HAECO

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HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 00044)

2018 Interim Results

Financial Highlights

		Six months ended 30th June		
		2018	2017	**Change**
Results				
Revenue	*HK$ Million*	**7,325**	7,405	**-1.1%**
Net operating profit	*HK$ Million*	**500**	415	**+20.5%**
Share of after-tax results of joint venture companies				
- Hong Kong Aero Engine Services Limited	*HK$ Million*	**180**	136	**+32.4%**
- Other joint venture companies	*HK$ Million*	**42**	45	**-6.7%**
Profit attributable to the Company's shareholders	*HK$ Million*	**469**	348	**+34.8%**
Earnings per share attributable to the Company's shareholders (basic and diluted)	*HK$*	**2.82**	2.09	**+34.8%**
First interim dividend per share	*HK$*	**0.72**	0.53	**+35.8%**

		30th June 2018	31st December 2017	**Change**
Financial Position				
Net borrowings	*HK$ Million*	**1,851**	2,369	**-21.9%**
Gearing ratio	*%*	**24.3**	33.0	**-8.7%pt**
Total equity	*HK$ Million*	**7,603**	7,185	**+5.8%**
Equity attributable to the Company's shareholders per share	*HK$*	**36.04**	33.48	**+7.6%**

		Six months ended 30th June		
		2018	2017	**Change**
Cash Flows				
Net cash generated from operating activities	*HK$ Million*	**875**	371	**+135.8%**
Net cash inflow before financing activities	*HK$ Million*	**782**	159	**+391.8%**

Note: The weighted average number of shares in issue is 166,324,850 in 2018 (2017: 166,324,850).

Chairman's Letter

The HAECO Group reported an attributable profit of HK$469 million for the first half of 2018, compared with a profit of HK$348 million for the first half of 2017. HAECO USA Holdings, Inc. ("HAECO Americas") continued to make losses, albeit at a reduced level. This reduction in losses was the principal reason for the increase in the HAECO Group profit. Revenue decreased by 1.1% to HK$7,325 million.

The Directors have declared a first interim dividend of HK$0.72 per share (2017: HK$0.53 per share) for the year ending 31st December 2018, an increase of 35.8% from the first interim dividend paid in 2017. The first interim dividend, which totals HK$120 million (2017: HK$88 million), will be paid on 18th September 2018 to shareholders registered at the close of business on the record date, being Friday, 31st August 2018. Shares of the Company will be traded ex-dividend as from Wednesday, 29th August 2018.

Less airframe services work was done in the first half of 2018 than in the first half of 2017. This reflected less cabin modification work, the deferral of work by some customers from the first to the second half of the year in Hong Kong, and the loss of significant work from a major customer of HAECO Americas from August 2017. However, the airframe services results of HAECO Americas improved significantly due to an increased proportion of higher margin work and gains in efficiency.

Line services results were similar in the first half of 2018 to those in the first half of 2017. There was a small increase in the number of aircraft movements handled.

Results from HAECO Americas' cabin and seat work improved in the first half of 2018 compared with the first half of 2017. More seats were sold at higher margins, but there was less cabin reconfiguration work and fewer Panasonic communication equipment installation kits were delivered.

More engines were repaired and overhauled in the first half of 2018 than in the first half of 2017. The beneficial effect of this was partly offset by a change in the terms on which Taikoo Engine Services (Xiamen) Limited ("TEXL") contracts with its key customer. More component and avionics maintenance work was done. The first half results of the inventory technical management subsidiary (HAECO ITM Limited ("HAECO ITM")) were lower than those in the first half of 2017.

The Group continued to invest in order to increase technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure during the first half of 2018 was HK$357 million. Capital expenditure committed at 30th June 2018 was HK$720 million.

Chairman's Letter (cont'd)

Prospects

The airframe services workload in the second half of 2018 is expected to be lower than in the first half of 2018 in Hong Kong and Xiamen and higher in HAECO Americas. More line services work is expected in the second than in the first half of 2018. More engines are expected to be repaired and overhauled in the second than in the first half of 2018, but the workscopes are expected to be less extensive. Fewer seats are expected to be sold in the second than in the first half of 2018. Forward bookings for cabin reconfiguration work are relatively weak. More Panasonic communication equipment installation kit work is expected in the second than in the first half of 2018.

The relocation proposed by the Xiamen municipal government of the Gaoqi airport to a new airport in the Xiang'an district remains subject to central government approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

Merlin Swire
Chairman
Hong Kong, 7th August 2018

Review of Operations

The profit attributable to the Company's shareholders comprises:

	Six months ended 30th June		
	2018	2017	Change
	HK$M	HK$M	
HAECO Hong Kong	**117**	139	-15.8%
HAECO Americas	**(118)**	(208)	+43.3%
HAECO Xiamen	**126**	104	+21.2%
TEXL	**90**	112	-19.6%
Share of:			
HAESL	**180**	136	+32.4%
Other subsidiary and joint venture companies	**74**	65	+13.8%
Profit attributable to the Company's shareholders	**469**	348	+34.8%

The key operating highlights are as follows:

	Six months ended 30th June		
	2018	2017	Change
Airframe services sold manhours (in millions)			
HAECO Hong Kong	**1.37**	1.50	-8.7%
HAECO Americas	**1.40**	1.59	-11.9%
HAECO Xiamen	**2.03**	2.01	+1.0%
	4.80	5.10	-5.9%
Line services aircraft movements (per day)			
HAECO Hong Kong	**319**	317	+0.6%
HAECO Xiamen	**57**	52	+9.6%
HAECO Shanghai	**51**	47	+8.5%
Engine output			
TEXL - performance restorations	**30**	26	+15.4%
TEXL - quick turn repairs	**12**	14	-14.3%
HAESL	**91**	71	+28.2%

Review of Operations (cont'd)

HAECO Hong Kong (100% owned)

HAECO's business in Hong Kong ("HAECO Hong Kong") comprises airframe services, line services at the passenger and cargo terminals at Hong Kong International Airport, component services and material management. It recorded a 15.8% decrease in profit in the first half of 2018 compared to the first half of 2017.

1.37 million airframe services manhours were sold by HAECO Hong Kong in the first half of 2018, 8.7% fewer than in the first half of 2017. This reflected less cabin modification work and the deferral of work by some customers from the first to the second half of the year.

HAECO Hong Kong handled approximately 57,800 aircraft movements (representing an average of 319 per day) in the first half of 2018, an increase of 0.6% compared with the first half of 2017.

Component maintenance manhours sold, including those sold by HAECO Component Overhaul (Xiamen) Limited ("HAECO Component Overhaul (Xiamen)"), were 0.11 million in the first half of 2018, 10% higher than those in the first half of 2017. The growth reflected increased demand.

Slightly less airframe services work is expected in the second than in the first half of 2018 for normal seasonal reasons. More line services work is expected in the second than in the first half of the year. Demand for component repair work is expected to be stable in the second half of the year.

HAECO Americas (100% owned)

HAECO Americas' business comprises airframe services, the manufacture of seats and cabin interior products and cabin reconfiguration services. It recorded a loss of HK$118 million in the first half of 2018, HK$90 million less than the loss of HK$208 million recorded in the first half of 2017.

