

CHAIRMAN'S STATEMENT

Results

The Group's profit attributable to shareholders for the first half of 2001 was HK\$175 million, compared with a profit of HK\$267 million for the same period in 2000. The current period's result included a non-recurring profit of HK\$7 million relating to the sale of residential property. The corresponding result in 2000 included HK\$108 million relating to the disposal of certain shareholding interests and to the sale of residential property units surplus to requirements. Consequently recurring profits were up HK\$9 million, a 6% improvement.

While revenues have increased with higher activity at the airport in the first half of 2001, the mix of maintenance work undertaken has also resulted in improved margins. In addition, there was an increased contribution from the jointly controlled companies, with strong performances from both Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO) and Hong Kong Aero Engine Services Limited (HAESL).

Your directors have declared an interim dividend of HK\$0.23 per share, in line with that declared last year.

Operations

The Company, either directly or through its jointly-controlled company in Xiamen, TAECO, has comprehensive maintenance contracts covering the fleets of Boeing and Airbus aircraft operated by the Hong Kong based airlines, Cathay Pacific Airways, Dragonair and Air Hong Kong. These contracts cover the provision of line maintenance and hangar-based maintenance as well as the overhaul of certain components.

Competition at Hong Kong International Airport remains strong, however the Company retains its competitive advantage for the provision of line maintenance services, and the airframe maintenance and modification facilities continue to be heavily utilised. In addition to work carried out for the Hong Kong airlines, maintenance, modification and conversion packages of varying size were completed on aircraft for other carriers including Air China, United Parcel Services, Evergreen International Airlines, American Trans Air, Atlas Air and Air Macau.

TAECO has had a good half-year with both aircraft hangars in Xiamen enjoying high utilisation. Construction work on TAECO's third hangar has commenced and this new facility, which will cost approximately US\$50 million, is expected to be operational by the end of next year. Line maintenance operations in Xiamen, Shanghai and Beijing, primarily for Dragonair, are running smoothly. In May, the Company increased its interest in TAECO by acquiring 4.09% from SIA Engineering Company Limited. In June, China Eastern Airlines acquired a 30% interest in GE Engine Services (Xiamen) Company Limited from the General Electric Company; TAECO retains an effective 20% interest. This facility was officially opened on 28th June 2001.

HAESL reported higher profits in the first half of 2001 as increased work volumes at the end of 2000 continued into the current year. The projected workload continues to be healthy. While Cathay Pacific is still the principal customer, about 50% of the business is derived from other regional carriers.

Prospects

The Company has seen improved profitability as customers' fleets have grown. However, margins remain under competitive pressure and this is not expected to change during the remainder of the year. Both TAECO and HAESL continue to perform well, although the rate of growth seen in the first half of the year is not expected to continue into the second half.

David Turnbull
Chairman

Hong Kong, 7th August 2001

Consolidated profit and loss account - unaudited
for the six months ended 30th June 2001

		Six months ended 30th June		Year ended 31st December
	Note	2001 HK\$M	2000 HK\$M	2000 HK\$M
Turnover	2	1,001.1	913.0	1,821.1
Operating expenses:				
Staff remuneration		(527.0)	(504.1)	(992.4)
Cost of direct material/job expenses		(256.2)	(166.1)	(363.1)
Depreciation		(52.8)	(52.5)	(105.6)
Operating lease rentals - land & buildings		(29.4)	(33.5)	(63.8)
Auditors' remuneration		(0.4)	(0.4)	(0.7)
Changes in work in progress		51.7	29.6	52.5
Other operating expenses		(102.5)	(120.1)	(230.9)
Profit on sale of staff housing	3	6.7	61.7	75.2
Profit on sale of shares in jointly controlled companies	4	-	46.3	46.3
Operating profit	2	91.2	173.9	238.6
Net finance income	5	5.9	11.7	23.2
Net operating profit		97.1	185.6	261.8
Share of results of jointly controlled companies		99.1	78.5	163.0
Profit before taxation		196.2	264.1	424.8
Taxation (charge)/credit	6	(20.8)	3.3	(24.1)
Profit after taxation		175.4	267.4	400.7
Minority interest		(0.1)	(0.1)	(0.3)
Profit attributable to shareholders	11	175.3	267.3	400.4
Dividends - paid/proposed				
Interim		38.4	42.3	42.3
Final		-	-	63.4
		38.4	42.3	105.7
Earnings per share	7	HK\$1.05	HK\$1.45	HK\$2.21
		2001	2000	
		Interim	Interim	Final
Dividends per share		HK\$0.23	HK\$0.23	HK\$0.61

