
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Composite Document or the Offer contained herein, you should consult a licensed securities dealer, or other registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Hong Kong Aircraft Engineering Company Limited, you should at once hand this Composite Document and the accompanying Form(s) of Acceptance to the purchaser(s) or the transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form of Acceptance.



SWIRE PACIFIC LIMITED

*(incorporated in Hong Kong
with limited liability)*
(Stock Codes: 19 and 87)



**HONG KONG AIRCRAFT
ENGINEERING COMPANY LIMITED**

*(incorporated in Hong Kong
with limited liability)*
(Stock Code: 44)

**COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO THE
MANDATORY UNCONDITIONAL CASH OFFER BY
ASIA PACIFIC ADVISERS LIMITED AND
THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
ON BEHALF OF SWIRE PACIFIC LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
NOT ALREADY OWNED BY SWIRE PACIFIC LIMITED OR ITS SUBSIDIARIES**

Joint financial advisers to Swire Pacific Limited



**Independent financial adviser to the independent board committee
of Hong Kong Aircraft Engineering Company Limited**



Terms defined in the section headed "Definitions" in this Composite Document shall have the same meanings when used on this cover page.

A letter from APA and HSBC containing, among other things, details of the terms of the Offer is set out on pages 5 to 14 of this Composite Document. A letter from the HAECO Board is set out on pages 15 to 21 of this Composite Document. A letter from the HAECO Independent Board Committee to the HAECO Independent Shareholders is set out on pages 22 to 23 of this Composite Document. A letter from Rothschild, the HAECO Independent Financial Adviser, containing its advice to the HAECO Independent Board Committee, is set out on pages 24 to 41 of this Composite Document.

The procedure for acceptance and settlement of the Offer is set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the Offer must be received by the Registrar by no later than 4:00 p.m. on Tuesday, 27th July 2010 (or such later time and/or date as Swire Pacific may decide and announce in accordance with the Takeovers Code).

28th June 2010

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EXPECTED TIMETABLE

Despatch Date and the commencement of the Offer ⁽¹⁾	Monday, 28th June 2010
Latest time and date for acceptance of the Offer ^{(2), (3)}	4:00 p.m. on Tuesday, 27th July 2010
Closing Date of the Offer ⁽²⁾	Tuesday, 27th July 2010
Announcement of the results of the Offer, or as to whether the Offer has been revised or extended, on the website of the Stock Exchange ⁽²⁾	By 7:00 p.m. on Tuesday, 27th July 2010
Latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances received under the Offer ⁽⁴⁾	Friday, 6th August 2010

Notes:

1. The Offer is made on Monday, 28th June 2010, being the date of posting of this Composite Document, and is capable of acceptance on and from that date until the Closing Date.
2. The Offer, which is unconditional, will close on Tuesday, 27th July 2010 unless Swire Pacific revises or extends the Offer in accordance with the Takeovers Code and applicable laws. Swire Pacific reserves the right to extend the Offer until such date as it may determine pursuant to the Takeovers Code and applicable laws. An announcement will be posted on the website of the Stock Exchange by 7:00 p.m. on Tuesday, 27th July 2010 stating whether the Offer has been revised or extended or has expired. In the event that Swire Pacific decides to extend the Offer, notice in writing of at least 14 days will be given before the Offer is closed to those HAECO Shareholders who have not accepted the Offer. If in the course of the Offer Swire Pacific revises its terms, all the HAECO Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms. A revised Offer must be kept open for at least 14 days or, if longer and to the extent required by applicable U.S. regulations (including where there is a change in the Offer Price), at least 10 U.S. Business Days following the date on which the revised Offer document is posted, and shall not be closed earlier than 27th July 2010.
3. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code. Please refer to paragraph 5 headed "Right of Withdrawal" in Appendix I to this Composite Document for further information on the circumstances where acceptances may be withdrawn.
4. Pursuant to the Takeovers Code, remittances in respect of the consideration payable for the Offer Shares tendered under the Offer will be sent by ordinary post to the HAECO Shareholders accepting the Offer at their respective addresses as they appear on the register of members of HAECO or, in the case of joint HAECO Shareholders, to the HAECO Shareholder whose name stands first in the register of members of HAECO at the HAECO Shareholder's own risk as soon as possible, but in any event within 10 days from the date of the receipt by the Registrar of the duly completed Form of Acceptance and all requisite documents from the relevant HAECO Shareholder accepting the Offer. Please refer to the paragraph headed "Settlement of the Offer" in the "Letter from APA and HSBC" in this Composite Document for further information in relation to the settlement of the Offer.

Unless otherwise expressly stated, references in this Composite Document to time are to Hong Kong time. The expected timetable above is indicative only and further announcement(s) will be made in the event of any changes to the timetable.

DEFINITIONS

In this Composite Document, the following expressions have the meanings set out below, unless the context requires otherwise:

acting in concert	has the meaning given to it in the Takeovers Code
APA	Asia Pacific Advisers Limited, a licensed corporation under the SFO to conduct Type 6 (advising on corporate finance) regulated activity
Cathay Pacific	Cathay Pacific Airways Limited, a company incorporated in Hong Kong and listed on the Stock Exchange, the principal activity of which is the operation of scheduled airline services
CCASS	the Central Clearing and Settlement System established and operated by HKSCC
Closing Date	27th July 2010 or any subsequent closing date of the Offer if it is extended or revised in accordance with the Takeovers Code and applicable laws
Companies Ordinance	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
Composite Document	this composite offer and response document jointly issued by Swire Pacific and HAECO to the HAECO Shareholders dated 28th June 2010
Concert Parties	in relation to Swire Pacific, persons acting in concert with Swire Pacific
Despatch Date	28th June 2010, being the date of posting of this Composite Document
Disinterested Shares	all HAECO Shares other than those held by Swire Pacific and its Concert Parties
DTZ	DTZ Debenham Tie Leung Limited
Executive	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
Form of Acceptance	the form of acceptance and transfer of HAECO Shares in respect of the Offer
HAECO	Hong Kong Aircraft Engineering Company Limited, a company incorporated in Hong Kong and listed on the Stock Exchange, the principal activity of which is the provision of overhaul and maintenance services for commercial aircraft

DEFINITIONS

HAECO ADSs	the American depositary shares evidencing the American depositary receipts issued under the deposit agreement entered into in 1994 by and among HAECO, The Bank of New York Mellon (formerly, The Bank of New York), as depositary, and owners and holders of such American depositary receipts
HAECO Board	the board of directors of HAECO
HAECO Director(s)	the director(s) of HAECO as at the date of this Composite Document
HAECO Group	HAECO and its subsidiaries
HAECO Independent Board Committee	an independent board committee of the directors of HAECO comprising R.E. Adams, C.P. Gibbs, L.K.K. Leong and D.C.L. Tong
HAECO Independent Financial Adviser or Rothschild	N M Rothschild & Sons (Hong Kong) Limited, a licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities, being the independent financial adviser to the HAECO Independent Board Committee in respect of the Offer
HAECO Independent Shareholders	HAECO Shareholders apart from Swire Pacific and its Concert Parties
HAECO Overseas Shareholders	HAECO Shareholders who are located outside of Hong Kong
HAECO Shareholders	holders of HAECO Shares
HAECO Shares	ordinary shares of HK\$1.00 each in the share capital of HAECO
HKSCC	Hong Kong Securities Clearing Company Limited
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the People's Republic of China
HSBC	The Hongkong and Shanghai Banking Corporation Limited, a registered institution under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)

DEFINITIONS

HSBC Entities	HSBC and persons controlling, controlled by or under the same control as HSBC, other than persons holding the status of exempt fund manager
Joint Announcement	the joint announcement issued by Swire Pacific, Cathay Pacific and HAECO dated 7th June 2010 in relation to the Transaction and the Offer
Last Trading Date	4th June 2010, being the last day on which HAECO Shares were traded on the Stock Exchange prior to the publication of the Joint Announcement
Latest Practicable Date	25th June 2010, being the latest practicable date prior to the date of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Offer	the mandatory unconditional cash offer made by APA and HSBC on behalf of Swire Pacific to acquire all the Offer Shares
Offer Period	the period from the date of the Joint Announcement until 4:00 p.m. on the Closing Date
Offer Price	the price per HAECO Share payable in cash by Swire Pacific on the terms of the Offer
Offer Shares	64,926,947 HAECO Shares not already owned by Swire Pacific or its subsidiaries
Registrar	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, being the share registrar of HAECO in Hong Kong for receiving and processing acceptances of the Offer in respect of the Offer Shares which are listed on the Stock Exchange
Relevant Period	the period commencing on 7th December 2009, being the date falling six months prior to date of the Joint Announcement and ending on the Latest Practicable Date
Sale and Purchase Agreement	the sale and purchase agreement dated 7th June 2010 between Swire Pacific and Cathay Pacific in relation to the sale by Cathay Pacific and purchase by Swire Pacific of the Sale Shares

DEFINITIONS

Sale Shares	24,948,728 HAECO Shares, representing approximately 15.00% of the issued share capital of HAECO
SFC	Securities and Futures Commission of Hong Kong
SFO	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Stock Exchange	The Stock Exchange of Hong Kong Limited
Swire Pacific	Swire Pacific Limited, a company incorporated in Hong Kong and listed on the Stock Exchange, the principal activity of which is investment holding
Swire Pacific 'A' Shares	'A' shares with a par value of HK\$0.60 each in the share capital of Swire Pacific
Swire Pacific 'B' Shares	'B' shares with a par value of HK\$0.12 each in the share capital of Swire Pacific
Swire Pacific Director(s)	the director(s) of Swire Pacific as at the date of this Composite Document
Swire Pacific Shareholders	holders of Swire Pacific Shares
Swire Pacific Shares	Swire Pacific 'A' Shares and Swire Pacific 'B' Shares
Takeovers Code	the Hong Kong Code on Takeovers and Mergers
Transaction	the sale and purchase of the Sale Shares pursuant to the terms of the Sale and Purchase Agreement
U.S. or United States	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia
U.S. Business Day	any day, other than Saturday, Sunday or a U.S. federal holiday, and consisting of the time period from 12:01 a.m. to 12:00 midnight Eastern time

LETTER FROM APA AND HSBC

Joint financial advisers to Swire Pacific Limited



28th June 2010

To the HAECO Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
ASIA PACIFIC ADVISERS LIMITED AND
THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
ON BEHALF OF SWIRE PACIFIC LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
NOT ALREADY OWNED BY SWIRE PACIFIC LIMITED OR ITS SUBSIDIARIES**

INTRODUCTION

On 7th June 2010, Swire Pacific, Cathay Pacific and HAECO jointly announced that on 7th June 2010, Swire Pacific and Cathay Pacific entered into the Sale and Purchase Agreement, pursuant to which Swire Pacific purchased and Cathay Pacific sold 24,948,728 HAECO Shares (representing approximately 15.00% of the issued share capital of HAECO) for a consideration of approximately HK\$2,620 million (equivalent to HK\$105 per HAECO Share).

Upon completion of the Transaction, which took place on 14th June 2010, Swire Pacific owned 101,397,903 HAECO Shares representing approximately 60.96% of the issued share capital of HAECO. In accordance with Rule 26.1 of the Takeovers Code, Swire Pacific is required to make a mandatory unconditional general offer in cash for all the issued HAECO Shares other than those HAECO Shares already owned by or agreed to be acquired by Swire Pacific or its subsidiaries upon completion of the Transaction.

Unless the context requires otherwise, terms defined in the Composite Document of which this letter forms part shall have the same meanings when used herein.

UNCONDITIONAL OFFER

The Offer is unconditional in all respects and is therefore not conditional upon any minimum level of acceptances being received or subject to any other condition.

Asia Pacific Advisers Limited
Suite 610, One Pacific Place
88 Queensway
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

LETTER FROM APA AND HSBC

THE OFFER

On behalf of Swire Pacific, we hereby unconditionally make the Offer to acquire all the HAECO Shares not already owned or agreed to be acquired by Swire Pacific or its subsidiaries on the following basis:

Offer Price

For each HAECO Share HK\$105 in cash

The Offer Price is equal to the price paid by Swire Pacific for each Sale Share under the Sale and Purchase Agreement. This letter, Appendix I to the Composite Document and the accompanying Form of Acceptance together set out the terms and conditions of the Offer and certain related information.

Comparisons of Value

The Offer Price represents:

- (a) a premium of 25.0% over the closing price of HK\$84.00 per HAECO Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of 25.4% over the average closing price of HK\$83.72 per HAECO Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date;
- (c) a premium of 15.7% over the average closing price of HK\$90.72 per HAECO Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Date;
- (d) a premium of 9.9% over the average closing price of HK\$95.51 per HAECO Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Last Trading Date;
- (e) a premium of 8.0% over the average closing price of HK\$97.23 per HAECO Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Last Trading Date;
- (f) a premium of 7.7% over the average closing price of HK\$97.53 per HAECO Share as quoted on the Stock Exchange for the last 180 trading days up to and including the Last Trading Date;
- (g) a discount of 0.1% to the closing price of HK\$105.10 per HAECO Share as quoted on the Stock Exchange on the Latest Practicable Date;

LETTER FROM APA AND HSBC

- (h) a discount of 0.2% to the average closing price of HK\$105.16 per HAECO Share as quoted on the Stock Exchange for the last five trading days up to and including the Latest Practicable Date;
- (i) a premium of 11.5% over the average closing price of HK\$94.14 per HAECO Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Latest Practicable Date;
- (j) a premium of 9.0% over the average closing price of HK\$96.33 per HAECO Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Latest Practicable Date;
- (k) a premium of 7.3% over the average closing price of HK\$97.82 per HAECO Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Latest Practicable Date;
- (l) a premium of 6.7% over the average closing price of HK\$98.40 per HAECO Share as quoted on the Stock Exchange for the last 180 trading days up to and including the Latest Practicable Date; and
- (m) a premium of 237.3% over the audited consolidated net asset value (after deducting minority interests) attributable to HAECO Shareholders per HAECO Share of HK\$31.13 as at 31st December 2009.