1.40 million airframe services manhours were sold, 11.9% fewer than the first half of 2017. This reflects the loss of significant work from a major customer from August 2017, offset in part by more work from another major customer. The improvement in results reflected an increased proportion of higher margin work and gains in efficiency.

Results from cabin and seat work improved in the first half of 2018 compared with the first half of 2017. More seats were sold at higher margins. Demand for old style seats was strong. Demand for the new Vector seats was encouraging. There was less cabin reconfiguration work and fewer Panasonic communication equipment installation kits were delivered.

More airframe services work is expected in the second than in the first half of 2018. This reflects increased utilisation of the fifth hangar at the Greensboro facility opened earlier in the year. Fewer seats are expected to be sold in the second than in the first half of 2018. Forward bookings for cabin reconfiguration work are relatively weak. More Panasonic communication equipment installation kit work is expected in the second than in the first half of 2018.

Review of Operations (cont'd)

HAECO Xiamen (58.55% owned)

The business of Taikoo (Xiamen) Aircraft Engineering Company Limited ("HAECO Xiamen") comprises airframe services, line services, private jet work, parts manufacturing and technical training. It recorded a 21.2% increase in attributable profit to HK$126 million in the first half of 2018 compared with the first half of 2017. This reflected an increase in airframe services work.

2.03 million manhours of airframe services were sold in the first half of 2018, 1.0% higher than in the first half of 2017.

HAECO Xiamen handled an average of 57 aircraft movements per day in the first half of 2018, 9.6% more than in the first half of 2017. Revenue increased by 21.8%.

Demand for HAECO Xiamen's airframe services in the second half is expected to be less than in the first half of 2018. More line services work is expected resulting from the opening of additional stations.

The relocation proposed by the Xiamen municipal government of the Gaoqi airport to a new airport in the Xiang'an district remains subject to central government approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

TEXL (72.86% owned)

TEXL repairs and overhauls General Electric engines and engine components in Xiamen. It has a service agreement with General Electric under which it provides maintenance, repair and overhaul services on GE90-110B and GE90-115B engines. In the first half of 2018, TEXL performed 30 performance restoration workscopes and 12 quick turn workscopes on GE90 aircraft engines (compared with 26 performance restoration workscopes and 14 quick turn workscopes in the first half of 2017). Attributable profit fell by 19.6% to HK$90 million in the first half of 2018 compared with the first half of 2017. This principally reflected a change in the terms on which TEXL contracts with its key customer. The adoption of a new revenue recognition accounting standard resulted in a reduction of HK$5 million in attributable profit.

Demand for TEXL's overhaul services is expected to be similar in the second half of 2018 to that in the first half.

HAESL (50% owned)

Hong Kong Aero Engine Services Limited ("HAESL") repairs and overhauls Rolls-Royce engines and engine components at Tseung Kwan O in Hong Kong. It recorded a 32.4% increase in attributable profit in the first half of 2018 compared to the first half of 2017. The increase in profit was principally due to an increase in engine volume. 91 engines were overhauled, compared with 71 in the first half of 2017. HAESL has invested heavily in new facilities and tooling (and continues to recruit additional manpower) in order to accommodate expected future growth.

Review of Operations (cont'd)

HAESL expects volume to increase in the second half of 2018, but the workscopes are expected to be less extensive and its results will depend on the availability of spare parts from a major supplier.

Other Principal Subsidiary and Joint Venture Companies

HAECO ITM (70% owned) provides inventory technical management services to Cathay Pacific and other airlines. It provided services for 295 aircraft in the first half of 2018, 10.1% more than in the first half of 2017. However, its profit in the first half of 2018 was lower than that in the first half of 2017. There was less lending and exchange of aircraft parts.

Taikoo (Xiamen) Landing Gear Services Company Limited ("HAECO Landing Gear Services") (86.53% owned) overhauls landing gear in Xiamen. It made a profit in the first half of 2018, compared to a loss in the first half of 2017. It did more work.

HAECO Component Overhaul (Xiamen) (100% owned) did more work in the first half of 2018 than in the first half of 2017 and consequently made a smaller loss.

Shanghai Taikoo Aircraft Engineering Services Company Limited ("HAECO Shanghai") (68.78% owned) provides line services in Shanghai and Nanjing. The average number of aircraft movements handled per day was 51 in the first half of 2018, 8.5% more than in the first half of 2017. Its attributable profit increased, reflecting a lower tax rate.

Singapore HAECO Pte. Limited ("HAECO Line Services (Singapore)") (100% owned) provides line services in Singapore. It made a small profit in the first half of 2018, as it did in the first half of 2017.

HAECO Composite Structures (Jinjiang) Company Limited ("HAECO Composite Services") (48.10% owned) (formerly known as Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited) repairs and overhauls composite structures at Jinjiang in Fujian Province in Mainland China. It made more profit in the first half of 2018 than in the first half of 2017, because it did more work.

Staff

The Group's headcount at the dates shown was as follows:

	30th June 2018	31st December 2017	Change
HAECO Hong Kong	**5,875**	6,057	-3.0%
HAECO Americas	**2,349**	2,331	+0.8%
HAECO Xiamen	**4,411**	4,450	-0.9%
HAESL	**944**	932	+1.3%
TEXL	**393**	373	+5.4%
Other subsidiary and joint venture companies in which HAECO and HAECO Xiamen own more than 20%	**2,453**	2,498	-1.8%
	16,425	16,641	-1.3%

Financial Review

Consolidated Statement of Profit or Loss

	Six months ended 30th June			
	2018	2017	Change	Reference
	HK$M	HK$M	HK$M	
Revenue				
- HAECO Hong Kong The increase reflects more line services aircraft movements handled, largely offset by less airframe services work.	**2,077**	2,041	36	
- HAECO Americas The decrease mainly reflects less airframe services work.	**1,356**	1,435	(79)	
- HAECO Xiamen The increase was in line with the growth in airframe services workload.	**1,090**	1,055	35	
- TEXL The decrease reflects a different scope of engine performance restoration work.	**2,422**	2,556	(134)	
- Others The increase reflects more work at HAECO Landing Gear Services.	**380**	318	62	
- Total	**7,325**	7,405	(80)	Note 4
Staff remuneration and benefits The increase mainly reflects salary increases at HAECO Hong Kong and HAECO Xiamen, partly offset by a reduced headcount at HAECO Americas.	**(2,618)**	(2,608)	(10)	
Cost of direct material and job expenses The decrease reflects a different work scope of engine performance restorations work at TEXL.	**(3,417)**	(3,575)	158	
Depreciation, amortisation and impairment The increase principally reflects higher depreciation charge at HAECO Hong Kong and HAECO Xiamen.	**(319)**	(313)	(6)	Note 9
Other operating expenses The decrease mainly reflects reduced expenses at HAECO Americas.	**(447)**	(463)	16	
Other net gains The higher net gains principally reflect net foreign exchange gains (compared with net losses in the first half of 2017) at HAECO Xiamen, partially offset by less government subsidies received in Mainland China.	**29**	20	9	

Financial Review (cont'd)

Consolidated Statement of Profit or Loss (cont'd)

	Six months ended 30th June 2018 HK$M	2017 HK$M	Change HK$M	Reference
Operating profit The growth in operating profit principally reflects improved operating results at HAECO Americas and HAECO Xiamen, partially offset by lower profits at HAECO Hong Kong and TEXL.	**553**	466	87	
Net finance charges The increase mainly reflects an increase in the average cost of debt.	**(53)**	(51)	(2)	Note 5
Share of after-tax results of joint venture companies The increase principally reflects the growth in the profit of HAESL.	**222**	181	41	Note 11
Taxation The reduction mainly reflects lower profits at HAECO Hong Kong and TEXL, partially offset by a higher profit at HAECO Xiamen.	**(115)**	(121)	6	
Non-controlling interests The increase reflects a higher profit at HAECO Xiamen, partially offset by a lower profit at TEXL.	**(138)**	(127)	(11)	
Profit attributable to the Company's shareholders	**469**	348	121	

Assets

Total assets at 30th June 2018 were HK$14,078 million. During the first half of 2018, additions to fixed assets were HK$252 million. Included in this amount was HK$91 million spent on plant, machinery and tools, and HK$116 million spent on rotable and repairable spare parts for inventory technical management.