Consolidated balance sheet - unaudited

		<u>30th June</u>	<u>31st December</u>
	Note	2001	2000
		HK\$M	HK\$M
Fixed assets	8	1,672.6	1,708.0
Investment in jointly controlled companies	9	753.0	621.0
Deferred items			
Staff loans		180.7	193.0
Promissory note		1.5	3.3
Interest receivable		34.0	28.8
Deferred taxation		<u>(57.5)</u>	<u>(46.3)</u>
		<u>158.7</u>	<u>178.8</u>
Current assets			
Stocks of aircraft parts		77.6	77.3
Work in progress		137.7	86.0
Debtors and prepayments	10	235.8	236.5
Amounts due from jointly controlled companies		15.1	11.3
Deposits maturing after three months		9.4	10.9
Short term deposits and bank balances		<u>39.1</u>	<u>7.6</u>
		<u>514.7</u>	<u>429.6</u>
Current liabilities			
Creditors and accruals	10	291.1	310.2
Term loan due within one year	12	3.2	3.0
Amount due to jointly controlled company		1.6	-
Short term bank loan		<u>68.6</u>	<u>-</u>
		<u>364.5</u>	<u>313.2</u>
Net current assets		<u>150.2</u>	<u>116.4</u>
		<u>2,734.5</u>	<u>2,624.2</u>
Financed by :			
Share capital		167.0	167.0
Reserves	11	2,415.2	2,278.3
Proposed dividend	11	<u>38.4</u>	<u>63.4</u>
Shareholders' funds		2,620.6	2,508.7
Minority interest		5.2	5.1
Long term loan	12	<u>108.7</u>	<u>110.4</u>
		<u>2,734.5</u>	<u>2,624.2</u>

Consolidated cash flow statement - unaudited
for the six months ended 30th June 2001

	Note	Six months ended 30th June		Year ended 31st December
		2001 HK\$M	2000 HK\$M	2000 HK\$M
Net cash inflow from operating activities		<u>69.4</u>	<u>54.7</u>	<u>189.4</u>
Returns on investments and servicing of finance				
Interest received		6.9	10.9	22.5
Interest paid		(5.7)	(4.9)	(10.6)
Dividends received from jointly controlled companies		-	10.2	17.6
Dividend paid to:				
Shareholders		(63.4)	(55.5)	(97.7)
Minority interest		<u>-</u>	<u>(0.8)</u>	<u>(0.8)</u>
<i>Net cash outflow from returns on investments and servicing of finance</i>		<u>(62.2)</u>	<u>(40.1)</u>	<u>(69.0)</u>
Investing activities				
Purchase of fixed assets		(23.7)	(36.3)	(61.8)
Sale of fixed assets		8.8	61.7	75.2
Investment in jointly controlled companies		(28.9)	(44.6)	(46.8)
Sale of shares in jointly controlled companies		-	100.4	100.4
Loans advanced to jointly controlled companies		(12.8)	(4.0)	(6.4)
Net decrease in staff loans		12.3	2.2	8.9
Net decrease/(increase) in short-term deposits maturing after three months		<u>1.5</u>	<u>(52.1)</u>	<u>2.8</u>
<i>Net cash (outflow)/inflow from investing activities</i>		<u>(42.8)</u>	<u>27.3</u>	<u>72.3</u>
<i>Net cash (outflow)/inflow before financing</i>		<u>(35.6)</u>	<u>41.9</u>	<u>192.7</u>
Financing				
Repayment of term loan		(1.5)	(1.4)	(2.8)
Purchase of Company's shares		<u>-</u>	<u>(17.6)</u>	<u>(271.6)</u>
<i>Net cash outflow from financing</i>		<u>(1.5)</u>	<u>(19.0)</u>	<u>(274.4)</u>
(Decrease)/increase in cash and cash equivalents	13(a)	<u>(37.1)</u>	<u>22.9</u>	<u>(81.7)</u>
Effect on net liquid funds				
(Decrease)/increase in cash and cash equivalents		(37.1)	22.9	(81.7)
Net (decrease)/increase in short-term deposits maturing after three months		<u>(1.5)</u>	<u>52.1</u>	<u>(2.8)</u>
(Decrease)/increase in net liquid funds	13(b)	<u>(38.6)</u>	<u>75.0</u>	<u>(84.5)</u>

