend paid	(366)	(266)	-	-	-	-	-	-	(366)	(266)
Current year's interim dividend paid	(155)	(146)	-	-	-	-	-	-	(155)	(146)
Cash flow hedges										
- recognised during the year	-	-	-	-	-	-	(38)	93	(38)	93
- deferred tax recognised	-	-	-	-	-	-	3	(7)	3	(7)
- transferred to the profit and loss account	-	-	-	-	-	-	(29)	(7)	(29)	(7)
Exchange differences	-	-	-	-	(1)	4	-	-	(1)	4
At 31st December	<u>4,749</u>	<u>4,132</u>	<u>19</u>	<u>19</u>	<u>10</u>	<u>11</u>	<u>17</u>	<u>81</u>	<u>4,795</u>	<u>4,243</u>

12. Capital commitments

	Group		Company	
	2008	2007	2008	2007
	HK\$M	HK\$M	HK\$M	HK\$M
Contracted but not provided for in the accounts	459	396	407	129
Authorised by Directors but not contracted for	1,786	1,436	121	618
	<u>2,245</u>	<u>1,832</u>	<u>528</u>	<u>747</u>

Capital commitments mainly relate to the construction of the third hangar at the Hong Kong International Airport by the Company, and the sixth hangar by TAECO and engine overhaul facilities by TEXL at Xiamen, Mainland China.

13. Contingencies

	Company	
	2008	2007
	HK\$M	HK\$M
Guarantees provided in respect of bank loans of a subsidiary company	<u>421</u>	<u>-</u>

Directors

The Directors of the Company as at the date of this announcement are:

Executive Directors: C.D. Pratt (Chairman), J.C.G. Bremridge, P.K. Chan, M. Hayman, M.M.S. Low, A.K.W. Tang;

Non-Executive Directors: M. Cubbon, C.P. Gibbs, D.C.Y. Ho, P.A. Johansen, M.B. Swire, The Hon. Sir Michael Kadoorie (Alternate Director to D.C.L. Tong); and

Independent Non-Executive Directors: R.E. Adams, A.K.Y. Lam, L.K.K. Leong and D.C.L. Tong.

By Order of the Board

Hong Kong Aircraft Engineering Company Limited

Christopher Pratt

Chairman

Hong Kong, 10th March 2009

Website: www.haeco.com