Financing

Net Borrowings and Gearing

At 30th June 2018, the Group's net borrowings were HK$1,851 million representing a decrease of HK$518 million from those at 31st December 2017. The decrease was principally attributable to the increase in cash and cash equivalents pursuant to the strong cash flow generated from operating activities at TEXL in the first half of the year. The gearing ratio was 24.3%, compared with 33.0% at the end of 2017. The Group's net borrowings by company are analysed below:

	Group	
	30th June 2018 HK$M	31st December 2017 HK$M
HAECO Hong Kong	**(794)**	(744)
HAECO Americas	**(2,155)**	(2,204)
HAECO Xiamen	**652**	387
TEXL	**517**	157
Other subsidiary companies	**(71)**	35
	(1,851)	(2,369)

Sources of Financing

At 30th June 2018, net borrowings consisted of short-term loans of HK$54 million, long-term loans of HK$3,242 million and finance lease obligations of HK$5 million, net of bank balances and short-term deposits of HK$1,450 million. Committed facilities were HK$4,791 million at 30th June 2018, of which HK$1,518 million were undrawn. In addition, there were uncommitted facilities of HK$2,188 million at the same date, of which HK$2,134 million were undrawn. Sources of funds at 30th June 2018 comprised:

	Available HK$M	Drawn HK$M	Undrawn expiring within one year HK$M	Undrawn expiring beyond one year HK$M
Committed facilities				
- Loans and finance leases	4,791	3,273	400	1,118
Uncommitted facilities				
- Loans and overdrafts	2,188	54	2,134	-
Total	**6,979**	**3,327**	**2,534**	**1,118**

HAECO

Financing (cont'd)

Maturity Profile

Loans are denominated in US dollars and HK dollars and are repayable on various dates up to 2020. Finance leases are repayable on various dates up to 2030.

The maturity of long-term loans at 30th June 2018 was as follows:

	Group	
	30th June 2018 HK$M	31st December 2017 HK$M
Bank loans:		
Repayable within one year	**117**	39
Repayable between one and two years	**2,043**	1,882
Repayable between two and five years	**1,082**	1,326
	3,242	3,247

Finance Charges

An analysis of outstanding loans by reference to whether they bear interest at floating or fixed rates is shown below:

	30th June 2018		31st December 2017	
	HK$M		HK$M	
Fixed	**989**	**30%**	1,186	35%
Floating	**2,338**	**70%**	2,208	65%
Sub-total	**3,327**	**100%**	3,394	100%
Less: Unamortised loan fee	**26**		34	
Total	**3,301**		3,360	

The Group's weighted average cost of debt at 30th June 2018 was 3.07% (30th June 2017: 2.42%; 31st December 2017: 2.58%).

Financing (cont'd)

Currency Profile

An analysis of the carrying amounts of gross borrowings by currency is shown below:

	30th June 2018		31st December 2017	
	HK$M		HK$M	
Currency				
Hong Kong dollars	**1,350**	**40.6%**	1,404	41.4%
United States dollars	**1,977**	**59.4%**	1,990	58.6%
Total	**3,327**	**100.0%**	3,394	100.0%

Currency Hedging

HAECO Xiamen tries to mitigate its exposure to an increase in the value of the Renminbi by retaining surplus funds in Renminbi and by selling US dollars forward. At 30th June 2018, HAECO Xiamen had sold forward a total of US$18 million to fund part of its Renminbi requirements from 2018 to 2020. The weighted average exchange rate applicable to these forward sales was RMB6.56 to US$1. A gain of HK$6 million was made on forward foreign exchange contracts in the first half of 2018.

Report on Review of Condensed Interim Financial Statements

TO THE BOARD OF DIRECTORS OF HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed interim financial statements set out on pages 14 to 36, which comprise the consolidated statement of financial position of Hong Kong Aircraft Engineering Company Limited (the "Company") and its subsidiaries (together the "Group") as at 30 June 2018 and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed interim financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements of the Group are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 7th August 2018

HAECO

Consolidated Statement of Profit or Loss

for the six months ended 30th June 2018

	Note	(Unaudited) Six months ended 30th June 2018 HK$M	(Unaudited) Six months ended 30th June 2017 HK$M	(Audited) Year ended 31st December 2017 HK$M
Revenue	4	**7,325**	7,405	14,546
Operating expenses:				
Staff remuneration and benefits		**(2,618)**	(2,608)	(5,110)
Cost of direct material and job expenses		**(3,417)**	(3,575)	(7,335)
Depreciation, amortisation and impairment		**(319)**	(313)	(1,270)
Insurance and utilities		**(90)**	(87)	(177)
Operating lease rentals - land and buildings		**(142)**	(144)	(283)
Repairs and maintenance		**(96)**	(95)	(202)
Other		**(119)**	(137)	(256)
		(6,801)	(6,959)	(14,633)
Other net gains/(losses)		**29**	20	(2)
Operating profit/(loss)	4	**553**	466	(89)
Finance income	5	**6**	5	11
Finance charges	5	**(59)**	(56)	(131)
Net operating profit/(loss)		**500**	415	(209)
Share of after-tax results of joint venture companies	11	**222**	181	314
Profit before taxation		**722**	596	105
Taxation	6	**(115)**	(121)	(451)
Profit/(loss) for the period		**607**	475	(346)
Profit/(loss) attributable to:				
The Company's shareholders		**469**	348	(541)
Non-controlling interests		**138**	127	195
		607	475	(346)
Dividends				
First interim - declared/paid		**120**	88	88
Second interim - paid		**-**	-	83
		120	88	171
Earnings/(loss) per share from profit/(loss) attributable to the Company's shareholders (basic and diluted)	8	**HK$2.82**	HK$2.09	(HK$3.25)

The notes on pages 19 to 36 form part of these financial statements.

Consolidated Statement of Other Comprehensive Income

for the six months ended 30th June 2018

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
	2018	2017	2017
	HK$M	HK$M	HK$M
Profit/(loss) for the period	**607**	475	(346)
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Defined benefit retirement schemes			
- remeasurement gains recognised during the period	**-**	-	113
- deferred tax	**-**	-	(18)
Share of other comprehensive income of joint venture companies	**-**	-	8
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges			
- gains recognised during the period	**-**	1	11
- transferred to revenue	**(5)**	4	2
- transferred to finance charges	**(1)**	1	2
- deferred tax	**1**	(1)	(3)
Net translation differences on foreign operations	**(35)**	109	234
Other comprehensive income for the period, net of tax	**(40)**	114	349
Total comprehensive income for the period	**567**	589	3
Total comprehensive income/(loss) attributable to:			
The Company's shareholders	**447**	423	(279)
Non-controlling interests	**120**	166	282
	567	589	3

The notes on pages 19 to 36 form part of these financial statements.