Please refer to the section headed "Market Prices" in Appendix IV to the Composite Document for further information on the market prices of the HAECO Shares.

Highest and lowest prices

During the Relevant Period, the highest closing price of HAECO Shares as quoted on the Stock Exchange was HK\$106.70 per HAECO Share on 5th January 2010 and the lowest closing price of HAECO Shares as quoted on the Stock Exchange was HK\$80.00 on 25th May 2010.

Acceptance

The Offer is capable of acceptance on and from Monday, 28th June 2010 and will remain open for acceptance until Tuesday, 27th July 2010, unless extended or revised in accordance with the Takeovers Code and applicable laws. Swire Pacific reserves the right to revise or extend the Offer in accordance with the Takeovers Code and applicable laws.

Acceptances of the Offer must be received by no later than 4:00 p.m. on Tuesday, 27th July 2010.

LETTER FROM APA AND HSBC

Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to Swire Pacific that the HAECO Shares acquired under the Offer are sold by any such person or persons free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at 7th June 2010 or subsequently becoming attached to them, including the right to receive all dividends and distributions, if any, declared, made or paid on the HAECO Shares on or after 7th June 2010.

Acceptance of the Offer shall be unconditional and irrevocable and shall not be capable of being withdrawn, except as permitted under the Takeovers Code.

Please also refer to Appendix I to the Composite Document of which this letter forms part for further terms of the Offer.

CONFIRMATION OF FINANCIAL RESOURCES FOR THE OFFER

On the basis of the Offer Price of HK\$105 per HAECO Share and 166,324,850 HAECO Shares in issue as at the Latest Practicable Date, the entire issued share capital of HAECO is valued at approximately HK\$17,464 million.

Based on a total of 64,926,947 Offer Shares and the cash consideration of HK\$105 per HAECO Share, assuming full acceptance of the Offer, the maximum cash amount to be paid to HAECO Shareholders in respect of acceptances under the Offer is approximately HK\$6,817 million.

The Offer is unconditional in all respects. The cash consideration will be funded by a facility provided by HSBC. There is no arrangement in relation to such facility under which the payment of interest on, repayment of or security for any liability, contingent or otherwise, will depend, to any significant extent, on the business of HAECO. APA and HSBC are satisfied that sufficient financial resources are available to Swire Pacific to meet full acceptance of the Offer as described above.

INFORMATION ON SWIRE PACIFIC

Swire Pacific was incorporated on 12th March 1940 as a company with limited liability under the Companies Ordinance and is listed on the Stock Exchange. Its principal activity is investment holding.

For the twelve months ended 31st December 2009, the audited consolidated revenue and profit attributable to shareholders of Swire Pacific were HK\$24,909 million and HK\$19,917 million respectively. The earnings per share for Swire Pacific 'A' Shares and Swire Pacific 'B' Shares were HK\$13.24 and HK\$2.65 respectively.

LETTER FROM APA AND HSBC

The executive directors of Swire Pacific are Christopher D. Pratt (Chairman), Philip N.L. Chen, Martin Cubbon, Peter A. Kilgour, John R. Slosar and Antony N. Tyler; the non-executive directors of Swire Pacific are Baroness Dunn, James W.J. Hughes-Hallett, Peter A. Johansen and Merlin B. Swire; and the independent non-executive directors of Swire Pacific are Timothy G. Freshwater, Clement K.M. Kwok, Chien Lee, Margaret Leung, Michael C.C. Sze and Marjorie M.T. Yang.

Controlling shareholder of Swire Pacific

John Swire & Sons Limited was as at the Latest Practicable Date the beneficial owner of 194,881,158 Swire Pacific 'A' Shares and 2,038,165,765 Swire Pacific 'B' Shares, representing in aggregate approximately 40.04% of the issued share capital of, and approximately 57.25% of the voting rights in, Swire Pacific, and is therefore a controlling shareholder of Swire Pacific.

The directors of John Swire & Sons Limited are James W.J. Hughes-Hallett (Chairman), Baroness Dunn, N. Adam H. Fenwick, Barnaby N. Swire, John S. Swire, Merlin B. Swire, William J. Wemyss and Robert B. Woods.

SWIRE PACIFIC'S INTENTIONS IN RELATION TO HAECO

Reasons for the Offer

It has been the consistent intention of Swire Pacific to acquire additional shares of HAECO as and when the opportunity arises. Swire Pacific knows HAECO and its management team well, views HAECO as a core long-term strategic business for the Swire Pacific group, and is confident in the long-term prospects of HAECO. The Transaction allows Swire Pacific to acquire majority control of HAECO, and thereby consolidate HAECO's financials and cashflows, on terms which it regards as appropriate. Swire Pacific has carefully considered the potential impact of the Transaction and the Offer on its financial position and, taking into account the current investment plans of the Swire Pacific group, remains confident in Swire Pacific's long-term financial strength.

Business

It is the intention of Swire Pacific that HAECO will continue to carry on its current business, which principally comprises the provision of overhaul and maintenance services for commercial aircraft in Hong Kong and elsewhere. Swire Pacific does not intend to introduce any significant changes to the operations and management of HAECO (including any redeployment of fixed assets of HAECO).

Employment

Swire Pacific does not intend to make any significant changes to the continued employment of the employees of the HAECO Group.

LETTER FROM APA AND HSBC

COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING

Swire Pacific is satisfied with HAECO's status as a listed company and delisting HAECO is not a goal in itself. However, Swire Pacific intends to exercise the right under section 168 of the Companies Ordinance and pursuant to Rule 2.11 of the Takeovers Code compulsorily to acquire all those HAECO Shares not acquired by Swire Pacific under the Offer if Swire Pacific acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document. On completion of the compulsory acquisition process (if the compulsory acquisition right is exercised), HAECO will become a wholly-owned subsidiary of Swire Pacific and an application will be made for the withdrawal of the listing of HAECO Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules and, in addition, the deposit agreement governing the HAECO ADSs will be terminated pursuant to the terms thereof.

Pursuant to Rule 15.6 of the Takeovers Code, where Swire Pacific has stated in the Composite Document its intention to avail itself of its powers of compulsory acquisition, the Offer may not remain open for acceptance for more than four months from the Despatch Date, unless Swire Pacific has, by that time, become entitled to exercise such powers of compulsory acquisition, in which event it must do so without delay.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where Swire Pacific seeks to acquire or privatise HAECO by means of the Offer and the use of its compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Companies Ordinance, the level of acceptances of the Offer and purchases (in each case of the Disinterested Shares) made by Swire Pacific and parties acting in concert with it during the period of four months after the Despatch Date reaches 90% of the Disinterested Shares.

Furthermore, if the level of acceptances reaches 90% of the Disinterested Shares, Rule 2.11 of the Takeovers Code permits Swire Pacific to exercise such compulsory acquisition rights. If Swire Pacific proceeds with the privatisation of HAECO and withdrawal of listing of the HAECO Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules, HAECO will apply for a suspension of dealings in the HAECO Shares from the closing of the Offer up to the withdrawal of listing of the HAECO Shares from the main board of the Stock Exchange and, in addition, the deposit agreement governing the HAECO ADSs will be terminated pursuant to the terms thereof.

MAINTAINING THE LISTING

If Swire Pacific does not effect the compulsory acquisition set out above (whether by reason of not acquiring 90% of the Disinterested Shares or otherwise), Swire Pacific will, following the closing of the Offer, take appropriate steps to ensure that not less than 25% of the HAECO Shares will be held by the public in compliance with the Listing Rules, which may include Swire Pacific selling some of its HAECO Shares.

LETTER FROM APA AND HSBC

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to HAECO, being 25% of the issued HAECO Shares, is held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of HAECO Shares or (ii) there are insufficient HAECO Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in HAECO Shares.

In this connection, it should be noted that, upon the closing of the Offer, there may be insufficient public float for the HAECO Shares and therefore trading in the HAECO Shares may be suspended until a prescribed level of public float is attained.

TAKEOVERS CODE

As disclosed in the joint announcement by Swire Pacific and Cathay Pacific dated 16th September 2009, Swire Pacific undertook to the Executive that, except with the prior written consent of the Executive, Swire Pacific would not, for a period of two years following completion of the acquisition of approximately 12.45% of the issued HAECO Shares on 22nd October 2009, make any further acquisition of HAECO Shares which would increase its percentage of the votes exercisable at general meetings of HAECO. The Executive has given its written consent for Swire Pacific to proceed with the Transaction and the Offer.

OVERSEAS SHAREHOLDERS

The Offer is in respect of securities of a company incorporated in Hong Kong and admitted to listing in Hong Kong and is subject to the procedure and disclosure requirements of Hong Kong which may be different from other jurisdictions. HAECO Overseas Shareholders are advised to pay particular attention to the section headed "Taxation Advice" in this letter. The ability for HAECO Overseas Shareholders to participate in the Offer is subject to, and may be limited by, the laws and regulations of their respective jurisdictions. It is the responsibility of each HAECO Overseas Shareholder who wishes to accept the Offer to be satisfied as to the full observance of all the applicable legal and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consent which may be required, complying with any other necessary formalities or legal requirements and paying any transfer or other taxes due by the HAECO Overseas Shareholder in respect of such jurisdiction.

Acceptance of the Offer by any HAECO Overseas Shareholder will constitute a warranty by such HAECO Overseas Shareholder that such HAECO Overseas Shareholder (i) is permitted under all applicable laws to receive and accept the Offer, and any revision thereof, (ii) has observed all the applicable laws and regulations of the relevant jurisdiction in connection with such acceptance, including obtaining any government or other consent which may be required and (iii) has complied with any other necessary formality and has paid any issue, transfer or other taxes due in such jurisdiction and that such acceptance shall be valid and binding in accordance with all applicable laws. HAECO Overseas Shareholders are recommended to seek professional advice on whether to accept the Offer.

LETTER FROM APA AND HSBC

The attention of HAECO Overseas Shareholders and any person (including, without limitation, any nominee, custodian and trustee) who may have an obligation to forward the Composite Document of which this letter forms part and the accompanying Form of Acceptance outside of Hong Kong is drawn to paragraphs (b) and (c) in the section headed "Procedures for acceptance of the Offer" in Appendix I to the Composite Document.

PROCEDURES FOR ACCEPTANCE AND SETTLEMENT

Procedures for Acceptance of the Offer

To accept the Offer, you must complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon, which form part of the terms of the Offer.

The completed Form of Acceptance should then be forwarded, together with the relevant HAECO Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the whole of your holding of the HAECO Shares or, if applicable, for not less than the number of HAECO Shares in respect of which you intend to accept the Offer, by post or by hand to the Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, marked "**Swire Pacific Offer**" on the envelope, so as to reach the Registrar by no later than 4:00 p.m. on Tuesday, 27th July 2010 (or such later time and/or date as Swire Pacific may decide and announce with the consent of the Executive in accordance with the Takeovers Code). No acknowledgement of receipt of any Form(s) of Acceptance, HAECO Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any indemnity or indemnities required in respect thereof) will be given.

Your attention is also drawn to the section headed "Terms of the Offer" as set out in paragraph 1 of Appendix I to the Composite Document of which this letter forms part and the accompanying Form of Acceptance.

Settlement of the Offer

Provided that a valid Form of Acceptance and the relevant documents required to tender the relevant acceptance under the Offer are complete and in good order in all respects and have been received by the Registrar no later than 4:00 p.m. on Tuesday, 27th July 2010, being the latest time for acceptance of the Offer unless the Offer is extended by Swire Pacific in accordance with the Takeovers Code and applicable laws, a cheque for the amount due to the relevant accepting HAECO Shareholder less seller's *ad valorem* stamp duty payable by the relevant accepting HAECO Shareholder will be despatched to the relevant accepting HAECO Shareholder at the HAECO Shareholder's address as it appears on the register of members of HAECO or, in the case of joint HAECO Shareholders, at the address of the HAECO Shareholder whose name stands first in the register of members of HAECO by ordinary post at the HAECO Shareholder's own risk as soon as possible, but in any event within 10 days from the date on which all relevant documents are received by the Registrar to render such acceptance complete and valid.

LETTER FROM APA AND HSBC

No fractions of a cent will be payable and the amount of the consideration payable to a HAECO Shareholder who accepts the Offer will be rounded up to the nearest cent.

Stamp Duty

Sellers' *ad valorem* stamp duty for HAECO Shares registered on the Hong Kong register arising in connection with acceptance of the Offer will be payable by each HAECO Shareholder at the rate of 0.1% of the amount of the consideration payable by Swire Pacific for such person's HAECO Shares or, if higher, the value of the HAECO Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) and will be deducted from the cash amount due to such person under the Offer. Swire Pacific will pay the buyer's *ad valorem* stamp duty on its own behalf and the sellers' *ad valorem* stamp duty on behalf of the accepting HAECO Shareholders, having deducted it as referred to above, in respect of the HAECO Shares for which the Offer is accepted.

Nominee Registration

In order for the beneficial owners of HAECO Shares whose investments are registered in nominees' names to accept the Offer, it is essential that they provide instructions to their nominee agents of their intentions with regard to the Offer. To ensure equality of treatment of all HAECO Shareholders, those registered HAECO Shareholders who hold HAECO Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately.

TAXATION ADVICE

HAECO Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. It is emphasised that none of Swire Pacific, HAECO, APA and HSBC or any of their respective directors, officers or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

The Composite Document of which this letter forms part does not include any information in respect of overseas taxation. HAECO Shareholders who may be subject to overseas taxes are recommended to consult their tax advisers regarding the implications in the relevant jurisdictions of owning and of disposing of HAECO Shares.

