

HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2001
AND THE 2001 FINAL DIVIDEND

Results. The audited consolidated results for the year ended 31st December 2001 were:

		Year ended 31st December	
	Note	2001	2000
		HK\$M	HK\$M
Turnover		1,950.4	1,821.1
Operating expenses:			
Staff remuneration		(1,051.7)	(992.5)
Cost of direct material/job expenses		(430.6)	(363.1)
Depreciation		(103.4)	(105.6)
Operating lease rentals - land & buildings		(59.8)	(63.8)
Auditors' remuneration		(0.7)	(0.7)
Changes in work in progress		32.8	52.5
Other operating expenses		(232.7)	(230.9)
Profit on sale of staff housing	2	6.7	75.2
Profit on sale of business to a jointly controlled company	3	6.8	-
Profit on sale of shares in jointly controlled companies	4	-	46.4
Operating profit		<u>117.8</u>	<u>238.6</u>
Net finance income		<u>9.4</u>	<u>23.2</u>
Net operating profit		127.2	261.8
Share of results of jointly controlled companies	5	<u>222.2</u>	<u>163.0</u>
Profit before taxation		349.4	424.8
Taxation	6	<u>(37.1)</u>	<u>(24.1)</u>
Profit after taxation		312.3	400.7
Minority interest		<u>(0.1)</u>	<u>(0.3)</u>
Profit attributable to shareholders		<u><u>312.2</u></u>	<u><u>400.4</u></u>
Dividends			
Interim - paid		38.4	42.3
Final - proposed		69.9	63.4
	7	<u><u>108.3</u></u>	<u><u>105.7</u></u>
		HK\$	HK\$
Earnings per share		<u>1.87</u>	<u>2.21</u>
Dividends per share		<u><u>0.65</u></u>	<u><u>0.61</u></u>

Notes to the accounts

1. Segmental information

The Company is engaged in the business of maintenance, modification and repair of commercial aircraft in Hong Kong. No further business segmental information has therefore been reported.

The Group's jointly controlled companies, all of which are engaged in the same business as the Company, operate both in Hong Kong and overseas.

2. Profit on sale of staff housing

In 2001, the Company disposed of the last residential unit at Twin Bay Villas, Clearwater Bay Road, Sai Kung, New Territories (2000 : 11 units). These properties were originally acquired in 1970 as staff quarters.

3. Profit on sale of business to a jointly controlled company

The profit arose from the sale of the Company's wheel and brake business to Goodrich Aerospace Asia-Pacific Limited.

4. Profit on sale of shares in jointly controlled companies

The profit on sale of shares in jointly controlled companies in 2000 represented profits of HK\$25 million and HK\$21 million respectively from the sales of a 5% shareholding in Hong Kong Aero Engine Services Limited to SIA Engineering Company Limited and the Company's entire shareholding in Bridgestone Aircraft Tire Company (Asia) Limited to Bridgestone Corporation.

5. Share of results of jointly controlled companies

	2001 HK\$M	2000 HK\$M
(a) Attributable pre-tax results from:		
- Hong Kong Aero Engine Services Limited	127.7	81.4
- Taikoo (Xiamen) Aircraft Engineering Company Limited	78.7	66.1
- Other jointly controlled companies	15.8	15.5
	<u>222.2</u>	<u>163.0</u>
(b) Less: Share of taxation thereon:		
- Hong Kong Aero Engine Services Limited	(19.7)	(21.5)
- Taikoo (Xiamen) Aircraft Engineering Company Limited	(2.7)	(5.3)
- Other jointly controlled companies	(2.7)	(2.6)
	<u>(25.1)</u>	<u>(29.4)</u>
(c) Attributable post-tax results from:		
- Hong Kong Aero Engine Services Limited	108.0	59.9
- Taikoo (Xiamen) Aircraft Engineering Company Limited	76.0	60.8
- Other jointly controlled companies	13.1	12.9
	<u>197.1</u>	<u>133.6</u>

6. Taxation

	2001 HK\$M	2000 HK\$M
The taxation charge comprises:		
The Company and its subsidiary company:		
Deferred tax	(12.0)	5.3
Share of taxation attributable to jointly controlled companies	<u>(25.1)</u>	<u>(29.4)</u>
	<u>(37.1)</u>	<u>(24.1)</u>

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

Provision has been made for all significant deferred taxation liabilities.