Consolidated Statement of Financial Position

at 30th June 2018

	Note	(Unaudited) 30th June 2018 HK$M	(Audited) 31st December 2017 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	**5,610**	5,719
Land and land use rights	9	**320**	328
Intangible assets	10	**1,430**	1,466
Joint venture companies	11	**1,795**	1,727
Derivative financial instruments	13	**6**	6
Deferred tax assets	16	**70**	71
Retirement benefit assets	12	**48**	48
Long-term prepayment		**17**	17
		9,296	9,382
Current assets			
Stocks		**781**	801
Work in progress		**886**	1,165
Trade and other receivables	14	**1,660**	1,689
Derivative financial instruments	13	**5**	7
Cash and cash equivalents		**1,436**	971
Short-term deposits		**14**	20
		4,782	4,653
Current liabilities			
Trade and other payables	15	**2,187**	2,576
Advanced from related party		**-**	292
Taxation payable		**102**	61
Put option over a non-controlling interest in a subsidiary company		**108**	106
Derivative financial instruments	13	**3**	-
Short-term loans		**54**	106
Long-term loans due within one year		**117**	39
Finance lease obligations due within one year		**1**	3
		2,572	3,183
Net current assets		**2,210**	1,470
Total assets less current liabilities		**11,506**	10,852
Non-current liabilities			
Long-term loans		**3,125**	3,208
Finance lease obligations		**4**	4
Deferred income		**15**	18
Advance from a related party		**294**	-
Deferred tax liabilities	16	**345**	329
Derivative financial instruments	13	**1**	-
Retirement benefit liabilities	12	**119**	108
		3,903	3,667
NET ASSETS		**7,603**	7,185
EQUITY			
Share capital	17	**185**	185
Reserves	18	**5,809**	5,383
Equity attributable to the Company's shareholders		**5,994**	5,568
Non-controlling interests		**1,609**	1,617
TOTAL EQUITY		**7,603**	7,185

The notes on pages 19 to 36 form part of these financial statements.

Consolidated Statement of Cash Flows

for the six months ended 30th June 2018

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
	2018	2017	2017
	HK$M	HK$M	HK$M
Operating activities			
Cash generated from operations	**986**	495	1,096
Interest paid	**(48)**	(43)	(89)
Interest received	**7**	6	12
Tax paid	**(70)**	(87)	(178)
Net cash generated from operating activities	**875**	371	841
Investing activities			
Purchase of property, plant and equipment	**(351)**	(353)	(837)
Purchase of intangible assets	**(6)**	(2)	(6)
Proceeds from disposals of property, plant and equipment	**70**	20	82
Dividends received from joint venture companies	**174**	118	243
Proceeds from a disposal of a subsidiary company	**14**	-	-
Decrease in deposits maturing after more than three months	**6**	5	3
Net cash used in investing activities	**(93)**	(212)	(515)
Net cash inflow before financing activities	**782**	159	326
Financing activities			
Proceeds from loans	**828**	1,626	3,018
Repayment of loans and finance leases	**(901)**	(1,525)	(3,380)
Dividends paid to the Company's shareholders	**(83)**	(153)	(241)
Dividends paid to non-controlling interests	**(144)**	(99)	(101)
Net cash used in financing activities	**(300)**	(151)	(704)
Increase/(decrease) in cash and cash equivalents	**482**	8	(378)
Cash and cash equivalents at 1st January	**971**	1,299	1,299
Currency adjustment	**(17)**	20	50
Cash and cash equivalents at end of the period	**1,436**	1,327	971

The notes on pages 19 to 36 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2018

	Attributable to the Company's shareholders					
	Share capital HK$M	Revenue reserve HK$M	Other reserves HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
At 1st January 2018						
as originally stated	**185**	**5,248**	**135**	**5,568**	**1,617**	**7,185**
adjustment on adoption of HKFRS 15	**-**	**62**	**-**	**62**	**16**	**78**
as restated	**185**	**5,310**	**135**	**5,630**	**1,633**	**7,263**
Profit for the period	**-**	**469**	**-**	**469**	**138**	**607**
Other comprehensive income	**-**	**-**	**(22)**	**(22)**	**(18)**	**(40)**
Total comprehensive income/ (loss) for the period	**-**	**469**	**(22)**	**447**	**120**	**567**
Dividends paid	**-**	**(83)**	**-**	**(83)**	**(144)**	**(227)**
At 30th June 2018 (unaudited)	**185**	**5,696**	**113**	**5,994**	**1,609**	**7,603**

	Attributable to the Company's shareholders					
	Share capital HK$M	Revenue reserve HK$M	Other reserves HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
At 1st January 2017	185	6,013	(24)	6,174	1,345	7,519
Profit for the period	-	348	-	348	127	475
Other comprehensive income	-	-	75	75	39	114
Total comprehensive income for the period	-	348	75	423	166	589
Dividends paid	-	(153)	-	(153)	(99)	(252)
At 30th June 2017 (unaudited)	185	6,208	51	6,444	1,412	7,856

The notes on pages 19 to 36 form part of these financial statements.

Notes to the Condensed Interim Financial Statements

1. Basis of preparation and accounting policies

(a) The unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of The Listing Rules of The Stock Exchange of Hong Kong Limited.

The unaudited condensed interim financial statements are set out on pages 14 to 36.

The financial information relating to the year ended 31st December 2017 that is included in this document as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance")) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2017 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor's report has been prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial statements are consistent with those described in the 2017 annual financial statements except for those noted in 1(b) below.

(b) The following new and revised standards and a new interpretation were required to be adopted by the Group effective from 1st January 2018:

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2014-2016 Cycle
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration

Notes to the Condensed Interim Financial Statements (cont'd)

1. Basis of preparation and accounting policies (cont'd)

HKFRS 15 deals with revenue recognition and establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Group has used the practical expedient for completed contracts under the modified retrospective approach by adjusting the opening reserve and non-controlling interest when it adopted HKFRS 15 effective 1st January 2018 without restatement of prior periods. The adoption of the new standard has an effect on the timing of the Group's revenue recognition, particularly in relation to engine maintenance service contracts which change from being recognised at a point in time under the current standards to being recognised over time under HKFRS 15. A percentage of completion method is used to calculate the revenue to be recognised on these contracts and as a result, some revenue on engine maintenance contracts which are in progress at period ends will be recognised earlier under HKFRS 15.