FURTHER TERMS OF THE OFFER

Further terms of the Offer (including the procedures for acceptance, the acceptance period and the stamp duty payable by the HAECO Shareholders who accept the Offer) are set out in Appendix I to the Composite Document of which this letter forms part and the accompanying Form of Acceptance.

LETTER FROM APA AND HSBC

RECOMMENDATION AND ADDITIONAL INFORMATION

Your attention is drawn to the “Letter from the HAECO Board” on pages 15 to 21, the “Letter from the HAECO Independent Board Committee” on pages 22 to 23 and the “Letter from Rothschild” on pages 24 to 41 of the Composite Document of which this letter forms part in relation to their recommendations and/or advice regarding the Offer.

Your attention is also drawn to the additional information set out in the appendices to the Composite Document of which this letter forms part.

Yours faithfully,

For and on behalf of
Asia Pacific Advisers Limited
Richard Orders
Managing Director

For and on behalf of
**The Hongkong and Shanghai Banking
Corporation Limited**
Stephen J. Clark
*Managing Director, Advisory
Global Banking*

LETTER FROM THE HAECO BOARD



HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 44)

Executive Directors:

PRATT, Christopher Dale
TANG, Kin Wing Augustus
HAYMAN, Mark
LOW, Mei Shuen Michelle

Non-Executive Directors:

GIBBS, Christopher Patrick
JOHANSEN, Peter André
SWIRE, Merlin Bingham

Independent Non-Executive Directors:

ADAMS, Robert Ernest
LEONG, Kwok Kuen Lincoln
TONG, Chi Leung David

Registered office:

35th Floor, Two Pacific Place
88 Queensway
Hong Kong

Principal office and

place of business in Hong Kong:

80 South Perimeter Road
Hong Kong International Airport
Lantau
Hong Kong

28th June 2010

To the HAECO Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
ASIA PACIFIC ADVISERS LIMITED AND
THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
ON BEHALF OF SWIRE PACIFIC LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
NOT ALREADY OWNED BY SWIRE PACIFIC LIMITED OR ITS SUBSIDIARIES**

INTRODUCTION

Reference is made to the Joint Announcement in which Swire Pacific, Cathay Pacific and HAECO jointly announced that on 7th June 2010, Swire Pacific entered into the Sale and Purchase Agreement with Cathay Pacific, pursuant to which Swire Pacific purchased and

LETTER FROM THE HAECO BOARD

Cathay Pacific sold 24,948,728 HAECO Shares (representing approximately 15.00% of the issued share capital of HAECO) for a consideration of approximately HK\$2,620 million (equivalent to HK\$105 per HAECO Share).

Upon completion of the Transaction, which took place on 14th June 2010, Swire Pacific owned 101,397,903 HAECO Shares representing approximately 60.96% of the issued share capital of HAECO. In accordance with Rule 26.1 of the Takeovers Code, Swire Pacific is required to make a mandatory unconditional general offer in cash for all the issued HAECO Shares other than those HAECO Shares already owned by or agreed to be acquired by Swire Pacific or its subsidiaries upon completion of the Transaction.

The purpose of the Composite Document of which this letter forms part is to provide you with, among other things, information relating to the HAECO Group, Swire Pacific and the Offer as well as to set out the letter from the HAECO Independent Board Committee containing its recommendation and advice to the HAECO Independent Shareholders in respect of the Offer and the letter from Rothschild, the HAECO Independent Financial Adviser, containing its advice to the HAECO Independent Board Committee as to whether the terms of the Offer are fair and reasonable so far as the HAECO Independent Shareholders are concerned and as to acceptance in respect of the Offer.

Unless the context otherwise requires, terms defined in the Composite Document shall have the same meanings when used in this letter.

HAECO INDEPENDENT BOARD COMMITTEE

In accordance with Rule 2.1 and Rule 2.8 of the Takeovers Code, an independent board committee of the HAECO Directors comprising R.E. Adams, C.P. Gibbs, L.K.K. Leong and D.C.L. Tong has been constituted to advise the HAECO Independent Shareholders in respect of the Offer.

P.A. Johansen and M.B. Swire, who are non-executive directors of HAECO, are not members of the HAECO Independent Board Committee as they are also directors of Swire Pacific. The other non-executive HAECO Directors (being the members of the HAECO Independent Board Committee) are independent of and have no direct or indirect interest in the Offer other than, in the case of D.C.L. Tong, as a holder of 20,000 Offer Shares. HAECO, with the approval of the HAECO Independent Board Committee, has appointed Rothschild as the independent financial adviser to advise the HAECO Independent Board Committee as to whether the terms of the Offer are fair and reasonable so far as the HAECO Independent Shareholders are concerned and as to acceptance in respect of the Offer.

Rothschild has advised the HAECO Independent Board Committee that it is of the view that the terms of the Offer are fair and reasonable so far as the HAECO Independent Shareholders are concerned. Accordingly, Rothschild has recommended the HAECO Independent Board Committee to advise the HAECO Independent Shareholders to accept the Offer.

LETTER FROM THE HAECO BOARD

The full text of the letter of advice from the HAECO Independent Financial Adviser addressed to the HAECO Independent Board Committee is set out in the Composite Document. HAECO Shareholders are advised to read the “Letter from Rothschild” addressed to the HAECO Independent Board Committee and the additional information contained in the appendices to the Composite Document carefully before taking any action in respect of the Offer.

THE OFFER

On behalf of Swire Pacific, APA and HSBC unconditionally make the Offer to acquire all the HAECO Shares not already owned or agreed to be acquired by Swire Pacific or its subsidiaries on the following basis:

Offer Price

For each HAECO Share HK\$105 in cash

The Offer Price is equal to the price paid by Swire Pacific for each Sale Share under the Sale and Purchase Agreement. The “Letter from APA and HSBC” set out in the Composite Document, Appendix I to the Composite Document and the accompanying Form of Acceptance together set out the terms and conditions of the Offer and certain related information.

Comparisons of Value

The Offer Price represents:

- (a) a premium of 25.0% over the closing price of HK\$84.00 per HAECO Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of 25.4% over the average closing price of HK\$83.72 per HAECO Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date;
- (c) a premium of 15.7% over the average closing price of HK\$90.72 per HAECO Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Date;
- (d) a premium of 9.9% over the average closing price of HK\$95.51 per HAECO Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Last Trading Date;
- (e) a premium of 8.0% over the average closing price of HK\$97.23 per HAECO Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Last Trading Date;

LETTER FROM THE HAECO BOARD

- (f) a premium of 7.7% over the average closing price of HK\$97.53 per HAECO Share as quoted on the Stock Exchange for the last 180 trading days up to and including the Last Trading Date;
- (g) a discount of 0.1% to the closing price of HK\$105.10 per HAECO Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (h) a discount of 0.2% to the average closing price of HK\$105.16 per HAECO Share as quoted on the Stock Exchange for the last five trading days up to and including the Latest Practicable Date;
- (i) a premium of 11.5% over the average closing price of HK\$94.14 per HAECO Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Latest Practicable Date;
- (j) a premium of 9.0% over the average closing price of HK\$96.33 per HAECO Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Latest Practicable Date;
- (k) a premium of 7.3% over the average closing price of HK\$97.82 per HAECO Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Latest Practicable Date;
- (l) a premium of 6.7% over the average closing price of HK\$98.40 per HAECO Share as quoted on the Stock Exchange for the last 180 trading days up to and including the Latest Practicable Date; and
- (m) a premium of 237.3% over the audited consolidated net asset value (after deducting minority interests) attributable to HAECO Shareholders per HAECO Share of HK\$31.13 as at 31st December 2009.

Please refer to the section headed “Market Prices” in Appendix IV to the Composite Document for further information on the market prices of the HAECO Shares.

Highest and lowest prices

During the Relevant Period, the highest closing price of HAECO Shares as quoted on the Stock Exchange was HK\$106.70 per HAECO Share on 5th January 2010 and the lowest closing price of HAECO Shares as quoted on the Stock Exchange was HK\$80.00 on 25th May 2010.

Further details of the Offer are set out in the “Letter from APA and HSBC” in the Composite Document, Appendix I to the Composite Document and the accompanying Form of Acceptance.

LETTER FROM THE HAECO BOARD

GENERAL

Information on Swire Pacific

Swire Pacific was incorporated on 12th March 1940 as a company with limited liability under the Companies Ordinance and is listed on the Stock Exchange. Its principal activity is investment holding. For the twelve months ended 31st December 2009, the audited consolidated revenue and profit attributable to shareholders of Swire Pacific were HK\$24,909 million and HK\$19,917 million respectively. The earnings per share for Swire Pacific 'A' Shares and Swire Pacific 'B' Shares were HK\$13.24 and HK\$2.65 respectively. Swire Pacific is the immediate holding company of HAECO. Christopher D. Pratt, Peter A. Johansen and Merlin B. Swire are directors of both Swire Pacific and HAECO.

Information on HAECO and the HAECO Group

HAECO was incorporated on 23rd November 1950 as a company with limited liability under the Companies Ordinance and has been a member of the Swire group since its establishment. Its principal activity is the provision of overhaul and maintenance services for commercial aircraft. In 1965, HAECO became listed in Hong Kong. HAECO is a leading aeronautical engineering group with a diverse line of business servicing the aeronautical industry.

As at 31st December 2009, HAECO's net asset value was approximately HK\$6,141 million. For the year ended 31st December 2009, HAECO's audited net profits before and after taxation and extraordinary items were approximately HK\$800 million and approximately HK\$760 million, respectively. For the year ended 31st December 2008, HAECO's audited net profits before and after taxation and extraordinary items were approximately HK\$1,479 million and approximately HK\$1,350 million, respectively.

Since 31st December 2009, demand for HAECO's maintenance work has improved in Hong Kong. However, HAECO's performance in Mainland China has been adversely affected by weak demand for passenger to freighter conversions of Boeing aircraft and for heavy airframe maintenance, the results of HAECO's engine overhaul joint venture in Hong Kong have been affected by less work being done per engine and HAECO's new joint ventures in Mainland China are sustaining start up losses. This trading pattern is likely to continue for the rest of 2010 and overall, 2010 is expected to be a challenging year.

As at the Latest Practicable Date, there was no intention for the HAECO Group to dispose of any of its existing businesses. The HAECO Group's existing businesses would continue to be and its activities would remain the same. As at the Latest Practicable Date, no new business was contemplated to be carried out by the HAECO Group as a result of the Offer.

As at the Latest Practicable Date, HAECO had 166,324,850 HAECO Shares in issue and there were no outstanding options, warrants or convertibles which might confer any rights to the holder(s) thereof to subscribe for, convert or exchange into HAECO Shares or any derivatives issued by HAECO.

LETTER FROM THE HAECO BOARD

INFORMATION ON SWIRE PACIFIC AND ITS INTENTIONS IN RELATION TO HAECO

Your attention is drawn to the paragraphs headed “Information on Swire Pacific” and “Swire Pacific’s intentions in relation to HAECO” in the “Letter from APA and HSBC” in the Composite Document.

The HAECO Board has noted the intentions of Swire Pacific in respect of HAECO and the employees of the HAECO Group, as disclosed in the “Letter from APA and HSBC” in the Composite Document.

COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING

Swire Pacific has stated that it is satisfied with HAECO’s status as a listed company and delisting HAECO is not a goal in itself. However, Swire Pacific has also stated that it intends to exercise the right under section 168 of the Companies Ordinance and pursuant to Rule 2.11 of the Takeovers Code compulsorily to acquire all those HAECO Shares not acquired by Swire Pacific under the Offer if Swire Pacific acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document. On completion of the compulsory acquisition process (if the compulsory acquisition right is exercised), HAECO will become a wholly-owned subsidiary of Swire Pacific and Swire Pacific has stated that an application will be made for the withdrawal of the listing of HAECO Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules and, in addition, the deposit agreement governing the HAECO ADSs will be terminated pursuant to the terms thereof.

Pursuant to Rule 15.6 of the Takeovers Code, where Swire Pacific has stated in the Composite Document its intention to avail itself of its powers of compulsory acquisition, the Offer may not remain open for acceptance for more than four months from the Despatch Date, unless Swire Pacific has, by that time, become entitled to exercise such powers of compulsory acquisition, in which even it must do so without delay.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where Swire Pacific seeks to acquire or privatise HAECO by means of the Offer and the use of its compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Companies Ordinance, the level of acceptances of the Offer and purchases (in each case of the Disinterested Shares) made by Swire Pacific and parties acting in concert with it during the period of four months after the Despatch Date reaches 90% of the Disinterested Shares.

Furthermore, if the level of acceptances reaches 90% of the Disinterested Shares, Rule 2.11 of the Takeovers Code permits Swire Pacific to exercise such compulsory acquisition rights. If Swire Pacific proceeds with the privatisation of HAECO and withdrawal of listing of the HAECO Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules, HAECO will apply for a suspension of dealings in the HAECO Shares from the closing of the Offer up to the withdrawal of listing of the HAECO Shares from the main board of the Stock Exchange and, in addition, the deposit agreement governing the HAECO ADSs will be terminated pursuant to the terms thereof.

LETTER FROM THE HAECO BOARD

MAINTAINING THE LISTING

Swire Pacific has stated that if it does not effect the compulsory acquisition set out above (whether by reason of not acquiring 90% of the Disinterested Shares or otherwise), it will, following the closing of the Offer, take appropriate steps to ensure that not less than 25% of the HAECO Shares will be held by the public in compliance with the Listing Rules, which may include Swire Pacific selling some of its HAECO Shares.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to HAECO, being 25% of the issued HAECO Shares, is held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of HAECO Shares; or (ii) there are insufficient HAECO Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in HAECO Shares.

In this connection, it should be noted that, upon the closing of the Offer, there may be insufficient public float for the HAECO Shares and therefore trading in the HAECO Shares may be suspended until a prescribed level of public float is attained.