7. Final Dividend

The Directors recommend the payment of a final dividend of HK\$0.42 per ordinary share for the year ended 31st December 2001 which, together with the interim dividend of HK\$0.23 per ordinary share paid on 24th September 2001 makes a total dividend for the year of HK\$0.65 per ordinary share. This represents a total distribution for the year of HK\$108.3 million. Subject to the approval of the 2001 final dividend by the shareholders at the Annual General Meeting on 14th May 2002, it is expected that the dividend will be paid

on 21st May 2002 to shareholders registered on 14th May 2002. The shareholders' register will be closed from 6th May 2002 to 14th May 2002, both dates inclusive.

8. Share capital

During the year under review, the Company purchased 532,000 of its shares on The Stock Exchange of Hong Kong Limited. The repurchases of the Company's shares were considered by Directors to be in the long-term interests of Shareholders to the extent that they would result in increases in earnings per share and the return on Shareholders' capital and would not weaken the Company's balance sheet or its ability to make other investments. All of these shares purchased were subsequently cancelled. Details of the repurchases are as follows:

<u>Month</u>	<u>Number of Shares purchased</u>	<u>Highest Price Paid Per Share (HK\$)</u>	<u>Lowest Price Paid Per Share (HK\$)</u>	<u>Total Paid (HK\$)</u>
November 2001	147,200	11.98	11.65	1,733,340
December 2001	384,800	12.20	11.90	4,629,580
	532,000 =====			6,362,920 =====

As at 31st December 2001, 166,451,450 shares were in issue (31st December 2000 166,983,450 shares).

Chairman's statement

Results

Group pre-tax profit for the year was HK\$349 million, which included HK\$14 million of non-recurring profits. This result represented a decrease of 18% from the previous year, due to non-recurring profits in that year of HK\$122 million. The net operating profit from the on-going business, including the Company's share of results from jointly controlled companies, increased by 11% or HK\$33 million to HK\$335 million. Profit attributable to shareholders was HK\$312 million, a 22% decrease from 2000.

Unfortunately, with the slow down in the commercial airline industry seen in the last quarter of the year, the improvement in revenue and profit seen in the first half of the year could not be sustained in the second half.

The contribution from jointly controlled companies continued to increase during 2001, underlining their importance to the Group. Their combined share of recurring pre-tax profits increased from 54% to 66%. In particular, both Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO) and Hong Kong Aero Engine Services Limited (HAESL) had successful and profitable years.

The non-recurring profits in 2001 related to the disposal of a house previously used by staff, and the sale of the Company's wheel and brake repair and overhaul business to its jointly controlled company, Goodrich Aerospace Asia-Pacific Limited.

Review of Operations

The Company is the sole provider of comprehensive aircraft maintenance at Hong Kong International Airport. The Company's premises comprise a single hangar capable of fully enclosing three wide-bodied aircraft, together with associated workshops and offices, and a five-storey building at Tseung Kwan O housing component and avionics overhaul workshops and administration offices. The Company also occupies space at the airport terminal.

Line Maintenance

The line maintenance division employs around 1,540 people, who provide a comprehensive range of technical and non-technical services to airlines operating through Hong Kong International Airport. The Company is the main provider of such services in Hong Kong and hence the division's performance is primarily related to the number of flights through the airport. In 2001, the number of flights handled rose by 5.8% despite the weakness in the freighter market and the reduction in scheduled passenger services in the last quarter of the year. This market in Hong Kong continues to be extremely price-sensitive.