As a result, the impacts of adopting HKFRS 15 on the Group's opening retained earnings at 1st January 2018 and on the financial statements for the six months ended 30th June 2018 are as follows:

Effect on the Group's opening reserve and non-controlling interests:

	1st January 2018
	HK$M
Increase in revenue reserve	62
Increase in non-controlling interests	16

Effect on Consolidated Statement of Profit or Loss:

	Six months ended 30th June 2018
	HK$M
Decrease in revenue	(273)
Decrease in cost of sales	(265)
Increase in share of profit of joint venture companies	13
Decrease in taxation	(1)
Decrease in profit attributable to non-controlling interests	(2)
Increase in profit attributable to the Company's shareholders	8

Notes to the Condensed Interim Financial Statements (cont'd)

1. Basis of preparation and accounting policies (cont'd)

Effect on Consolidated Statement of Financial Position:

	30th June 2018 HK$M
Increase in joint venture companies	36
Decrease in stocks and work in progress	(167)
Decrease in trade and other payables	(227)
Increase in deferred tax liabilities	12
Increase in non-controlling interests	14
Increase in revenue reserve	70

The complete version of HKFRS 9 replaced HKAS 39. HKFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if the cash flow represents solely payments of principal and interest. Non-substantial modifications or exchange of financial liabilities that do not result in derecognition are required to be recognised in profit or loss. The incurred loss impairment model used in HKAS 39 has been replaced by an expected credit loss model, with the result that a loss event will no longer need to occur before an impairment allowance is recognised. There are no changes to classification and measurement of financial liabilities except for the recognition of changes relating to an entity's own credit risk, which are recognised in other comprehensive income for liabilities designated at fair value through profit or loss. Hedge accounting under HKFRS 9 requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one used by an entity's management for risk management purposes. This replaces the hedge effectiveness test under HKAS 39. The Group adopted the hedge accounting aspects of HKFRS 9 prospectively from 1st January 2018. Management has concluded that neither the new requirements related to the classification and measurement nor the requirements related to impairment have any impact on the financial statements.

The adoption of the remaining new and revised standards and a new interpretation had no significant effect on the Group's financial statements or accounting policies.

Notes to the Condensed Interim Financial Statements (cont'd)

1. Basis of preparation and accounting policies (cont'd)

(c) The Group has not early adopted the following relevant new and revised standards and a new interpretation that have been issued but are effective for annual periods beginning on or after 1st January 2019 and such standards and interpretation have not been applied in preparing these condensed interim financial statements.

HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over Income Tax Treatments

None of these new and revised standards and new interpretation is expected to have a significant effect on the Group's financial statements, except the following set out below:

HKFRS 16 replaces HKAS 17 and related interpretations and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. The distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised on the balance sheet for all leases by lessees. HKFRS 16 also amends the definition of investment property under HKAS 40 to include property held by a lessee as a right-of-use asset to earn rentals or for capital appreciation or both, and the Group will be required to apply the fair value method under HKAS 40 for such right-of-use assets. The standard does not significantly change the accounting of lessors. Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of the Group's operating lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed as commitments in note 33 of 2017 annual financial statements. In the Group's statement of profit or loss, operating lease rentals will be replaced with depreciation and interest expenses. The Group has yet to finalise the assessment of the full impact of the new standard.

2. Critical accounting estimates and judgements

The preparation of the interim financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Those areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the Group's consolidated financial statements are detailed in the 2017 annual financial statements.

3. Financial risk management

(a) In the normal course of business, the Group is exposed to financial risks attributable to interest rates, currencies, credit and liquidity.

Notes to the Condensed Interim Financial Statements (cont'd)

3. Financial risk management (cont'd)

The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2017 annual financial statements. There have been no changes in the Group's financial risk management structure, policies and procedures since the year end.

(b) The tables below analyse financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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).
- Unobservable inputs for the asset or liability (level 3).

Financial instruments that are measured at fair value are included in the following fair value hierarchy:

	Level 2	Level 3	Total carrying amount
	HK$M	HK$M	HK$M
Assets as per consolidated statement of financial position			
At 30th June 2018			
Derivatives used for hedging	**10**	**-**	**10**
Derivatives not qualifying as hedges	**1**	**-**	**1**
Total	**11**	**-**	**11**
At 31st December 2017			
Derivatives used for hedging	12	-	12
Derivatives not qualifying as hedges	1	-	1
Total	13	-	13
Liabilities as per consolidated statement of financial position			
At 30th June 2018			
Derivatives used for hedging	**4**	**-**	**4**
Put option over a non-controlling interest in a subsidiary company	**-**	**108**	**108**
Total	**4**	**108**	**112**
At 31st December 2017			
Put option over a non-controlling interest in a subsidiary company	-	106	106
Total	-	106	106

Notes to the Condensed Interim Financial Statements (cont'd)

3. Financial risk management (cont'd)

(b) The following table presents the change in level 3 instrument:

	Put option over a non-controlling interest in a subsidiary company HK$M
At 1st January 2018	106
Translation differences	1
Change in fair value recognised in profit or loss during the period	1
At 30th June 2018	**108**
Total loss for the period included in profit or loss in respect of financial instrument held at 30th June 2018	**1**
Change in unrealised loss for the period included in profit or loss in respect of financial instrument held at 30th June 2018	**1**

There has been no change in valuation techniques for level 2 and level 3 fair value hierarchy classifications.

The fair value of derivatives in Level 2 is determined based on quotes from market makers or alternative market participants supported by observable inputs. The most significant inputs are market interest rates and exchange rates.

The fair value of the put option over a non-controlling interest in a subsidiary company in Level 3 is determined using discounted cash flow valuation technique. The significant unobservable inputs used in the fair value measurement are the terminal growth rate into perpetuity and discount rate.

Information about fair value measurements using significant unobservable inputs (Level 3) in the period under review is as follows:

Description	Unobservable inputs	Unobservable inputs (%)	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation HK$M
Put option over a non-controlling interest in a subsidiary company	Terminal growth rate into perpetuity	1.5%	The higher the terminal growth rate, the higher the fair value	+/-1%	41 / (29)
	Discount rate	7.5%	The higher the discount rate, the lower the fair value	+/-1%	(55) / 76

Notes to the Condensed Interim Financial Statements (cont'd)

3. Financial risk management (cont'd)

(b) The Group's finance department includes a team that performs the valuations of financial instruments required for financial reporting purposes, including Level 3 fair values. This team reports to Group Director Finance. Discussions of valuation processes and results are held between Group Director Finance and the valuation team at least once every six months, in line with the Group's external reporting dates.

4. Segment information

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

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

					HAESL				
Six months ended 30th June 2018	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	At 100%	Adjustments to reflect the Group's equity share	Other segments - subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
External revenue	**2,077**	**1,356**	**1,090**	**2,422**	**6,680**	**(6,680)**	**380**	**-**	**7,325**
Inter-segment revenue	**39**	**8**	**9**	**-**	**11**	**(11)**	**8**	**(64)**	**-**
Total revenue	**2,116**	**1,364**	**1,099**	**2,422**	**6,691**	**(6,691)**	**388**	**(64)**	**7,325**
Timing of revenue recognition									
Over time	**2,077**	**901**	**1,033**	**2,422**	**6,680**	**(6,680)**	**372**	**-**	**6,805**
At a point in time	**-**	**455**	**57**	**-**	**-**	**-**	**8**	**-**	**520**
	2,077	**1,356**	**1,090**	**2,422**	**6,680**	**(6,680)**	**380**	**-**	**7,325**
Operating profit/(loss)	**157**	**(85)**	**260**	**151**	**439**	**(439)**	**70**	**-**	**553**
Finance income	**12**	**-**	**12**	**3**	**-**	**-**	**1**	**(22)**	**6**
Finance charges	**(27)**	**(33)**	**-**	**-**	**(8)**	**8**	**(20)**	**21**	**(59)**
Share of after-tax results of joint venture companies	**-**	**-**	**-**	**-**	**-**	**180**	**-**	**42**	**222**
Profit/(loss) before taxation	**142**	**(118)**	**272**	**154**	**431**	**(251)**	**51**	**41**	**722**
Taxation charge	**(25)**	**-**	**(45)**	**(25)**	**(71)**	**71**	**(7)**	**(13)**	**(115)**
Profit/(loss) for the period	**117**	**(118)**	**227**	**129**	**360**	**(180)**	**44**	**28**	**607**
Depreciation	**93**	**39**	**65**	**20**	**59**	**(59)**	**53**	**-**	**270**
Amortisation	**-**	**28**	**7**	**17**	**2**	**(2)**	**1**	**-**	**53**
Provision for impairment of stock	**5**	**7**	**1**	**-**	**3**	**(3)**	**-**	**-**	**13**
Reversal of impairment of stock and property, plant and equipment	**-**	**(4)**	**(7)**	**-**	**-**	**-**	**-**	**-**	**(11)**