FURTHER INFORMATION

Please refer to the “Letter from APA and HSBC” set out in the Composite Document, Appendix I to the Composite Document and the accompanying Form of Acceptance for information relating to the Offer, the acceptance and settlement procedures of the Offer, the making of the Offer to HAECO Overseas Shareholders and taxation.

RECOMMENDATION

Your attention is drawn to the “Letter from the HAECO Independent Board Committee” set out in the Composite Document, which contains its recommendation to the HAECO Independent Shareholders in respect of the Offer, and the “Letter from Rothschild” set out in the Composite Document, which contains its advice to the HAECO Independent Board Committee in respect of the fairness and reasonableness of the terms of the Offer (so far as the HAECO Independent Shareholders are concerned) and the principal factors and reasons it has considered before arriving at its advice to the HAECO Independent Board Committee. You are also advised to read the Composite Document and the accompanying Form of Acceptance in respect of the acceptance and settlement procedures of the Offer.

By order of the board of
Hong Kong Aircraft Engineering Company Limited
Christopher Pratt
Chairman

LETTER FROM THE HAECO INDEPENDENT BOARD COMMITTEE



HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 44)

28th June 2010

To the HAECO Independent Shareholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER BY
ASIA PACIFIC ADVISERS LIMITED AND
THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
ON BEHALF OF SWIRE PACIFIC LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
NOT ALREADY OWNED BY SWIRE PACIFIC LIMITED OR ITS SUBSIDIARIES**

We refer to the composite offer and response document issued jointly by Swire Pacific and HAECO to the HAECO Shareholders dated 28th June 2010 (the “**Composite Document**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Composite Document shall have the same meanings when used in this letter.

We have been appointed by the HAECO Board to form the HAECO Independent Board Committee to consider and to advise the HAECO Independent Shareholders as to whether or not the terms of the Offer are fair and reasonable so far as the HAECO Independent Shareholders are concerned and to make a recommendation as to acceptance in respect of the Offer.

Rothschild has been appointed as the independent financial adviser to advise us as to whether or not the terms of the Offer are fair and reasonable so far as the HAECO Independent Shareholders are concerned and as to acceptance in respect of the Offer.

We draw your attention to the “Letter from the HAECO Board” and the “Letter from Rothschild” set out in the Composite Document.

Having considered the principal factors and reasons considered by, and the advice of, Rothschild as set out in its letter, we concur with the view of Rothschild and consider that the terms of the Offer are fair and reasonable so far as the HAECO Independent Shareholders are concerned.

Accordingly, we concur with the recommendation of Rothschild and would recommend the HAECO Independent Shareholders to accept the Offer.

LETTER FROM THE HAECO INDEPENDENT BOARD COMMITTEE

We concur with Rothschild's advice that in the event that the market price of the HAECO Shares exceeds the Offer Price during the period while the Offer is open and the sales proceeds (net of transaction costs) exceed the amount receivable under the Offer, HAECO Independent Shareholders should consider not accepting the Offer and consider seeking to sell their HAECO Shares in the market if they are able to do so.

HAECO Independent Shareholders are advised that their decision to realise or to hold their investment in the HAECO Shares depends on their own individual circumstances and investment objectives. We concur with Rothschild's advice that those HAECO Independent Shareholders who may not be able to realise a higher return from selling their HAECO Shares in the open market are recommended to accept the Offer, which provides a reasonable alternative exit so as to realise all or part of their investment in the HAECO Shares. We also concur with Rothschild's advice that those HAECO Independent Shareholders who, after considering the information on Swire Pacific and its intentions regarding HAECO, are attracted by the future prospects of the HAECO Group following the Offer should consider retaining some or all of their HAECO Shares.

HAECO Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer.

The HAECO Independent Shareholders are advised to read the "Letter from Rothschild" set out in the Composite Document and the additional information contained in the appendices to the Composite Document carefully before taking any action in respect of the Offer.

Yours faithfully,

THE HAECO INDEPENDENT BOARD COMMITTEE

ADAMS, Robert Ernest

Independent Non-Executive Director

GIBBS, Christopher Patrick

Non-Executive Director

LEONG, Kwok Kuen Lincoln

Independent Non-Executive Director

TONG, Chi Leung David

Independent Non-Executive Director

LETTER FROM ROTHSCHILD

The following is the text of the letter from Rothschild, the independent financial adviser appointed to advise the HAECO Independent Board Committee, which has been prepared for the purpose of incorporation into the Composite Document, setting out its advice to the HAECO Independent Board Committee in connection with the Offer.



28th June 2010

*To the HAECO Independent Board Committee of
Hong Kong Aircraft Engineering Company Limited*

Dear Sirs,

**MANDATORY UNCONDITIONAL CASH OFFER BY
ASIA PACIFIC ADVISERS LIMITED AND
THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
ON BEHALF OF SWIRE PACIFIC LIMITED
TO ACQUIRE ALL THE ISSUED SHARES IN THE CAPITAL OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
NOT ALREADY OWNED BY SWIRE PACIFIC LIMITED OR ITS SUBSIDIARIES**

We refer to our engagement to advise the HAECO Independent Board Committee with respect to the Offer, details of which are contained in the composite offer and response document jointly issued by Swire Pacific and HAECO dated 28th June 2010 (the "Composite Document") of which this letter forms a part. Rothschild has been appointed (which appointment was approved by the HAECO Independent Board Committee) as the independent financial adviser to advise the HAECO Independent Board Committee as to whether or not the terms of the Offer are fair and reasonable so far as the HAECO Independent Shareholders are concerned and to make a recommendation as to acceptance in respect of the Offer.

The terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

In accordance with Rule 2.1 and Rule 2.8 of the Takeovers Code, the HAECO Board has established the HAECO Independent Board Committee comprising a non-executive director, namely C.P. Gibbs, and all of the independent non-executive directors, namely R.E. Adams, L.K.K. Leong and D.C.L. Tong, for the purpose of advising the HAECO Independent Shareholders in respect of the Offer. P.A. Johansen and M.B. Swire, who are non-executive directors of HAECO, are not members of the HAECO Independent Board Committee as they

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Hong Kong SAR

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LETTER FROM ROTHSCHILD



are also directors of Swire Pacific. The other non-executive HAECO Directors (being the members of the HAECO Independent Board Committee) are independent of and have no direct or indirect interest in the Offer other than, in the case of D.C.L. Tong, as a holder of 20,000 Offer Shares.

In formulating our recommendation, we have relied on the information and facts supplied to us by HAECO and have assumed that any information and representations made to us are true, accurate and complete in all respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Composite Document are accurate and complete in all respects, fair and reasonable and, accordingly, we have relied on them.

We have been advised by the HAECO Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the HAECO Directors. The HAECO Directors (in respect of the information on the HAECO Group and opinions expressed by the HAECO Group only) and the Swire Pacific Directors (in respect of information other than that in relation to the HAECO Group and opinions other than those expressed by the HAECO Group) have all declared in a responsibility statement set out in the “General Information” section in Appendix IV to the Composite Document that they jointly and severally accept full responsibility for the accuracy of the information contained in the Composite Document and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in the Composite Document the omission of which would make any statement in the Composite Document misleading. We believe that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the HAECO Group.

We have not considered the tax consequences for the HAECO Independent Shareholders of their acceptance or non-acceptance of the Offer since these are particular to their own individual circumstances. In particular, holders of HAECO Shares who are residents outside of Hong Kong, or subject to overseas taxes or Hong Kong taxation on securities dealing should consider their own tax position with regard to the Offer and, if in any doubt, should consult their own professional advisers.

LETTER FROM ROTHSCHILD



TERMS OF THE OFFER

For details of the terms of the Offer, your attention is drawn to the “Letter from APA and HSBC” in the Composite Document, Appendix I to the Composite Document and the accompanying Form of Acceptance. The Offer is made by APA and HSBC on behalf of Swire Pacific on the following basis:

For each HAECO Share HK\$105.00 in cash

The Offer Price is equal to the price per HAECO Shares paid by Swire Pacific for each Sale Share under the Sale and Purchase Agreement, which completed on 14th June 2010.

On the basis of the Offer Price of HK\$105.00 per HAECO Share and 166,324,850 HAECO Shares in issue as at the Latest Practicable Date, the entire issued share capital of HAECO is valued at approximately HK\$17,464 million.

Based on a total of 64,926,947 Offer Shares and the Offer Price of HK\$105.00 per HAECO Share, assuming full acceptance of the Offer, the maximum cash amount to be paid to HAECO Shareholders in respect of acceptances under the Offer is approximately HK\$6,817 million.

The Offer is unconditional in all respects. The cash consideration will be funded by a facility provided by HSBC. There is no arrangement in relation to such facility under which the payment of interest on, repayment of or security for any liability, contingent or otherwise, will depend, to any significant extent, on the business of HAECO. APA and HSBC are satisfied that sufficient financial resources are available to Swire Pacific to meet full acceptance of the Offer as described above.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Reasons for the Offer

HAECO was incorporated on 23rd November 1950 as a company with limited liability under the Companies Ordinance and has been a member of the Swire group since its establishment. Its principal activity is the provision of overhaul and maintenance services for commercial aircraft. In 1965, HAECO became listed in Hong Kong. HAECO is a leading aeronautical engineering group with a diverse line of businesses servicing the aeronautical industry.

On 7th June 2010, Swire Pacific, Cathay Pacific and HAECO jointly announced that Swire Pacific and Cathay Pacific had entered into the Sale and Purchase Agreement, pursuant to

LETTER FROM ROTHSCHILD



which Swire Pacific purchased and Cathay Pacific sold 24,948,728 HAECO Shares (representing approximately 15.00% of the entire issued share capital of HAECO) for a consideration of approximately HK\$2,620 million (equivalent to HK\$105.00 per HAECO Share). Swire Pacific's shareholding in HAECO increased from approximately 45.96% as at 7th June 2010 to approximately 60.96% as a result of completion of the Transaction on 14th June 2010. Accordingly, Swire Pacific is required to make the Offer pursuant to Rule 26.1 of the Takeovers Code.

As stated in the paragraph headed "Swire Pacific's intentions in relation to HAECO — Reasons for the Offer" in the "Letter from APA and HSBC" in the Composite Document, it has been the consistent intention of Swire Pacific to acquire additional HAECO Shares as and when the opportunity arises. Since HAECO has been a member of the Swire group since its establishment in 1950, Swire Pacific knows HAECO and its management team well, views HAECO as a core long-term strategic business for the Swire Pacific group, and is confident in the long-term prospects of HAECO. Following completion of the Transaction, HAECO has become a subsidiary of Swire Pacific and its financials will be consolidated with the financial statements of Swire Pacific.

2. Financial performance of HAECO

The HAECO Group is engaged in commercial aircraft overhaul, modification and maintenance mainly in Hong Kong and Mainland China.

Historical financial performance

The following is a summary of the consolidated income statements of the HAECO Group for each of the three years ended 31st December 2007, 2008 and 2009.

Table 1 — Summary of consolidated income statement

	For the year ended 31st December		
	2007 (HK\$ million)	2008 (HK\$ million)	2009 (HK\$ million)
Turnover	4,619	4,901	4,045
<i>Growth rate</i>	20.2%	6.1%	(17.5%)
Operating expenses	(3,671)	(3,983)	(3,700)
Other net gains	31	92	40
Net finance (charge)/income	21	7	(5)
Net operating profit	1,000	1,017	380
<i>Growth rate</i>	28.4%	1.7%	(62.6%)
<i>Margin</i>	21.6%	20.8%	9.4%

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	For the year ended 31st December		
	2007 <i>(HK\$ million)</i>	2008 <i>(HK\$ million)</i>	2009 <i>(HK\$ million)</i>
Share of after-tax results of jointly controlled companies	<u>399</u>	<u>462</u>	<u>420</u>
Profit before taxation	1,399	1,479	800
Taxation	<u>(84)</u>	<u>(129)</u>	<u>(40)</u>
Profit for the year	<u>1,315</u>	<u>1,350</u>	<u>760</u>
<i>Growth rate</i>	<i>27.9%</i>	<i>2.7%</i>	<i>(43.7%)</i>
<i>Margin</i>	<i>28.5%</i>	<i>27.5%</i>	<i>18.8%</i>
Profit attributable to:			
The HAECO Shareholders	1,073	1,138	688
Minority interests	<u>242</u>	<u>212</u>	<u>72</u>
	<u>1,315</u>	<u>1,350</u>	<u>760</u>
Earnings per HAECO Share			
Basic and diluted (HK\$)	6.45	6.84	4.14
Dividends per HAECO Share (HK\$)	3.08	3.18	2.00

Source: Annual reports of HAECO for the three years ended 31st December 2007, 2008 and 2009.

Revenue and net operating profit

Revenue of the HAECO Group increased from approximately HK\$4,619 million for the year ended 31st December 2007 to approximately HK\$4,901 million for the year ended 31st December 2008, and then decreased to approximately HK\$4,045 million for the year ended 31st December 2009. The performance of the HAECO Group was affected by the deterioration in aviation market conditions as airlines reduced maintenance expenditure and air traffic in response to reduced air travel demand resulting from the global economic downturn. The heavy airframe maintenance facilities in both Hong Kong and Xiamen were at near capacity for much of 2008 although there were signs of demand softening in the second half of 2008. This downward trend continued in 2009 and the HAECO Group's airframe heavy maintenance facilities had substantial unsold capacity during this period.