Statement of recognised gains and losses - unaudited
for the six months ended 30th June 2001

	Six months ended		Year ended
	<u>30th June</u>		<u>31st December</u>
	2001	2000	2000
	HK\$M	HK\$M	HK\$M
Profit attributable to shareholders	<u>175.3</u>	<u>267.3</u>	<u>400.4</u>
Total recognised gains and losses	175.3	267.3	400.4
Elimination against reserves of goodwill arising on acquisition of a jointly controlled company	<u>-</u>	<u>(25.9)</u>	<u>(25.9)</u>
	<u><u>175.3</u></u>	<u><u>241.4</u></u>	<u><u>374.5</u></u>

Notes to the Accounts

1. Basis of preparation

These interim financial statements have been prepared in accordance with the principal accounting policies set out in the Company's 2000 Annual Report, except for changes in accounting policies as described below. These interim financial statements comply with Statement of Standard Accounting Practice (SSAP) No. 25 issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

Several new accounting standards issued by the Hong Kong Society of Accountants are effective for this financial period. The changes to the Group's accounting policies arise from the adoption of SSAP9 (Revised) and SSAP30.

The adoption of SSAP9 (Revised) "Events after the balance sheet date" results in a change in accounting policy whereby dividends proposed after the balance sheet date are no longer recognised as a liability at the balance sheet date. This change has been applied retrospectively and comparatives have been restated. The opening revenue reserve as at 1st January 2000 and 1st January 2001 has increased by HK\$55.5 million and HK\$63.4 million respectively as a result of the reversal of the previous year's proposed dividend. Proposed dividends are now separately disclosed on the face of the balance sheet within shareholders' funds.

Under SSAP30 "Business combinations", goodwill arising from business combinations after 1st January 2001 is capitalised and amortised over its useful life. The Group has taken advantage of the transitional provisions in SSAP30 and goodwill which has been previously written off to reserves has not been retroactively restated under the new accounting policy.

2. Segmental information

The Group is primarily engaged in the business of overhaul and maintenance of commercial aircraft in Hong Kong. Accordingly, no further segmental information of the Group's result has been provided.

3. Profit on sale of staff housing

In the period ended 30th June 2001, the Company disposed of the last residential unit at Twin Bay Villas, Clearwater Bay Road, Sai Kung, New Territories (period ended 30th June 2000 : 9 units). This property was originally acquired in 1970 for the accommodation of expatriate staff.

4. Profit on sale of shares in jointly controlled companies

The profit on sale of shares in jointly controlled companies in 2000 represents profits of HK\$25.2 million and HK\$21.1 million respectively from the sales of a 5% shareholding in Hong Kong Aero Engine Services Limited (HAESL) to SIA Engineering Company Limited and of the Company's entire shareholding in Bridgestone Aircraft Tire Company (Asia) Limited to Bridgestone Corporation.

Notes to the Accounts

5. Net finance income	Six months ended		Year ended
	30th June		31st December
	2001	2000	2000
	HK\$M	HK\$M	HK\$M
Finance income	11.6	16.6	33.8
Interest on bank loans and overdrafts	(1.0)	-	(1.0)
Interest on long term loan not wholly repayable within five years	(4.7)	(4.9)	(9.6)
	<u>5.9</u>	<u>11.7</u>	<u>23.2</u>

6. Taxation (charge)/credit	Six months ended		Year ended
	30th June		31st December
	2001	2000	2000
	HK\$M	HK\$M	HK\$M
The taxation (charge)/credit comprises:			
The Company and its subsidiary company:			
Deferred taxation	(11.2)	12.1	5.3
Jointly controlled companies	(9.6)	(8.8)	(29.4)
	<u>(20.8)</u>	<u>3.3</u>	<u>(24.1)</u>

No provision for Hong Kong profits tax has been made for the period as the Group's assessable profit is wholly absorbed by the tax losses brought forward. Overseas taxation is calculated at tax rates prevailing in the respective jurisdictions.