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Notes to the Condensed Interim Financial Statements (cont'd)

4. Segment information (cont'd)

Six months ended 30th June 2017	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments - subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
External revenue	2,041	1,435	1,055	2,556	4,652	(4,652)	318	-	7,405
Inter-segment revenue	66	-	11	1	11	(11)	8	(86)	-
Total revenue	2,107	1,435	1,066	2,557	4,663	(4,663)	326	(86)	7,405
Timing of revenue recognition									
Over time	2,041	962	1,004	-	-	-	315	-	4,322
At a point in time	-	473	51	2,556	4,652	(4,652)	3	-	3,083
	2,041	1,435	1,055	2,556	4,652	(4,652)	318	-	7,405
Operating profit/(loss)	176	(182)	213	191	326	(326)	68	-	466
Finance income	9	-	11	1	1	(1)	-	(16)	5
Finance charges	(15)	(26)	-	(2)	(1)	1	(23)	10	(56)
Share of after-tax results of joint venture companies	-	-	-	-	-	136	-	45	181
Profit/(loss) before taxation	170	(208)	224	190	326	(190)	45	39	596
Taxation charge	(31)	-	(38)	(28)	(54)	54	(11)	(13)	(121)
Profit/(loss) for the period	139	(208)	186	162	272	(136)	34	26	475
Depreciation	87	34	59	20	48	(48)	61	-	261
Amortisation	1	28	7	16	3	(3)	-	-	52
Provision for impairment of stock	3	10	-	1	2	(2)	-	-	14

Year ended 31st December 2017	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments - subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
External revenue	4,041	2,625	2,041	5,162	9,570	(9,570)	677	-	14,546
Inter-segment revenue	90	-	23	1	24	(24)	15	(129)	-
Total revenue	4,131	2,625	2,064	5,163	9,594	(9,594)	692	(129)	14,546
Operating profit/(loss)	327	(1,181)	275	356	595	(595)	134	-	(89)
Finance income	19	-	21	3	4	(4)	-	(32)	11
Finance charges	(33)	(53)	-	(4)	(17)	17	(45)	4	(131)
Share of after-tax results of joint venture companies	-	-	-	-	-	244	-	70	314
Profit/(loss) before taxation	313	(1,234)	296	355	582	(338)	89	42	105
Taxation charge	(56)	(249)	(53)	(53)	(95)	95	(19)	(21)	(451)
Profit/(loss) for the year	257	(1,483)	243	302	487	(243)	70	21	(346)
Depreciation	181	68	117	44	106	(106)	123	-	533
Amortisation	2	56	14	32	5	(5)	1	-	105
Provision for impairment of stock and property, plant and equipment	13	49	25	2	3	(3)	-	-	89
Provision for impairment of goodwill	-	625	-	-	-	-	-	-	625
Auditors' remuneration - statutory audit fees	3	2	1	-	-	-	1	-	7

Notes to the Condensed Interim Financial Statements (cont'd)

4. Segment information (cont'd)

At 30th June 2018	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments - subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Total segment assets	**3,675**	**3,075**	**3,094**	**2,209**	**3,923**	**(3,923)**	**2,073**	**(1,843)**	**12,283**
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	**39**	**24**	**59**	**8**	**47**	**(47)**	**122**	**-**	**252**
Total segment liabilities	**2,516**	**2,996**	**397**	**727**	**1,994**	**(1,994)**	**1,627**	**(1,788)**	**6,475**

At 31st December 2017	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments - subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Total segment assets	3,698	3,158	3,137	2,340	3,404	(3,404)	1,967	(1,992)	12,308
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	135	485	118	37	283	(283)	208	-	983
Total segment liabilities	2,769	3,225	445	804	1,538	(1,538)	1,556	(1,949)	6,850

	30th June 2018	31st December 2017
	HK$M	HK$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	**12,283**	12,308
Unallocated: investment in joint venture companies	**1,795**	1,727
Total assets	**14,078**	14,035

The Group's principal joint venture companies are held by HAECO and HAECO Xiamen.

Reportable segments' liabilities are equal to total liabilities.

HAESL has been determined as a reportable segment, although it is a joint venture company. The Executive Directors of the Board review the full statement of profit or loss and net assets of this entity as part of its performance review and resource allocation decisions. Full information on revenue, profit, assets and liabilities has been included in the above, although these amounts do not appear in the Group's consolidated statement of profit or loss and consolidated 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 consolidated statement of profit or loss and consolidated statement of financial position.

Notes to the Condensed Interim Financial Statements (cont'd)

4. Segment information (cont'd)

There are no differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss except for the additional disclosure under HKFRS 15 for the timing of revenue recognition following the adoption of HKFRS 15 with effect from 1st January 2018.

5. Finance income and finance charges

	Six months ended 30th June		Year ended 31st December
	2018	2017	2017
	HK$M	HK$M	HK$M
Finance income:			
Short-term deposits and bank balances	**6**	5	11
Finance charges:			
Bank loans	**(54)**	(46)	(97)
Advance from a related party	**(5)**	(4)	(8)
Finance lease obligations	**-**	-	(1)
Fair value gains/(losses) on derivative instruments:			
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	**1**	(1)	(2)
Fair value loss on a put option over a non-controlling interest in a subsidiary company	**(1)**	(6)	(28)
Capitalised on property, plant and equipment	**-**	1	5
Total finance charges	**(59)**	(56)	(131)
Net finance charges	**(53)**	(51)	(120)

6. Taxation

	Six months ended 30th June		Year ended 31st December
	2018	2017	2017
	HK$M	HK$M	HK$M
Current taxation:			
Hong Kong profits tax	**33**	42	57
Overseas taxation	**79**	77	123
(Over)/under-provisions in prior years	**(1)**	1	3
	111	120	183
Deferred taxation:			
Decrease/(increase) in deferred tax assets	**6**	(1)	368
(Decrease)/increase in deferred tax liabilities	**(2)**	2	(100)
	115	121	451

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Notes to the Condensed Interim Financial Statements (cont'd)

6. Taxation (cont'd)

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

The Group's share of joint venture companies' tax charges for the six months ended 30th June 2018 of HK$45 million (30th June 2017: HK$31 million; year ended 31st December 2017: HK$61 million) is included in the share of after-tax results of joint venture companies shown in the consolidated statement of profit or loss.