Base Maintenance

The base maintenance division employs around 1,130 people, who provide customers which rely on the Company for comprehensive support with a full range of scheduled maintenance checks and in

addition undertake periodic checks, modifications and overhaul work on a wide variety of aircraft types. Between 30% and 40% of the division's work is for the three scheduled airlines operating out of Hong Kong; Cathay Pacific Airways, Air Hong Kong and Dragonair. It competes on price, availability of space, turnaround time and quality of workmanship with other Maintenance and Repair Organisations worldwide. The hangar was busy during the first half of the year, but had some cancellations in the second half which resulted in a drop in utilisation of both staff and facilities. Man-hours sold in 2001 were 1.3 million, a 6.3% decrease when compared to 2000.

Component and Avionics Overhaul

The overhaul division occupies a five-storey building at Tseung Kwan O with more than 7,000 square metres of modern workshop space and employs around 240 people. Utilisation of these facilities during the year was reasonable, and should improve further in 2002 following agreement with two Airbus component Original Equipment Manufacturers to provide warranty and repair services.

Jointly controlled companies

TAECO operates two hangars, each of which is capable of fully enclosing two wide-bodied aircraft. A third hangar of similar size is currently under construction. This additional facility was originally planned to start operations in late 2002. However, following the recent downturn in the market, it has been decided to delay the opening until the second quarter of 2003. Most of TAECO's capacity is taken up by shareholder customers (or their affiliates). Capacity was well utilised during 2001 with the completion of a number of comprehensive heavy maintenance packages and the conversion of Boeing 747-200/300 passenger aircraft for use as cargo freighters. Line maintenance support has been given to Dragonair's operations in Beijing, Shanghai and to all foreign carriers operating into Xiamen. In May, the Company increased its interest in TAECO by acquiring 4.09% from SIA Engineering Company Limited. The profit attributable to the Group increased over 2000.

HAESL had a strong year, with increased revenue and improved profitability. This increase reflected additional throughput and work packages on the Trent 700 and 800 engines. In addition to work performed for Cathay Pacific Airways, which accounts for about 50% of revenue, significant engine work was also carried out for Rolls-Royce plc, Emirates Airlines, Singapore Airlines, Thai International, Malaysian Airlines, Garuda and China Southern Airlines. In conjunction with Rolls-Royce plc and Singapore Airlines Engineering, the Company has established a Trent engine overhaul facility in Singapore complementing the Hong Kong capabilities of HAESL. This joint venture, Singapore Aero Engine Services Pte. Limited, in which HAESL has a 20% interest, started operations in January 2002.

Goodrich Aerospace Asia-Pacific Limited, (formerly BFGoodrich Aerospace Asia-Pacific Limited), which refurbishes carbon brakes and overhauls wheel hubs at Fanling, in Hong Kong, continued to perform very well.

In June, China Eastern Airlines acquired a 30% interest in GE Engine Services (Xiamen) Limited from the General Electric Company; the latter sold a further 10% to Hainan Airlines in the second half of the year. TAECO retains an effective 20% through intermediate holding companies. The facility was opened in June 2001, with the capability initially to strip and rebuild GE engines. The ability to refurbish and repair engine components will be developed during the coming year.

Shandong TAECO Aircraft Engineering Company Limited, which provides a heavy maintenance service for narrow-bodied aircraft and in particular B737 aircraft, is expanding its capacity to meet customers' projected needs. In January 2002, the company started to build a second hangar, which is planned to cost US\$8.6 million and is scheduled for completion in the first quarter of 2003. This company is profitable.

In-Services Asia Limited, a jointly controlled company in which the Company has a 35% interest, was incorporated and started operations in March 2001. The joint venture partner, Intertechnique, is a subsidiary of Groupe Zenith and is an Airbus Original Equipment Manufacturer. The new company will sell Intertechnique components, and provide a warranty and repair service to customers. The Company has also installed Sogerma computerised component testing equipment, which it is operating under agreement with Sogerma pending the finalisation of a joint venture.