Through the global financial crisis, the HAECO Group has continued to invest in projects designed to expand its facilities and the range of aviation maintenance and repair services it



can offer to customers. These projects are intended to facilitate HAECO's business over the long-term. HAECO opened its third hangar in Hong Kong in September 2009. HAECO made a significant investment in Taikoo Engine Services (Xiamen) Company Limited, a new engine overhaul facility in Xiamen. In addition, Taikoo (Xiamen) Aircraft Engineering Company Limited is expected to open its sixth hangar in the first half of 2011. Hong Kong Aero Engine Services Limited is also constructing a component repair extension which is planned to be operational in the first quarter of 2011. Whilst in the near-term these investments require funding and may have an adverse effect on net profit through depreciation charges, the management of HAECO expects these investments to facilitate growth in the longer-term.

However, it should be emphasised that these investments are long-term in nature and the management of HAECO does not expect these new businesses to begin to make significant contributions in the near-term. The nature of HAECO's business is to make long-term capital intensive investments, on which the timing of returns is uncertain.

Net operating profit of the HAECO Group increased from approximately HK\$1,000 million for the year ended 31st December 2007 to approximately HK\$1,017 million for the year ended 31st December 2008, and then decreased to approximately HK\$380 million for the year ended 31st December 2009. The decrease was in part due to lower revenue and lower margins achieved from its operations, particularly in Xiamen, as a result of the global downturn in the aviation industry, and in part due to taking depreciation charges related to new investments where revenue potential had yet to be realised. Man-hours sold in Hong Kong decreased by approximately 9.8% in 2009 when compared to 2008 whilst the man-hours sold in Xiamen decreased by approximately 26.8% in 2009.

Profit for the year and margin

HAECO recorded a profit attributable to shareholders of approximately HK\$1,073 million for the year ended 31st December 2007. HAECO's profit attributable to shareholders decreased by approximately 39.5% from approximately HK\$1,138 million for the year ended 31st December 2008 to approximately HK\$688 million for the year ended 31st December 2009. The decrease was mainly due to less aircraft movements and reduced airframe heavy maintenance work in Hong Kong, substantially lower airframe heavy maintenance work in Xiamen and less engine overhaul work. Profit margins were approximately 28.5%, 27.5% and 18.8% for the years ended 31st December 2007, 2008 and 2009, respectively. It is noted that a significant portion of profit attributable to shareholders comes from jointly controlled companies, whereby a contribution to profits attributable to shareholders is recognised, but revenue from these companies is not consolidated.

Future prospects of HAECO

Regarding the future intentions of Swire Pacific in relation to HAECO, we note that Swire Pacific intends that HAECO will continue to carry on its current business, which principally comprises the provision of overhaul and maintenance services for commercial aircraft in Hong

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Kong and elsewhere. Swire Pacific does not intend to introduce any significant changes to the operations and management of HAECO (including any redeployment of fixed assets of HAECO). Furthermore, Swire Pacific does not intend to make any significant changes to the continued employment of the employees of the HAECO Group.

For each of the years ended 31st December 2007, 2008 and 2009, approximately 39.6% (or HK\$1,831 million), 42.2% (or HK\$2,069 million) and 46.8% (or HK\$1,891 million) of revenue respectively was generated from the HAECO Group's largest customer, Cathay Pacific and its subsidiaries (the "Cathay Pacific Group"). Based on our discussion with the management of HAECO, we understand that they are of view that the provision of services by the HAECO Group to the Cathay Pacific Group will continue according to normal business practice and will not be affected by reason of the Transaction. The current transactions with the Cathay Pacific Group, which are on an arm's length basis, are expected to be unchanged.

On the basis of our discussions with the management of HAECO, we understand that there has been some recovery in HAECO's Hong Kong business in recent months as Asian and world economies recovered, but that business conditions remain difficult in Mainland China, with weak demand for passenger to freighter conversions and heavy airframe maintenance and start up losses at new joint ventures. HAECO acknowledges this in its statement set out in the "Letter from the HAECO Board" in the Composite Document which HAECO Independent Shareholders should note: "Since 31st December 2009, demand for HAECO's maintenance work has improved in Hong Kong. However, HAECO's performance in Mainland China has been adversely affected by weak demand for passenger to freighter conversions of Boeing aircraft and for heavy airframe maintenance, the results of HAECO's engine overhaul joint venture in Hong Kong have been affected by less work being done per engine and HAECO's new joint ventures in Mainland China are sustaining start up losses. This trading pattern is likely to continue for the rest of 2010 and overall, 2010 is expected to be a challenging year." The management of HAECO has also indicated that they expect the investments which they have made and continue to make will put HAECO in a strong position to benefit from long-term growth and recovery in the aviation industry, though the timing of obtaining such benefits is uncertain.

3. Valuation considerations

We have analysed the Offer Price by reviewing (i) the historical price performance of the HAECO Shares, (ii) the trading multiples of companies comparable to HAECO, and (iii) the historical trading volume of the HAECO Shares.

(i) *Public trading analysis*

The Offer Price of HK\$105.00 per HAECO Share is equal to the price per HAECO Share paid by Swire Pacific for each Sale Share under the Sale and Purchase Agreement, the completion of which took place on 14th June 2010, and represents:

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- (a) a premium of 25.0% over the closing price of HK\$84.00 per HAECO Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 25.4% over the average closing price of approximately HK\$83.72 per HAECO Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date;
- (c) a premium of approximately 15.7% over the average closing price of approximately HK\$90.72 per HAECO Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Date;
- (d) a premium of approximately 9.9% over the average closing price of approximately HK\$95.51 per HAECO Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 8.0% over the average closing price of approximately HK\$97.23 per HAECO Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 7.7% over the average closing price of approximately HK\$97.53 per HAECO Share as quoted on the Stock Exchange for the last 180 trading days up to and including the Last Trading Date;
- (g) a discount of approximately 0.1% to the closing price of HK\$105.10 per HAECO Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (h) a discount of approximately 0.2% to the average closing price of approximately HK\$105.16 per HAECO Share as quoted on the Stock Exchange for the last five trading days up to and including the Latest Practicable Date;
- (i) a premium of approximately 11.5% over the average closing price of approximately HK\$94.14 per HAECO Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Latest Practicable Date;
- (j) a premium of approximately 9.0% over the average closing price of approximately HK\$96.33 per HAECO Share as quoted on the Stock Exchange for the last 60 trading days up to and including the Latest Practicable Date;
- (k) a premium of approximately 7.3% over the average closing price of approximately HK\$97.82 per HAECO Share as quoted on the Stock Exchange for the last 90 trading days up to and including the Latest Practicable Date;
- (l) a premium of approximately 6.7% over the average closing price of approximately HK\$98.40 per HAECO Share as quoted on the Stock Exchange for the last 180 trading days up to and including the Latest Practicable Date; and

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- (m) a premium of approximately 237.3% over the audited consolidated net asset value (after deducting minority interests) attributable to HAECO Shareholders per HAECO Share of approximately HK\$31.13 as at 31st December 2009.

Analysis over the One-Year Period

Chart 2 below illustrates the daily closing prices of the HAECO Shares for the period from 5th June 2009 up to and including the Last Trading Date (“One-Year Period”), and up to and including the Latest Practicable Date.

Chart 2 — Daily closing prices of the HAECO Shares over the One-Year Period and up to and including the Latest Practicable Date



Source: Bloomberg

As illustrated in Chart 2 above, the trading of HAECO Shares was fairly volatile over the period analysed. The HAECO Shares traded within a broad range with a low of HK\$80.00, a high of HK\$111.00 and an average price of approximately HK\$96.70 for each HAECO Share during the One-Year Period. The HAECO Shares reached a peak closing price for the One-Year Period of HK\$111.00 on 4th August 2009, being the date HAECO released its interim financial reports for the first six months of 2009 and announced interim dividends of HK\$0.50 for each HAECO Share. The HAECO Share price dropped sharply after the 2009 interim results announcement and traded at a range of HK\$90.00 to HK\$95.00 and remained at that range until early November 2009. The HAECO Share price started to rebound at the end of November 2009 and closed at around HK\$100.00 on several days during the following months until the significant decline in May 2010, which occurred broadly in line with the overall stock market declines triggered by the Eurozone crisis and concerns over the recovery of the global economy. The HAECO Share price reached the lowest closing price for the One-Year Period of HK\$80.00 on 25th May 2010, before recovering slightly to HK\$84.00 on the Last Trading Date. The closing price of the HAECO Shares rose to HK\$104.20 on 8th June 2010, being the



first day of resumption in the trading of the HAECO Shares immediately after the publication of the Joint Announcement. In our opinion, this increase in the HAECO Share price was mainly due to the Offer. The HAECO Share price since resumption in the trading has traded at around the level of the Offer Price up to the Latest Practicable Date.

Analysis over the Three-Year Period

Chart 3 below illustrates the daily closing prices of the HAECO Shares for the period from 5th June 2007 up to and including the Last Trading Date (“Three-Year Period”), and up to and including the Latest Practicable Date.

Chart 3 — Daily closing prices of the HAECO Shares over the Three-Year Period and up to and including the Latest Practicable Date



Source: Bloomberg

The Hong Kong stock market reached a historical high in the second half of 2007. Affected by the global economic downturn, the market went down to a trough level at the end of 2008 and then gradually recovered. Sharing the broad direction of global stock markets, the HAECO Shares fell considerably from their broad trading range in 2007 as the global economic downturn took effect. The price of the HAECO Shares during the Three-Year Period averaged at approximately HK\$113.74. The HAECO Share price increased in the second half of 2007, and reached the highest closing price over the Three-Year Period of HK\$241.60 on 30th November 2007. Since then, the financial turmoil has spread from the US to the whole world and impacted the global economy. The HAECO Share price started to fall in December 2007 and kept decreasing with the market until it reached the lowest closing price during the Three-Year Period of HK\$49.80 on 27th October 2008. Since then, the HAECO Share price improved gradually to close at HK\$84.00 each on the Last Trading Date. The HAECO Share

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price performance also reflects its business and financial performance during the period under review. In light of this, we are of the view that the One-Year Period is a better benchmark compared with the Three-Year Period, as it excludes the extremely volatile period of the market but reflects HAECO's current business and financial performance and outlook.

The table set out below is a summary of the highest, lowest and average closing prices of the HAECO Shares and the number of trading days on which the closing price of the HAECO Share was above the Offer Price during the One-Year Period and the Three-Year Period.

Table 4 — Trading performance

	One-Year Period	As at	Three-Year Period	As at
Highest closing price	HK\$111.00	4th August 2009	HK\$241.60	30th November 2007
Lowest closing price	HK\$80.00	25th May 2010	HK\$49.80	27th October 2008
Average closing price	HK\$96.70		HK\$113.74	
Number of trading days in the period on which the closing price was above the Offer Price	11 days		296 days	

Source: Bloomberg

As illustrated in Chart 2 and Table 4 above, the HAECO Shares have consistently closed below the Offer Price except for 11 trading days during the One-Year Period. The Offer Price of HK\$105.00 per HAECO Share is approximately 5.4% lower than the highest closing price of HK\$111.00 per HAECO Share over the One-Year Period and approximately 7.7% lower than the average closing price of approximately HK\$113.74 per HAECO Share over the Three-Year Period.

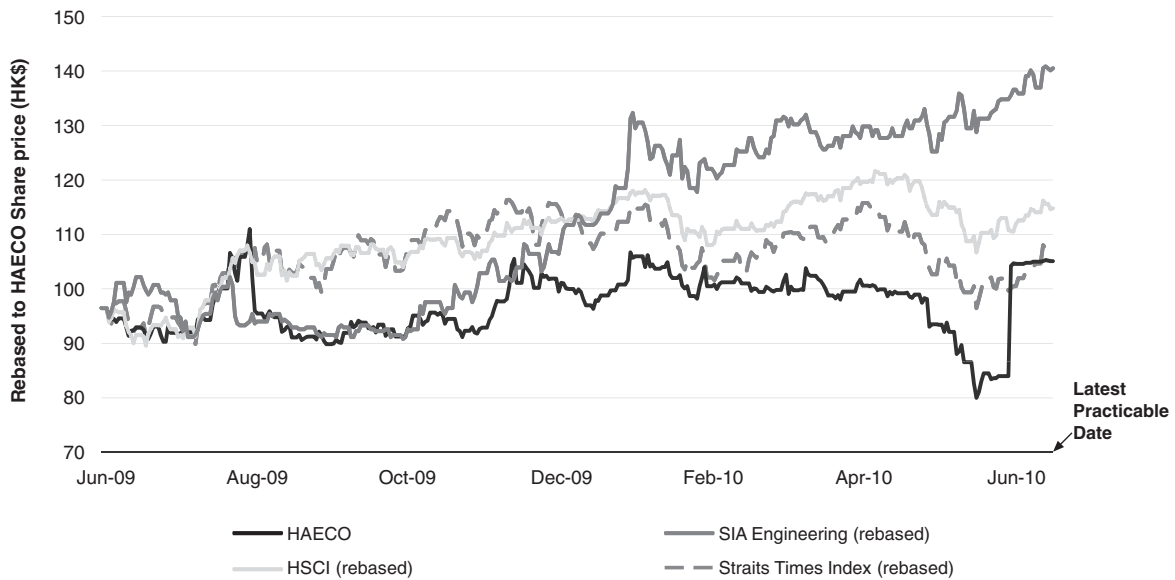
Relative price performances

In addition, we have compared the HAECO Share price performance against SIA Engineering Company Limited (“SIA Engineering” or the “Comparable Company”) which has been considered and identified as the company most comparable to HAECO (please refer to the paragraph headed “(ii) Comparable Company analysis” below for more information), the Hang Seng Composite Index¹ (“HSCI”) and the Straits Times Index over the One-Year Period and up to and including the Latest Practicable Date, as set out in Chart 5 below.

¹ HAECO is a constituent member of the HSCI.