7. Dividends

	Six months ended 30th June		Year ended 31st December
	2018	2017	2017
	HK$M	HK$M	HK$M
First interim dividend declared on 7th August 2018 of HK$0.72 per share (2017 first interim dividend paid: HK$0.53 per share)	**120**	88	88
Second interim dividend paid on 24th April 2018 of HK$0.50 per share	**-**	-	83
	120	88	171

The Directors have declared a first interim dividend of HK$0.72 per share (2017: HK$0.53 per share) for the year ending 31st December 2018. The first interim dividend, which totals HK$120 million (2017: HK$88 million), will be paid on 18th September 2018 to shareholders registered at the close of business on the record date, being Friday, 31st August 2018. Shares of the Company will be traded ex-dividend as from Wednesday, 29th August 2018.

The register of members will be closed on Friday, 31st August 2018, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim 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 Thursday, 30th August 2018.

8. Earnings/(loss) per share (basic and diluted)

Earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to the Company's shareholders for the period ended 30th June 2018 of HK$469 million (30th June 2017: a profit of HK$348 million; 31st December 2017: a loss of HK$541 million) by the weighted average number of 166,324,850 ordinary shares in issue during the period (30th June 2017: 166,324,850; 31st December 2017: 166,324,850).

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Notes to the Condensed Interim Financial Statements (cont'd)

9. Property, plant and equipment and land and land use rights

	Property, plant and equipment HK$M	Land and land use rights HK$M
Net book value:		
At 1st January 2018	**5,719**	**328**
Translation differences	**(9)**	**(2)**
Additions	**246**	**-**
Disposals	**(80)**	**-**
Depreciation and amortisation	**(270)**	**(6)**
Reversal of impairment losses	**4**	**-**
At 30th June 2018	**5,610**	**320**

Property, plant and equipment and land and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Directors do not consider there to be any additional impairment provision required at 30th June 2018.

The relocation proposed by the Xiamen municipal government of the Gaoqi airport to a new airport in the Xiang'an district remains subject to central government approval. The total net book value of HAECO Xiamen's property, plant and equipment and land use rights at the end of 30th June 2018 was HK$1,381 million (31st December 2017: HK$1,412 million), some of which will be subject to relocation. Management engaged an independent consultant to perform preliminary compensation assessments in order to evaluate the recoverable amounts of property, plant and equipment and land use rights at the existing Xiamen airport that might be affected by the proposal to develop a new airport and has concluded that the carrying value remains appropriate at 30th June 2018. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

10. Intangible assets

	Goodwill HK$M	Technical licences HK$M	Customer relationships HK$M	Others HK$M	Total HK$M
Net book value:					
At 1st January 2018	**518**	**334**	**551**	**63**	**1,466**
Translation differences	**3**	**1**	**2**	**-**	**6**
Additions	**-**	**-**	**-**	**6**	**6**
Disposals	**-**	**-**	**-**	**(1)**	**(1)**
Amortisation	**-**	**(13)**	**(25)**	**(9)**	**(47)**
At 30th June 2018	**521**	**322**	**528**	**59**	**1,430**

Notes to the Condensed Interim Financial Statements (cont'd)

10. Intangible assets (cont'd)

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of impairment reviews on goodwill, HAECO Americas is split into two cash generating units ("CGUs") of airframe services and cabin solutions. The Directors do not consider there to be any impairment required for the six months ended 30th June 2018.

11. Joint venture companies

The Group's share of the results, assets and liabilities of the joint venture companies are as follows:

	HAESL			Others			Total		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2018	2017	2017	**2018**	2017	2017	**2018**	2017	2017
	HK$M	HK$M	HK$M	**HK$M**	HK$M	HK$M	**HK$M**	HK$M	HK$M
At 1st January									
as originally stated	**1,298**	1,259	1,259	**429**	348	348	**1,727**	1,607	1,607
adjustment on adoption of HKFRS 15	**14**	-	-	**9**	-	-	**23**	-	-
as restated	**1,312**	1,259	1,259	**438**	348	348	**1,750**	1,607	1,607
Translation differences	**4**	6	7	**(7)**	13	31	**(3)**	19	38
Share of profit	**180**	136	244	**42**	45	70	**222**	181	314
Share of other comprehensive income	**-**	-	8	**-**	-	-	**-**	-	8
Dividends received from joint venture companies	**(167)**	(115)	(220)	**(7)**	-	(20)	**(174)**	(115)	(240)
At period end	**1,329**	1,286	1,298	**466**	406	429	**1,795**	1,692	1,727

12. Retirement benefits

The movement in the retirement benefit assets and retirement benefit liabilities recognised in the statement of financial position is as follows:

	Assets	**Liabilities**
	Expatriate Scheme	**Local Scheme**
	HK$M	**HK$M**
At 1st January 2018	**48**	**108**
Movement due to:		
Net expenses charged to statement of profit or loss	**-**	**48**
Contributions paid	**-**	**(37)**
At 30th June 2018	**48**	**119**

Notes to the Condensed Interim Financial Statements (cont'd)

13. Derivative financial instruments

The Group uses derivative financial instruments solely for management of an underlying risk. The Group minimises its exposure to market risk since gains and losses on derivatives offset the losses and gains on the transactions being hedged. It is the Group's policy not to enter into derivative transactions for speculative purposes.

	Assets		Liabilities	
	30th June 2018	31st December 2017	**30th June 2018**	31st December 2017
	HK$M	HK$M	**HK$M**	HK$M
Forward foreign exchange contracts				
- cash flow hedges	**1**	6	**4**	-
- not qualifying as hedges	**1**	1	**-**	-
Interest rate swaps				
- cash flow hedges	**9**	6	**-**	-
Total	**11**	13	**4**	-
Analysed as:				
Current	**5**	7	**3**	-
Non-current	**6**	6	**1**	-
	11	13	**4**	-

Notes to the Condensed Interim Financial Statements (cont'd)

14. Trade and other receivables

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.

	30th June 2018 HK$M	31st December 2017 HK$M
Trade receivables	**844**	1,038
Less: provision for impairment of receivables	**(30)**	(46)
	814	992
Amounts due from joint venture companies	**8**	8
Amounts due from related parties	**458**	349
Other receivables and prepayments	**380**	340
	1,660	1,689

	30th June 2018 HK$M	31st December 2017 HK$M
The analysis of the age of trade receivables (based on the invoice date) is as follows:		
Under three months	**704**	921
Between three and six months	**98**	70
Over six months	**42**	47
	844	1,038

Notes to the Condensed Interim Financial Statements (cont'd)

15. Trade and other payables

	30th June 2018 HK$M	31st December 2017 HK$M
Trade payables	**617**	623
Amounts due to joint venture companies	**7**	7
Amounts due to related parties	**33**	23
Accrued capital expenditure	**74**	178
Accruals	**906**	1,038
Deferred income	**405**	487
Other payables	**145**	220
	2,187	2,576

	30th June 2018 HK$M	31st December 2017 HK$M
The analysis of the age of trade payables (based on the invoice date) is as follows:		
Under three months	**611**	612
Between three and six months	**3**	3
Over six months	**3**	8
	617	623

Included within accruals are amounts for provisions for certain customer claims. In accordance with the exemption allowed under paragraph 92 of HKAS 37, these amounts are not separately disclosed on the grounds that the Directors believe that doing so could be prejudicial to the eventual outcome of these claims.