Financial Review

The improvement in recurring profits seen in the first half of the year continued into the second half, although a weak fourth quarter led to a fall in attributable profit of 22% to HK\$312 million which included a net reduction of HK\$108 million in non-recurring profits.

Revenue increased by 7%, primarily reflecting increased activity at the airport during the first nine months of the year, together with more material used on aircraft in the hangar, particularly with the freighter conversion work undertaken.

Direct expenses increased in line with the increase in revenue and overheads were little changed year on year except that contributions to the local staff retirement benefit scheme increased by HK\$30 million.

The contribution before tax from jointly controlled companies increased by HK\$59 million, or 36%, to HK\$222 million. Most of this increase was from HAESL.

Dividend

Your Directors have recommended a final dividend for 2001 of HK\$0.42 per share which, together with the interim dividend of HK\$0.23 per share paid on 24th September 2001, results in a total distribution for the year of HK\$0.65 per share, an increase of 7% over the total dividend declared for 2000. The total dividend paid and proposed in respect of 2001 is HK\$108 million, with dividend cover of 2.9 times.

Net Assets

Net assets increased during the year from HK\$2,624 million to HK\$2,825 million. Capital expenditure amounted to HK\$38 million, mostly on tooling and vehicles used on the airfield. Working capital increased from HK\$85 million to HK\$139 million.

Net Liquid Funds and Financing

Cash, cash equivalents and short term deposits increased by HK\$107 million to HK\$126 million during the year, with strong net operating cash flow. The Company is expected to generate liquid funds during 2002 which will exceed its operating, working capital and budgeted capital expenditure requirements. In addition, it has negotiated loan facilities equivalent to HK\$454 million, of which HK\$376 million is subject to renewal during 2002.

Currency Fluctuations

The Group's income is substantially in HK dollars or US dollars. Operating costs and capital expenditure of the Company and its Hong Kong based jointly controlled entities is substantially in those same currencies as are those of its jointly controlled entities in Mainland China, which also use Renminbi. No hedging instruments have been put in place to protect the Company against any potential losses arising from foreign exchange fluctuations as a result of trading in this mix of currencies.

Environment

In recognition of its impact on the environment, when it moved to Chek Lap Kok and built its new facilities in Tseung Kwan O, the Company incorporated numerous systems to minimise the effect of effluents on the environment. Since then, it has initiated projects to reduce where possible energy and resource usage.

Staff

The Company employed 3,591 staff at the end of 2001, a small decrease from the end of 2000. This number included 223 craftsmen and engineering apprentice trainees for TAEKO and 146 full-time HAEKO employees who have been seconded to TAEKO. In view of the current weakness in the market, the Company has imposed a recruitment freeze in 2002, but will continue to seek suitable engineering apprentices. This is expected to lead to a 3.5% reduction in headcount during the coming year.

In addition TAEKO employed 1,646 local staff and HAEKO 668 staff.

The good result for the year reflects the hard work and commitment of all the staff, and on behalf of the shareholders, I would like to thank them for their continuing support.

Outlook

The interim report noted that the Company had seen improved profitability during the first half of the year as the fleets of its major customers grew and the number of flights through Hong Kong International Airport increased, despite a significant downturn in freighter business from the last quarter of 2000. This situation continued through the third quarter but there has been a marked change since the events in September. A number of the Company's major customers have indicated

that they have grounded or intend to ground a number of aircraft and that they plan to reduce the frequency of their scheduled flights through Hong Kong. Although there was a seasonal improvement in the freight business before Christmas, there is no indication that this rally is sustainable. Consequently, the Company and its jointly controlled entities expect the volume of business to drop in 2002. In addition, rates will continue to be under pressure, due to both the worldwide capacity for heavy maintenance and the competitive environment for technical and non-technical line maintenance services at Chek Lap Kok. Whilst the Company expects to remain profitable, 2002 will be a challenging year.

Annual Report

The detailed results containing all the information required by paragraph 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) in due course.

David Turnbull
Chairman

Hong Kong, 5th March 2002

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