7. Earnings per share

Earnings per share are calculated by reference to the profit attributable to shareholders for the period ended 30th June 2001 of HK\$175.3 million (period ended 30th June 2000 : HK\$267.3 million) and on the weighted average number of 166,983,450 (period ended 30th June 2000 : 184,920,258) ordinary shares in issue during the period.

8. Fixed assets

	Property, plant and equipment
	Six months ended 30th June 2001
	HK\$M
Opening net book value	1,708.0
Additions and transfers	19.2
Disposals	(1.8)
Depreciation	(52.8)
Closing net book value	<u>1,672.6</u>

Notes to the Accounts

9. Jointly controlled companies

In May 2001, the Company completed the purchase of a further 4.09% equity interest in Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO), thereby increasing the Company's stake to 49.55%. Negative goodwill arising of HK\$0.9 million has been taken to income in the period.

For the period ended 30th June 2001, the financial results of material jointly controlled companies are as follows:

	HAESL		TAECO	
	Six months ended		Six months ended	
	30th June		30th June	
	2001	2000	2001	2000
	HK\$M	HK\$M	HK\$M	HK\$M
Turnover	<u>1,419.9</u>	<u>1,098.9</u>	<u>297.4</u>	<u>296.1</u>
Operating profit	117.5	91.4	103.3	107.4
Net finance (charges)/income	(26.3)	(29.7)	1.0	(6.7)
Share of results of associates	<u>-</u>	<u>-</u>	<u>(0.3)</u>	<u>-</u>
Profit before taxation	91.2	61.7	104.0	100.7
Taxation	<u>(15.0)</u>	<u>(9.5)</u>	<u>(3.9)</u>	<u>(7.5)</u>
Profit attributable to shareholders	<u>76.2</u>	<u>52.2</u>	<u>100.1</u>	<u>93.2</u>

10. Debtors and creditors - Financial/credit risks and ageing analysis

The Group's income and expenditure streams are mainly denominated in Hong Kong and United States Dollars. Forward foreign exchange contracts are used as required to manage risk associated with movements in exchange rates.

Payment terms with customers are largely on credit. Credit evaluations of debtors are performed periodically to minimise any credit risk associated with receivables. In addition, cash payments from customers are sometimes required as a precondition for aircraft redelivery.

As at 30th June 2001, 76% of debtors (82% as at 31st December 2000) and 97% of creditors (99% as at 31st December 2000) were aged under six months.

Notes to the Accounts

11. Reserves

	Revenue reserve	Proposed dividend	Capital redemption reserve	Total
	<u>Six months ended 30th June 2001</u>			
	HK\$M	HK\$M	HK\$M	HK\$M
Opening balance as previously reported	2,260.1	-	18.2	2,278.3
Change in accounting policy to proposed dividend	63.4	-	-	63.4
Proposed dividend separately disclosed on face of balance sheet	(63.4)	63.4	-	-
Opening balance as restated	2,260.1	63.4	18.2	2,341.7
Profit attributable to shareholders	175.3	-	-	175.3
2000 final dividend paid	-	(63.4)	-	(63.4)
2001 interim dividend	(38.4)	38.4	-	-
Closing balance	<u>2,397.0</u>	<u>38.4</u>	<u>18.2</u>	<u>2,453.6</u>

12. Long-term loan

	<u>30th June</u> 2001 HK\$M	<u>31st</u> <u>December</u> 2000 HK\$M
Repayable within one year	3.2	3.0
Repayable between one and two years	3.4	3.3
Repayable between two and five years	12.2	11.7
Repayable after five years	<u>93.1</u>	<u>95.4</u>
	111.9	113.4
Amount due within one year included under current liabilities	<u>(3.2)</u>	<u>(3.0)</u>
	<u>108.7</u>	<u>110.4</u>

Six months ended
30th June 2001
HK\$M

Opening balance	113.4
Repayments during the period	<u>(1.5)</u>
Closing balance	<u>111.9</u>

The loan is provided by Troon Limited, a subsidiary of Cathay Pacific Airways Limited, to the Company for the construction of storage areas for aircraft parts. The terms of the loan are as disclosed in the 2000 Annual Report of the Company. During the period, the interest incurred was HK\$4.7 million (2000 : HK\$4.9 million).