16. Deferred taxation

The movement on the net deferred tax liabilities account is as follows:

	HK$M
At 1st January 2018	
as originally stated	**258**
adjustment on adoption of HKFRS 15	**11**
as restated	**269**
Translation differences	**3**
Charged to statement of profit or loss	**4**
Credited to other comprehensive income	**(1)**
At 30th June 2018	**275**
Represented by:	
Deferred tax assets	**(70)**
Deferred tax liabilities	**345**
	275

Notes to the Condensed Interim Financial Statements (cont'd)

17. Share capital

	Company	
	Number of shares	HK$M
Issued and fully paid:		
At 30th June 2018 and 31st December 2017	**166,324,850**	**185**

During the period, the Group did not purchase, sell or redeem any of its shares.

18. Reserves

	Revenue reserve	Exchange translation reserve	Cash flow hedge reserve	Total
	HK$M	HK$M	HK$M	HK$M
At 1st January 2018				
as originally stated	**5,248**	**127**	**8**	**5,383**
adjustment on adoption of HKFRS 15	**62**	**-**	**-**	**62**
as restated	**5,310**	**127**	**8**	**5,445**
Total comprehensive income for the period	**469**	**(20)**	**(2)**	**447**
2017 second interim dividend	**(83)**	**-**	**-**	**(83)**
At 30th June 2018	**5,696**	**107**	**6**	**5,809**

The revenue reserve includes HK$120 million representing the declared first interim dividend (31st December 2017: HK$83 million representing the second interim dividend for 2017).

19. Capital commitments

	30th June 2018	31st December 2017
	HK$M	HK$M
Outstanding capital commitments at the end of the period:		
Contracted for	**241**	176
Authorised by Directors but not contracted for	**479**	711
	720	887

Notes to the Condensed Interim Financial Statements (cont'd)

20. Related party transactions

The Group has a number of transactions with its related parties and connected persons. 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 aggregate transactions which are material to the Group and which have not been disclosed elsewhere in the interim financial statements are summarised below:

	Note	Joint venture companies			Other related parties			Total		
		Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
		2018	2017	2017	**2018**	2017	2017	**2018**	2017	2017
		HK$M	HK$M	HK$M	**HK$M**	HK$M	HK$M	**HK$M**	HK$M	HK$M
Revenue from rendering of services	a	**18**	22	50	**1,516**	1,385	2,774	**1,534**	1,407	2,824
		18	22	50	**1,516**	1,385	2,774	**1,534**	1,407	2,824
Purchases of:										
Services from John Swire & Sons (H.K.) Limited under services agreement										
- Service fees payable during the period	b	-	-	-	**18**	13	17	**18**	13	17
- Expenses reimbursed at cost	b	-	-	-	**42**	46	78	**42**	46	78
Subtotal	b	-	-	-	**60**	59	95	**60**	59	95
- Share of administrative services		-	-	-	**1**	1	4	**1**	1	4
Total		-	-	-	**61**	60	99	**61**	60	99
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		-	-	-	**2**	2	7	**2**	2	7
Services from Cathay Pacific group	b	-	-	-	**15**	12	20	**15**	12	20
Other services	c	**23**	17	35	**4**	10	18	**27**	27	53
		23	17	35	**82**	84	144	**105**	101	179

Notes:

a. Revenue from joint venture companies mainly came from the provision to HAESL of engine component repairs and the provision to HAESL and Goodrich Asia-Pacific Limited of facilities rental on a commercial arm's length basis. Revenue from other related parties mainly came from the provision of aircraft maintenance service.

b. These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules.

c. Purchases from joint venture companies comprised mainly the provision of labour support charge by HAESL.

d. Amounts due from and due to joint venture companies and other related parties at 30th June 2018 are disclosed in note 14 and note 15 to the interim financial statements.

Supplementary Information

Corporate governance

The Company complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the interim report with the following exceptions which it believes do not benefit shareholders:

- Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by the Board as to suitability for the role.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules.

On specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the interim report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

The interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

Share capital

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the period.

Directors' particulars

Changes in the particulars of the Directors are set out as follows:

1. J.R. Slosar retired as Chairman and an Executive Director of the Company, Swire Pacific Limited and Swire Properties Limited with effect from 1st July 2018.

2. M.B. Swire was elected as Chairman and re-designated as an Executive Director of the Company, Swire Pacific Limited and Swire Properties Limited with effect from 1st July 2018.

HAECO

Supplementary Information (cont'd)

Directors' interests

At 30th June 2018, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interests in the shares of John Swire & Sons Limited, an associated corporation of the Company (within the meaning of Part XV of the SFO):

	Capacity				Percentage of issued share capital (comprised in the class) (%)
	Beneficial interest				
	Personal	Family	Trust interest	Total no. of shares	
John Swire & Sons Limited					
Ordinary Shares of £1					
M.B. Swire	2,077,523	130,000	17,546,068	19,753,591	19.75
8% Cum. Preference Shares of £1					
M.B. Swire	2,769,489	-	13,656,040	16,425,529	18.25

Note: M.B. Swire is a trustee and/or a potential beneficiary of trusts which held 6,222,732 ordinary shares and 3,443,638 preference shares in John Swire & Sons Limited included under "Trust interest" and does not have any beneficial interest in those shares.

Other than as stated above, no Director or chief executive of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Supplementary Information (cont'd)

Substantial shareholders' and other interests

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2018 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	Long position	Number of shares	Percentage of voting shares (%)	Type of interest	Note
1.	Swire Pacific Limited	124,723,637	74.99	Beneficial owner	1
2.	John Swire & Sons Limited	124,723,637	74.99	Attributable interest	2

Notes:
At 30th June 2018:
1. Swire Pacific Limited was interested in 124,723,637 shares of the Company as beneficial owner.
2. John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited were deemed to be interested in a total of 124,723,637 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group being interested in 55.10% of the equity of Swire Pacific Limited and controlling 63.97% of the voting rights attached to shares in Swire Pacific Limited.

Interim Report

The 2018 Interim Report containing all the information required by the Listing Rules will be published on the Stock Exchange website and the Company website www.haeco.com on or before 29th August 2018. Printed copies will be sent to shareholders who have elected to receive printed copies on 30th August 2018.

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

Executive Directors: M.B. Swire (Chairman), W.E.J. Barrington, C.P. Gibbs, R.J. Sharpe, A.K.W. Tang;
Non-Executive Director: G.T.F. Hughes; and
Independent Non-Executive Directors: B.Y.C. Cha, Y.K. Leung, J.L. Lewis and P.P.W. Tse.

By Order of the Board
Hong Kong Aircraft Engineering Company Limited
Merlin Swire
Chairman
Hong Kong, 7th August 2018

Financial Calendar and Information for Investors

Financial Calendar 2018	
Shares trade ex-dividend	29th August 2018
Interim Report available to shareholders	30th August 2018
Share register closed for first interim dividend entitlement	31st August 2018
Payment of 2018 first interim dividend	18th September 2018
Annual results announcement	March 2019
Annual General Meeting	May 2019

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