Chart 5 — Performance of the HAECO Shares relative to the Comparable Company, the HSCI and the Straits Times Index over the One-Year Period and up to and including the Latest Practicable Date



Source: Bloomberg

As shown in Chart 5 above, the HAECO Shares have underperformed the HSCI since August 2009. The increase in the HAECO Share price immediately after the Joint Announcement, mainly due to the Offer, pushed the HAECO Share price performance back to the HSCI level. The HAECO Share price has underperformed SIA Engineering over the past 12 months. Whilst we cannot be certain of the reasons for this, we would hypothesize that this underperformance in part reflects three factors. Firstly, the Singapore stock market outperformed the Hong Kong stock market over the One-Year Period. Secondly, whilst also affected by the economic downturn, SIA Engineering’s financial performance relative to the previous financial year was stronger than that of HAECO’s, specifically in terms of a smaller decline in revenues and profits as compared to HAECO on a year-on-year basis. Thirdly, as the price-earnings multiple of SIA Engineering was frequently lower than that of HAECO, a directly comparable company, there is a reason for the relative share price performance of SIA Engineering to be stronger than that of HAECO. This is discussed later in this letter.

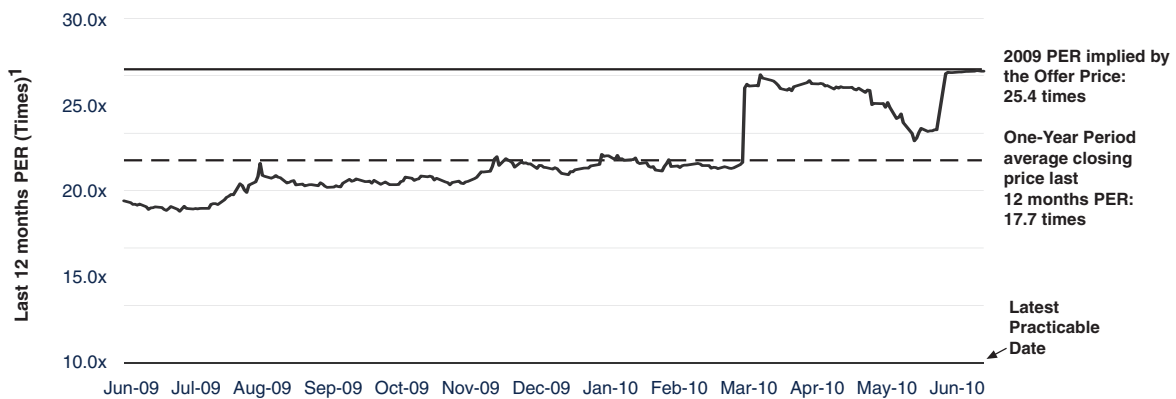
Although HAECO and SIA Engineering are listed on two different markets, we are of the view that the Singapore stock market could serve as a benchmark to the Hong Kong stock market given both are well developed and regulated stock markets and operate in an Asia investment climate with broadly the same institutional investors, although some different retail investors. Therefore, we believe SIA Engineering’s share price performance could be benchmarked against HAECO Share price performance as a reference.



Price-earnings ratio (“PER”) analysis

Chart 6 below illustrates the last 12 months PER of the HAECO Shares for the One-Year Period and up to and including the Latest Practicable Date.

Chart 6 — Last 12 months PER of the HAECO Shares over the One-Year Period and up to and including the Latest Practicable Date



Source: Bloomberg

Note:

1. Last 12 months PER calculated by rolling last 12 months net profit as per the latest available published annual and interim financial statement of HAECO.

As shown in Chart 6, the PER implied by the Offer Price is approximately 25.4 times the net profit attributable to HAECO Shareholders for the year ended 31st December 2009 and is at a premium of approximately 43.5% over the One-Year Period average closing price PER of HAECO. In summary, the Offer is priced at a period high PER.

(ii) Comparable Company analysis

Since the HAECO Group is mainly engaged in the provision of aeronautical engineering services, the Comparable Company we have chosen is a quoted, Asian, aircraft maintenance, repair and overhaul (“MRO”) service provider, with a majority of its total revenue generated from MRO business (over 50% for the purpose of this analysis).

Based on the above criteria, we have identified and considered SIA Engineering, a company listed on Singapore Exchange Limited, to be most comparable to HAECO. The reason is that both HAECO and SIA Engineering have very similar business models (both mainly operate aircraft MRO business) and are operating in similar business climates in Asia (HAECO primarily operates in Hong Kong and Mainland China while SIA Engineering primarily operates in Singapore). We have been able to identify other aircraft MRO service providers,

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but many of them are either the unlisted arms of their listed aviation parents (such as Lufthansa Technik AG), other aircraft MRO service providers with a less major proportion of total revenue generated from aircraft MRO services (such as Singapore Technologies Engineering Limited) or other global aircraft MRO service providers which primarily operate outside of Asia (such as MTU Aero Engines AG). To the best of our knowledge, SIA Engineering is a fair representation of a company comparable to HAECO.

We have compared the PER implied by the Offer Price with the PER of SIA Engineering for the year ended 31st March 2010 based on its closing share price as at the Last Trading Date and the Latest Practicable Date. PER is used in our comparison as it is the most commonly used multiples in evaluating the aeronautical engineering sector. Our analysis is set forth in the following table.

Table 7 — PER of the Comparable Company

Company	Listing	Market capitalisation as at the Last Trading Date (HK\$ million)	PER based on share price as at the Last Trading Date (Times)	Market capitalisation as at the Latest Practicable Date (HK\$ million)	PER based on share price as at the Latest Practicable Date (Times)
SIA Engineering	Singapore	22,900	17.4	23,864	18.1
HAECO based on the Offer Price			25.4		25.4

Sources: Bloomberg and the latest published financial statements of the respective companies

Note:

- Exchange rate of HK\$5.5724 into one Singapore dollar as at the Latest Practicable Date was used.

As illustrated in Table 7 above, the PER implied by the Offer Price of approximately 25.4 times the net profit attributable to the HAECO Shareholders for the year ended 31st December 2009 is at a premium of approximately 46.0% over the PER of SIA Engineering as at the Last Trading Date and approximately 40.3% over the PER of SIA Engineering as at the Latest Practicable Date.

(iii) Historical trading volume analysis

The table below sets out the highest, lowest and last closing price of the HAECO Shares per month, the open market trading volume of the HAECO Shares per month, the open market monthly trading volume as a percentage of the issued share capital of HAECO and the open market monthly trading volume as a percentage of the total number of Offer Shares for the period from 1st June 2009 to the Latest Practicable Date.

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Table 8 — Analysis of the HAECO Shares

	Highest closing price	Lowest closing price	Last closing price	Monthly trading volume of the HAECO Shares	Monthly trading volume of the HAECO Shares as a percentage of the issued share capital of HAECO ¹	Monthly trading volume of the HAECO Shares as a percentage of the total number of Offer Shares ²
	(HK\$)	(HK\$)	(HK\$)	(million shares)	(%)	(%)
2009						
June	98.20	90.30	90.30	2.7	1.6%	4.1%
July	106.60	91.65	105.90	2.3	1.4%	3.6%
August	111.00	90.60	90.70	5.0	3.0%	7.8%
September	94.15	89.85	92.60	3.2	1.9%	4.9%
October	95.65	91.15	92.30	2.3	1.4%	3.5%
November	105.50	91.80	102.90	3.0	1.8%	4.6%
December	102.40	96.35	100.80	1.5	0.9%	2.3%
2010						
January	106.70	98.70	98.70	1.6	1.0%	2.4%
February	104.00	98.20	99.45	1.1	0.7%	1.7%
March	103.80	98.25	98.85	2.7	1.6%	4.2%
April	101.70	98.35	98.95	2.8	1.7%	4.3%
May	98.30	80.00	83.40	8.3	5.0%	12.7%
June (up to the Latest Practicable Date)	105.30	83.60	105.10	13.2	8.0%	20.4%
Average monthly trading volume (1st June 2009 to 31st May 2010)				3.0	1.8%	4.7%

Source: Bloomberg

Notes:

1. Based on 166,324,850 HAECO Shares in issue as at the Latest Practicable Date.
2. Based on 64,926,947 Offer Shares.



As illustrated in Table 8 above, we note that the open market monthly trading volume of the HAECO Shares ranged from approximately 1.1 million HAECO Shares to approximately 8.3 million HAECO Shares for the period from 1st June 2009 to 31st May 2010. The significant drop in share price in August 2009 and May 2010 corresponded with high trading volume in those months.

In light of the various analyses of the Offer Price set out above, we consider the Offer Price represents a reasonable premium in comparison with the historical trading prices and the Comparable Company. Given the relatively thin average monthly trading liquidity of the HAECO Shares of approximately 1.8% of issued share capital of HAECO and approximately 4.7% of the total number of Offer Shares for the period between 1st June 2009 and 31st May 2010, the Offer can be viewed as an opportunity for the HAECO Independent Shareholders to realise their investment in HAECO at the Offer Price.

We have reviewed mandatory general offer transactions in Hong Kong since 2009 and concluded that these transactions are not directly comparable to the Offer, given their own commercial and financial merits and specific factors such as prevailing market conditions, financial and business performance of the offerors and general economic and business risks. As such, we have not included comparable transaction analysis in this letter.

4. Other considerations

(i) *Risks pertaining to price movement*

Swire Pacific has stated that it is satisfied with HAECO's status as a listed company and delisting HAECO is not a goal in itself. However, Swire Pacific has also stated that it intends to exercise the right under section 168 of the Companies Ordinance and pursuant to Rule 2.11 of the Takeovers Code compulsorily to acquire all those HAECO Shares not acquired by Swire Pacific under the Offer if Swire Pacific acquires not less than 90% of the Disinterested Shares within four months of the posting of the Composite Document. On completion of the compulsory acquisition process (if the compulsory acquisition right is exercised), HAECO will become a wholly-owned subsidiary of Swire Pacific and Swire Pacific has stated that an application will be made for the withdrawal of the listing of the HAECO Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules and, in addition, the deposit agreement governing the HAECO ADSs will be terminated pursuant to the terms thereof.

Swire Pacific has stated that if Swire Pacific does not effect the compulsory acquisition set out above (whether by reason of not acquiring 90% of the Disinterested Shares or otherwise), it will, following the closing of the Offer, take appropriate steps to ensure that not less than 25% of the HAECO Shares will be held by the public in compliance with the Listing Rules, which may include Swire Pacific selling some of its HAECO Shares.

HAECO Independent Shareholders should note that upon the closing of the Offer, there may be insufficient public float for the HAECO Shares and therefore trading in the HAECO

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Shares may be suspended until a prescribed level of public float is attained, or, if withdrawal of the listing of the HAECO Shares on the Stock Exchange is applied for, until the listing is withdrawn. Independent HAECO Shareholders who are considering rejecting the Offer and who are not intending to sell their HAECO Shares in the open market prior to the close of the Offer should therefore bear in mind that they may suffer from reduced liquidity in the HAECO Shares in the event that compulsory acquisition is not effected and dealings in HAECO Shares are suspended. Independent HAECO Shareholders should also note that there is a potential risk of reduced liquidity if some of the HAECO Shares are tendered but not all, and the public float is reduced towards the 25% minimum level.

(ii) **Stamp duty**

Sellers' *ad valorem* stamp duty for HAECO Shares registered on the Hong Kong register arising in connection with acceptance of the Offer will be payable by each HAECO Shareholder at the rate of 0.1% of the amount of the consideration payable by Swire Pacific for such person's HAECO Shares or, if higher, the value of the HAECO Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) and will be deducted from the cash amount due to such person under the Offer. Swire Pacific will pay the buyer's *ad valorem* stamp duty on its own behalf and the sellers' *ad valorem* stamp duty on behalf of the accepting HAECO Shareholders, having deducted it as referred to above, in respect of the HAECO Shares for which the Offer is accepted.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following in arriving at our recommendation:

- (a) The Offer Price is the same as the price per HAECO Share paid by Swire Pacific under the Transaction and represents a premium of 25.0% over the closing price of HK\$84.00 per HAECO Share on the Last Trading Date and a premium of approximately 15.7% and 8.6% over the average closing prices of the HAECO Shares for the last 30 trading days up to and including the Last Trading Date, and the One-Year Period, respectively. However, the Offer Price is at a discount of approximately 7.7% to the average closing prices of the HAECO Shares for the Three-Year Period.
- (b) The Offer Price implied PER of 25.4 times the net profit attributable to the HAECO Shareholders for the year ended 31st December 2009 is at a premium of (i) approximately 43.5% over the One-Year Period average PER of approximately 17.7 times, and (ii) approximately 46.0% and 40.3% over the PER of the Comparable Company as at the Last Trading Date and the Latest Practicable Date, respectively.
- (c) The Offer is triggered as a result of the Transaction which has not resulted in a change in controlling shareholder of HAECO. Hence, the Offer can be viewed as an opportunity for the HAECO Independent Shareholders to realise their investment in HAECO at the Offer Price.

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- (d) The financial performance of HAECO is dependent to a significant extent on the aviation market conditions. HAECO reported a drop in revenue in the year ended 31st December 2009, primarily due to the reduction in demand for airframe maintenance services as a result of deterioration in aviation market conditions as airlines reduced maintenance expenditure, reduced aircraft traffic and cut down on cargo conversions in response to the global economic downturn. Profitability also fell on the back of the decline in revenue in 2009 as well as significant investments in long-term businesses. The management of HAECO expects 2010 to be another challenging year, with a strong Hong Kong business performance being offset by tougher conditions in China and slow build-up of start up business revenues. However, the management of HAECO has also indicated that they expect the investments which they have made and continue to make will put HAECO in a strong position to benefit from long-term growth and recovery in the aviation industry, though the timing of obtaining such benefits is uncertain.

OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider the terms of the Offer to be fair and reasonable so far as the HAECO Independent Shareholders are concerned. Accordingly, we advise the HAECO Independent Board Committee to recommend the HAECO Independent Shareholders to accept the Offer.