Notes to the Accounts

13. Notes to consolidated cash flow statement

	Six months ended		Year ended
	<u>30th June</u>		<u>31st December</u>
	2001	2000	2000
	HK\$M	HK\$M	HK\$M
(a) Analysis of changes in cash and cash equivalents			
Opening balance	7.6	89.3	89.3
(Decrease)/increase in cash and cash equivalents	<u>(37.1)</u>	<u>22.9</u>	<u>(81.7)</u>
Closing balance	<u><u>(29.5)</u></u>	<u><u>112.2</u></u>	<u><u>7.6</u></u>
(b) Analysis of changes in net liquid funds			
Opening balance	18.5	103.0	103.0
(Decrease)/increase in net liquid funds	<u>(38.6)</u>	<u>75.0</u>	<u>(84.5)</u>
Closing balance	<u><u>(20.1)</u></u>	<u><u>178.0</u></u>	<u><u>18.5</u></u>

Notes to the Accounts

14. Related party transactions

In addition to those disclosed elsewhere in the interim report, material transactions between the Group and related parties which were conducted on normal commercial terms in the ordinary and usual course of business are listed below:

	Jointly Controlled Companies		Other Related Parties		Total	
	Six months ended 30th June		Six months ended 30th June		Six months ended 30th June	
	2001	2000	2001	2000	2001	2000
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Revenue from provision of services	<u>95.7</u>	<u>69.6</u>	<u>445.6</u>	<u>400.0</u>	<u>541.3</u>	<u>469.6</u>

- (a) Revenue from the provision of services to jointly controlled companies comprised mainly services to HAESL and TAECO. Services provided to HAESL included engine component repairs charged at normal commercial rates and the provision of certain administrative services charged at cost based on the agreement with Rolls-Royce concerning the formation of HAESL. Services provided to TAECO related principally to charges at commercial rates covering the stationing of a working team of approximately 150 people in TAECO and management services.
- (b) Revenue from the provision of services to other related parties comprised maintenance charges for the Cathay Pacific Airways, Dragonair and Air Hong Kong fleets as well as logistic support and storage charges for Cathay Pacific Airways.

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Results for the six months ended 30th June 2001 – unaudited

The results have been reviewed by the Audit Committee of the Company established in compliance with the additional requirement of the Stock Exchange to its Code of Best Practice.

Interim dividend

An interim dividend of HK\$0.23 (2000: HK\$0.23) per share has today been declared and will be paid on 24th September, 2001 to shareholders registered at the close of business on 14th September 2001. The share register will be closed from 10th September 2001 to 14th September 2001, both dates inclusive.

Share capital

During the period under review, no purchase, sale or redemption of the shares of the Company has been effected by the Company or any of its subsidiary companies.

Corporate governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in the Listing Rules of The Stock Exchange of Hong Kong Limited.

Directors' interests

At 30th June 2001, the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (SDI) showed that the following Directors held beneficial interests in the shares of Hong Kong Aircraft Engineering Company Limited:-

	Personal Interests	Other Interests	Total
The Hon Michael Kadoorie (alternate Director)	-	3,782,886*	3,782,886
Dinty Dickson Leach	90,000	-	90,000
John Paterson	8,000	-	8,000

**By virtue of the SDI, The Hon Michael Kadoorie was deemed to be interested in 3,782,886 shares in the Company, which are held via discretionary trusts.*

During or prior to the period under review, no right has been granted to, or exercised by, any Director of the Company, or to or by the spouse or children under 18 years of age of any Director, to subscribe for shares, warrants or debentures of the Company.

Other than as stated above, the Directors of the Company held no interests, whether beneficial or non-beneficial, in the shares or warrants of the Company or its associated corporations (within the meaning of SDI).

Substantial shareholders

The register of substantial shareholders maintained under Section 16(1) of the SDI shows that at 30th June 2001 the Company had been notified of the following interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

	Number of Shares
John Swire & Sons Limited	98,848,703
John Swire & Sons (H.K.) Limited	98,848,703) Duplications of John Swire
Swire Pacific Limited	98,848,703) & Sons Limited's holding
Cathay Pacific Airways Limited	45,649,686)