In the event that the market price of the HAECO Shares exceeds the Offer Price during the period while the Offer is open and the sales proceeds (net of transaction costs) exceed the amount receivable under the Offer, HAECO Independent Shareholders should consider not accepting the Offer and consider seeking to sell their HAECO Shares in the market if they are able to do so.

HAECO Independent Shareholders are advised that their decision to realise or to hold their investment in the HAECO Shares depends on their own individual circumstances and investment objectives. Those HAECO Independent Shareholders who may not be able to realise a higher return from selling their HAECO Shares in the open market are recommended to accept the Offer, which provides a reasonable alternative exit so as to realise all or part of their investment in the HAECO Shares. Those HAECO Independent Shareholders who, after considering the information on Swire Pacific and its intentions regarding HAECO, are attracted by the future prospects of the HAECO Group following the Offer, should consider retaining some or all of their HAECO Shares.

HAECO Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer.

Yours very truly,
For and on behalf of
N M Rothschild & Sons (Hong Kong) Limited
Catherine Yien
Director

1. TERMS OF THE OFFER**Procedures for acceptance of the Offer**

- (a) If the HAECO Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your HAECO Shares is/are in your name, and you wish to accept the Offer, you must send the accompanying Form of Acceptance duly completed together with the relevant HAECO Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar by 4:00 p.m. on the Closing Date.
- (b) If the HAECO Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your HAECO Shares is/are in the name of a nominee company or some names other than your own, and you wish to accept the Offer, you must either:
- (i) lodge your HAECO Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the accompanying Form of Acceptance duly completed together with the relevant HAECO Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the HAECO Shares to be registered in your name by HAECO through the Registrar and send the accompanying Form of Acceptance duly completed together with the relevant HAECO Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (iii) if your HAECO Shares have been lodged with your licensed securities dealer (or other registered dealer in securities)/custodian bank through CCASS, instruct your licensed securities dealer (or other registered dealer in securities)/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your licensed securities dealer (or other registered dealer in securities)/custodian bank for the timing on the processing of your instruction, and submit your instruction to your licensed securities dealer/custodian bank as required by them; or

- (iv) if your HAECO Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System on or before the deadline set out by HKSCC Nominees Limited.

- (c) If you are a holder of HAECO ADSs, to accept the Offer, you must participate directly in the Offer as a holder of HAECO Shares by cancelling your HAECO ADSs and withdrawing the HAECO Shares underlying those HAECO ADSs pursuant to the deposit agreement governing the HAECO ADSs. You will need to surrender the HAECO ADSs representing HAECO Shares that you wish to tender to The Bank of New York Mellon, as depositary, pay any fees to the depositary for the withdrawal of those HAECO Shares, pay any taxes or governmental charges payable in connection with such withdrawal, and otherwise comply with the terms and conditions of the deposit agreement governing the HAECO ADSs. You must allow sufficient time for the cancellation of your HAECO ADSs and withdrawal of the underlying HAECO Shares so that you can complete the procedures for acceptance of the Offer as a holder of HAECO Shares by 4:00 p.m. on the Closing Date. Please refer to the other provisions of this section "Procedures for acceptance of the Offer". In order to cancel your HAECO ADSs and withdraw the underlying HAECO Shares, you may contact the depositary at +1-212-815-2231.

- (d) If you have lodged a transfer(s) of any of your HAECO Shares for registration in your name and have not yet received your HAECO Share certificate(s) and you wish to accept the Offer in respect of your HAECO Shares, you should nevertheless complete the accompanying Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to each of Swire Pacific and/or APA and/or HSBC and/or their respective agent(s) to collect from HAECO or the Registrar, on your behalf, the relevant HAECO Share certificate(s) when issued and to deliver such certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such HAECO Share certificate(s) on and subject to the terms of the Offer, as if it was/they were delivered to the Registrar with the accompanying Form of Acceptance.

- (e) If the HAECO Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your HAECO Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your HAECO Shares, the accompanying Form of Acceptance should nevertheless be duly completed and delivered to the Registrar together with a letter stating that you have lost one or more of your HAECO Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant HAECO Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any indemnity or indemnities required in respect thereof) should be forwarded to the

Registrar as soon as possible thereafter. If you have lost your HAECO Share certificate(s), you should also write to the Registrar for a form of letter of indemnity which, when completed in accordance with the instructions given therein, should be returned to the Registrar.

(f) Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by not later than 4:00 p.m. on Tuesday, 27th July 2010 or such later time and/or date as Swire Pacific may determine and announce in compliance with the requirements of the Takeovers Code, and is:

(i) accompanied by the relevant HAECO Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if that/those HAECO Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant HAECO Shares; or

(ii) from a registered HAECO Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to HAECO Shares which are not taken into account under another sub-paragraph of this paragraph (f)); or

(iii) certified by the Registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered HAECO Shareholder, appropriate documentary evidence of authority to the satisfaction of the Registrar must be produced.

(g) No acknowledgement of receipt for any Form(s) of Acceptance, HAECO Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any indemnity or indemnities required in respect thereof) will be given.

(h) The address of the Registrar is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

2. ACCEPTANCE PERIOD AND REVISIONS

The Offer is made on Monday, 28th June 2010, being the Despatch Date, and is capable of acceptance on and from that date and will remain open for acceptance until Tuesday, 27th July 2010, unless extended or revised in accordance with the Takeovers Code and applicable laws. Swire Pacific reserves the right to revise or extend the Offer in accordance with the Takeovers Code and applicable laws.

Acceptances of the Offer must be received by no later than 4:00 p.m. on Tuesday, 27th July 2010.

The Offer may be revised at any time up to the Closing Date. If the Offer is revised, such revised Offer will remain open for acceptance for a period of at least 14 days or, if longer and to the extent required by applicable U.S. regulations (including where there is a change in the Offer Price), at least 10 U.S. Business Days, following the date on which the revised Offer document is posted, and shall not be closed earlier than 27th July 2010. In any case where the Offer is revised, and the consideration offered under the revised Offer does not represent on such date a reduction in the value of the Offer in its original or any previously revised form(s), the benefit of such revised Offer will be made available as set out herein to acceptors of the Offer in its original or any previously revised form(s) (hereinafter called "previous acceptor(s)"). The execution by, or on behalf of, a previous acceptor of any Form of Acceptance shall be deemed to constitute acceptance of the Offer as so revised.

3. SETTLEMENT OF THE OFFER

Provided that a Form of Acceptance and the relevant documents required to tender the relevant acceptance under the Offer are complete and in good order in all respects and have been received by the Registrar by no later than 4:00 p.m. on Tuesday, 27th July 2010, being the latest time for acceptance of the Offer unless the Offer is extended by Swire Pacific in accordance with the Takeovers Code and applicable laws, a cheque for the amount due to the relevant accepting HAECO Shareholder less seller's *ad valorem* stamp duty payable by the relevant accepting HAECO Shareholder will be despatched to the relevant accepting HAECO Shareholder at the HAECO Shareholder's address as it appears on the register of members of HAECO or, in the case of joint HAECO Shareholders, at the address of the HAECO Shareholder whose name stands first in the register of members of HAECO, by ordinary post at the HAECO Shareholder's own risk as soon as possible, but in any event within 10 days from the date on which all relevant documents are received by the Registrar to render such acceptance complete and valid.

No fraction of a cent will be payable and the amount of the consideration payable to a HAECO Shareholder who accepts the Offer will be rounded up to the nearest cent.

4. ANNOUNCEMENTS

As required under Rule 19 of the Takeovers Code, by 6:00 p.m. on Tuesday, 27th July 2010, or such later time and/or date as the Executive may in exceptional circumstances permit, Swire Pacific shall inform the Executive and the Stock Exchange of its decision in relation to the revision or the extension or expiry of the Offer. Swire Pacific shall publish an announcement through the website of the Stock Exchange by 7:00 p.m. on Tuesday, 27th July 2010 (or such later time and/or date as the Executive may agree), stating whether the Offer has been revised, extended or has expired. The announcement shall state the total number of HAECO Shares and rights over HAECO Shares:

- (a) for which acceptances of the Offer have been received;
- (b) held, controlled or directed by Swire Pacific or parties acting in concert with it before the Offer Period; and

- (c) acquired or agreed to be acquired during the Offer Period by Swire Pacific or any parties acting in concert with it.

The announcement shall also (i) specify the percentages of the issued share capital of HAECO and the percentages of voting rights represented by these numbers of HAECO Shares; and (ii) include details of any relevant securities in HAECO which Swire Pacific or any persons acting in concert with it has borrowed or lent, save for any borrowed HAECO Shares which have been either on-lent or sold.

As required under the Takeovers Code and the Listing Rules, all announcements in relation to the Offer in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon must be published on the website of the Stock Exchange and made in accordance with the requirements of the Listing Rules.

5. RIGHT OF WITHDRAWAL

- (a) As the Offer is unconditional in all respects, acceptances of the Offer tendered by the HAECO Shareholders shall be irrevocable and cannot be withdrawn, except as permitted under the Takeovers Code and in the circumstances set out in (b) below.
- (b) If Swire Pacific is unable to comply with the requirements set out in paragraph 4 of this Appendix I, under Rule 19.2 of the Takeovers Code, the Executive may require that the HAECO Shareholders who tendered acceptances of the Offer be granted a right of withdrawal on terms acceptable to the Executive until the requirements set out in that paragraph are met.

6. HAECO OVERSEAS SHAREHOLDERS

The Offer is in respect of securities of a company incorporated in Hong Kong and admitted to listing in Hong Kong and is subject to the procedure and disclosure requirements of Hong Kong which may be different from other jurisdictions. HAECO Overseas Shareholders are advised to pay particular attention to the section headed "Taxation Advice" in the "Letter from APA and HSBC" in this Composite Document. The ability for HAECO Overseas Shareholders to participate in the Offer is subject to, and may be limited by, the laws and regulations of their respective jurisdictions. It is the responsibility of each HAECO Overseas Shareholder who wishes to accept the Offer to be satisfied as to the full observance of all the applicable legal and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consent which may be required, complying with any other necessary formalities or legal requirements and paying any transfer or other taxes due by the HAECO Overseas Shareholder in respect of such jurisdiction. Acceptance of the Offer by any HAECO Overseas Shareholder will constitute a warranty by such HAECO Overseas Shareholder that such HAECO Overseas Shareholder (i) is permitted under all applicable laws to receive and accept the Offer, and any revision thereof, (ii) has observed all the applicable laws and regulations of the relevant jurisdiction in connection with such acceptance, including obtaining any government or other consent which may be required

and (iii) has complied with any other necessary formality and has paid any issue, transfer or other taxes due in such jurisdiction and that such acceptance shall be valid and binding in accordance with all applicable laws. HAECO Overseas Shareholders are recommended to seek professional advice on whether to accept the Offer.

7. PURCHASES OUTSIDE OF THE OFFER

In accordance with applicable law, Swire Pacific hereby discloses that it or its affiliates may from time to time purchase, or make arrangements to purchase, HAECO Shares outside of the Offer, such as in open market transactions or privately negotiated purchases, provided that (i) any such purchase or arrangement complies with applicable law and is made outside of the United States, and (ii) the Offer Price is increased to match any consideration paid in any such purchase or arrangement that is greater. To the extent necessary under applicable law, information about such purchases or arrangements will be published on the website of the SFC at www.sfc.hk/sfc/html/EN/cfd/mergers/transactions/transactions.html and the website of Swire Pacific at www.swirepacific.com/eng/ir/announcements.htm.

8. GENERAL

- (a) All communications, notices, Forms of Acceptance, HAECO Share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the HAECO Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and neither HAECO, Swire Pacific, APA, HSBC nor any of their respective agents nor the Registrar accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) The provisions set out in the accompanying Form of Acceptance form part of the terms of the Offer.
- (c) The accidental omission to despatch this Composite Document and/or the Form of Acceptance to any person to whom the Offer is made will not invalidate the Offer in any way.
- (d) The Offer is, and all acceptances of the Offer will be, governed by and construed in accordance with the laws of Hong Kong. Execution of a Form of Acceptance by or on behalf of a HAECO Shareholder will constitute such HAECO Shareholder's agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the Offer.
- (e) Due execution of the Form of Acceptance will constitute an authority to any Swire Pacific Director, APA, HSBC or such person or persons as any of them may direct to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in Swire Pacific or such person or persons as it may direct the HAECO Shares in respect of which such person has accepted the Offer.

- (f) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to Swire Pacific that the HAECO Shares acquired under the Offer are sold by any such person or persons free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at 7th June 2010 or subsequently becoming attached to them, including the right to receive all dividends and distributions, if any, declared, made or paid on the HAECO Shares on or after 7th June 2010.
- (g) The settlement of the consideration to which any HAECO Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which Swire Pacific may otherwise be, or claim to be, entitled against such HAECO Shareholder.
- (h) Sellers' *ad valorem* stamp duty for HAECO Shares registered on the Hong Kong register arising in connection with acceptance of the Offer will be payable by each HAECO Shareholder at the rate of 0.1% of the amount of the consideration payable by Swire Pacific for such person's HAECO Shares or, if higher, the value of the HAECO Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) and will be deducted from the cash amount due to such person under the Offer. Swire Pacific will pay the buyer's *ad valorem* stamp duty on its own behalf and the sellers' *ad valorem* stamp duty on behalf of the accepting HAECO Shareholders, having deducted it as referred to above, in respect of the HAECO Shares for which the Offer is accepted.
- (i) References to the Offer in this Composite Document and in the accompanying Form of Acceptance shall include any extension and/or revision thereof.
- (j) The English texts of this Composite Document and the accompanying Form of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

I. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated financial information of the HAECO Group for each of the three years ended 31st December 2007, 2008 and 2009. The figures for the years ended 31st December 2008 and 2009 are extracted from the 2009 annual report of HAECO while the figures for the year ended 31st December 2007 are extracted from the 2008 annual report of HAECO. The auditor's reports prepared by PricewaterhouseCoopers in respect of the HAECO Group's financial statements for each of the three years ended 31st December 2007, 31st December 2008, and 31st December 2009 did not contain any qualification.

For the three years ended 31st December 2007, 2008 and 2009, total dividends of HK\$3.08 per HAECO Share, HK\$3.18 per HAECO Share and HK\$2.00 per HAECO Share, respectively, were paid.

	For the year ended 31st December		
	2009	2008	2007
	<i>(in HK\$ Million)</i>		
Turnover	<u>4,045</u>	<u>4,901</u>	<u>4,619</u>
Profit before taxation	800	1,479	1,399
Taxation	<u>(40)</u>	<u>(129)</u>	<u>(84)</u>
Profit for the year	<u>760</u>	<u>1,350</u>	<u>1,315</u>
Profit attributable to:			
HAECO Shareholders	688	1,138	1,073
Minority interests	<u>72</u>	<u>212</u>	<u>242</u>
	<u>760</u>	<u>1,350</u>	<u>1,315</u>
Dividends	<u>332</u>	<u>529</u>	<u>512</u>
		<i>(in HK\$)</i>	
Dividends per HAECO Share	<u>2.00</u>	<u>3.18</u>	<u>3.08</u>
Earnings per HAECO Share attributable to the HAECO Shareholders (basic and diluted)	<u>4.14</u>	<u>6.84</u>	<u>6.45</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE HAECO GROUP

The following are the audited financial statements of the HAECO Group for the year ended 31st December 2009 as derived from the annual report of HAECO for the year ended 31st December 2009.

CONSOLIDATED INCOME STATEMENT

for the year ended 31st December 2009

	<i>Note</i>	<u>2009</u>	<u>2008</u>
		<i>(in HK\$ Million)</i>	
Turnover	4	4,045	4,901
Operating expenses:			
Staff remuneration and benefits	5	(1,980)	(1,965)
Cost of direct material and job expenses		(921)	(1,208)
Depreciation, amortisation and impairment	13	(358)	(305)
Insurance and utilities		(103)	(101)
Operating lease rentals - land and buildings		(129)	(116)
Repairs and maintenance		(121)	(154)
Other operating expenses		(88)	(134)
		(3,700)	(3,983)
Other net gains	7	40	92
Operating profit		385	1,010
Net finance (charge)/income	8	(5)	7
Net operating profit		380	1,017
Share of after-tax results of jointly controlled companies	15	420	462
Profit before taxation		800	1,479
Taxation	9	(40)	(129)
Profit for the year		<u>760</u>	<u>1,350</u>
Profit attributable to:			
HAECO Shareholders	10	688	1,138
Minority interests		72	212
		<u>760</u>	<u>1,350</u>
Dividends			
Interim - paid		83	155
Final - proposed/paid		249	374
	11	<u>332</u>	<u>529</u>
		<i>(in HK\$)</i>	
Earnings per share attributable to HAECO Shareholders (basic and diluted)	12	<u>4.14</u>	<u>6.84</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*for the year ended 31st December 2009*

	<u>2009</u>	<u>2008</u>
	<i>(in HK\$ Million)</i>	
Profit for the year	760	1,350
Other comprehensive income/(loss):		
Changes in cash flow hedges		
— recognised during the year	11	(68)
— deferred tax recognised	7	5
— transferred to other net gains	(47)	(51)
Exchange translation differences on foreign operations	<u>1</u>	<u>(4)</u>
Other comprehensive loss for the year, net of tax	<u>(28)</u>	<u>(118)</u>
Total comprehensive income for the year	<u>732</u>	<u>1,232</u>
Total comprehensive income attributable to:		
HAECO Shareholders	673	1,073
Minority interests	<u>59</u>	<u>159</u>
	<u>732</u>	<u>1,232</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31st December 2009

	<i>Note</i>	2009	2008
<i>(in HK\$ Million)</i>			
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	4,618	4,197
Leasehold land and land use rights	13	317	326
Intangible assets	13	551	545
Jointly controlled companies	15	988	907
Derivative financial instruments	19	4	9
Deferred tax assets	18	39	32
Retirement benefit assets	17	272	211
		6,789	6,227
Current assets			
Stocks of aircraft parts	21	221	130
Work in progress	21	111	195
Trade and other receivables	22	536	628
Taxation recoverable		8	—
Derivative financial instruments	19	13	49
Cash and cash equivalents	29(b)	844	881
Short-term deposits	29(b)	139	11
		1,872	1,894
Current liabilities			
Trade and other payables	23	989	1,112
Taxation payable		—	45
Derivative financial instruments	19	15	7
Short-term loans	24	425	289
Long-term loans due within one year	24	106	—
		1,535	1,453
Net current assets		337	441
Total assets less current liabilities		7,126	6,668
Non-current liabilities			
Long-term loans	24	595	388
Receipt in advance	28	79	90
Derivative financial instruments	19	—	18
Deferred tax liabilities	18	311	272
		985	768
NET ASSETS		6,141	5,900
EQUITY			
Share capital	25	166	166
Reserves	26	5,011	4,795
Equity attributable to HAECO Shareholders		5,177	4,961
Minority interests	27	964	939
TOTAL EQUITY		6,141	5,900

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

COMPANY STATEMENT OF FINANCIAL POSITION

at 31st December 2009

	<i>Note</i>	2009	2008
		<i>(in HK\$ Million)</i>	
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	2,572	2,339
Leasehold land	13	16	16
Intangible assets	13	—	1
Subsidiary companies	14	738	738
Jointly controlled companies	15	135	92
Loan to a subsidiary company	14	11	—
Retirement benefit assets	17	272	211
		3,744	3,397
Current assets			
Stocks of aircraft parts	21	156	69
Work in progress	21	79	99
Trade and other receivables	22	418	561
Taxation recoverable		2	—
Dividend receivable		44	88
Cash and cash equivalents		393	307
		1,092	1,124
Current liabilities			
Trade and other payables	23	605	693
Taxation payable		—	18
Short-term loans	24	200	—
		805	711
Net current assets		287	413
Total assets less current liabilities		4,031	3,810
Non-current liabilities			
Receipt in advance	28	79	90
Deferred tax liabilities	18	256	215
		335	305
NET ASSETS		3,696	3,505
EQUITY			
Equity attributable to HAECO Shareholders			
Share capital	25	166	166
Reserves	26	3,530	3,339
TOTAL EQUITY		3,696	3,505

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31st December 2009

	<i>Note</i>	2009	2008
		<i>(in HK\$ Million)</i>	
Operating activities			
Cash generated from operations	29(a)	790	1,193
Interest paid		(13)	(11)
Interest received		6	19
Profits tax paid		(54)	(137)
Net cash generated from operating activities		<u>729</u>	<u>1,064</u>
Investing activities			
Purchase of property, plant and equipment		(897)	(713)
Purchase of intangible assets		(8)	(515)
Sale of property, plant and equipment		6	41
Proceeds from disposals of shareholdings in jointly controlled companies		—	86
Acquisition of a subsidiary company		—	(218)
Purchase of shareholdings in jointly controlled companies		(42)	(67)
Loans advanced to a jointly controlled company		(19)	—
Loans repaid by a jointly controlled company		6	—
Loans advanced to a third party		—	(13)
Loans repaid by a third party		—	2
Dividends received from jointly controlled companies		392	381
Net (increase)/decrease in short-term deposits other than cash and cash equivalents		(128)	6
Net cash used in investing activities		<u>(690)</u>	<u>(1,010)</u>
Net cash inflow before financing activities		<u>39</u>	<u>54</u>
Financing activities			
Capital contribution from minority interests		—	35
Proceeds from loans		893	577
Repayment of loans		(444)	(90)
Dividends paid to the HAECO Shareholders		(457)	(521)
Dividends paid to the minority interests		(67)	(33)
Net cash used in financing activities		<u>(75)</u>	<u>(32)</u>
Net (decrease)/increase in cash and cash equivalents		(36)	22
Cash and cash equivalents at 1st January		881	859
Translation adjustment		(1)	—
Cash and cash equivalents at 31st December	29(b)	<u><u>844</u></u>	<u><u>881</u></u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December 2009

Note	Attributable to HAECO Shareholders				Minority interests	Total equity
	Share capital	Revenue reserve	Other reserves	Total		
	<i>(in HK\$ Million)</i>					
At 1st January 2009	166	4,749	46	4,961	939	5,900
Profit for the year	—	688	—	688	72	760
Other comprehensive loss	—	—	(15)	(15)	(13)	(28)
Total comprehensive income/(loss) for the year	—	688	(15)	673	59	732
Dividends paid and payable	—	(457)	—	(457)	(34)	(491)
At 31st December 2009	166	4,980	31	5,177	964	6,141

Note	Attributable to HAECO Shareholders				Minority interests	Total equity
	Share capital	Revenue reserve	Other reserves	Total		
	<i>(in HK\$ Million)</i>					
At 1st January 2008	166	4,132	111	4,409	485	4,894
Profit for the year	—	1,138	—	1,138	212	1,350
Other comprehensive loss	—	—	(65)	(65)	(53)	(118)
Total comprehensive income/(loss) for the year	—	1,138	(65)	1,073	159	1,232
Change in composition of the HAECO Group	27	—	—	—	71	71
Dividends (paid and payable)/cancellation	—	(521)	—	(521)	224	(297)
At 31st December 2008	166	4,749	46	4,961	939	5,900

NOTES TO THE ACCOUNTS**1. Principal activities**

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

The principal activities of the HAECO Group's subsidiary and jointly controlled companies are set out in note 34. Financial summaries of the jointly controlled companies are provided in note 15.

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

The HAECO Group's activities are exposed to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The HAECO Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the HAECO Group's financial performance. The HAECO Group uses derivative financial instruments to hedge certain risk exposures, principally foreign exchange risk, using forward contracts. It is the HAECO Group's policy not to enter into derivative transactions for speculative purposes.

(i) Foreign exchange risk

The HAECO Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations that are denominated in a currency that is not the entity's functional currency.

The HAECO Group Treasury's risk management policy is to hedge not more than 100% of anticipated foreign currency cash flows (largely represented by operating and capital expenditure) in each major foreign currency for the subsequent 36 months, provided that the cost of the foreign exchange forward or derivative contract is not prohibitively expensive in comparison to the underlying exposure.

At 31st December 2009, if the HK dollar had weakened/strengthened by 5% against the Renminbi with all other variables held constant, total equity would have been HK\$3 million (2008: HK\$15 million) higher/lower, arising mainly from the movement in the cash flow hedge reserve caused by fair value changes on the derivative financial instruments.

(ii) Interest rate risk

As the HAECO Group has no significant interest-bearing assets and liabilities, the HAECO Group's income and operating cash flows are substantially independent of changes in market interest rates.

The HAECO Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the HAECO Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the HAECO Group to fair value interest rate risk. During 2008 and 2009, the HAECO Group's borrowings were at variable rates and were primarily denominated in HK dollar and US dollar.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, generally only independently rated parties with a rating not lower than "A" are accepted. The HAECO Group has policies in place to evaluate credit risk when accepting new business and limit its credit exposure to any individual customer.

The maximum exposure to credit risk relating to financial guarantees is outlined as follows:

	HAECO	
	2009	2008
	<i>(in HK\$ Million)</i>	
Financial guarantees	<u>448</u>	<u>316</u>

(iv) Liquidity risk

The HAECO Group maintains sufficient cash and adequate undrawn committed revolving credit facilities to reduce liquidity risk and to allow for flexibility in meeting funding requirements.

Management monitors rolling forecasts of the HAECO Group's liquidity reserves (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flow. The undiscounted payment profile of financial liabilities based on the remaining period at the reporting date to the contractual maturity date is outlined as follows:

	2009				
	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	<i>(in HK\$ Million)</i>				
HAECO Group					
Bank loans (including interest obligations)	1,138	538	441	159	—
Trade and other payables	989	989	—	—	—
Derivative financial liabilities at notional value	<u>318</u>	<u>318</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>2,445</u>	<u>1,845</u>	<u>441</u>	<u>159</u>	<u>—</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk (continued)

	2008				
	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	<i>(in HK\$ Million)</i>				
HAECO Group					
Bank loans (including interest obligations)	703	300	10	393	—
Trade and other payables	1,112	1,112	—	—	—
Derivative financial liabilities at notional value	515	197	318	—	—
	<u>2,330</u>	<u>1,609</u>	<u>328</u>	<u>393</u>	<u>—</u>

	2009				
	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	<i>(in HK\$ Million)</i>				
HAECO					
Bank loans (including interest obligations)	200	200	—	—	—
Trade and other payables	605	605	—	—	—
Financial guarantees	448	41	320	87	—
	<u>1,253</u>	<u>846</u>	<u>320</u>	<u>87</u>	<u>—</u>

	2008				
	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	<i>(in HK\$ Million)</i>				
HAECO					
Trade and other payables	693	693	—	—	—
Financial guarantees	316	25	—	291	—
	<u>1,009</u>	<u>718</u>	<u>—</u>	<u>291</u>	<u>—</u>

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

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

2. Financial risk management (continued)

(b) Capital risk management

The HAECO Group's objectives when managing capital are to safeguard the HAECO Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The HAECO Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total equity. Net borrowings are calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less deposits and bank balances. Total equity is calculated as "equity attributable to HAECO Shareholders" plus "minority interests" as shown in the consolidated statement of financial position. The gearing ratio at 31st December 2009 is 2.3% (2008: no net borrowings). HAECO has entered into financial covenants in respect of maintenance of minimum consolidated net worth to secure funding. To date, none of the covenants has been breached.

(c) Fair value estimation

Effective 1st January 2009, the HAECO Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the statement of financial position at fair value, this requires disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

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

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

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

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

3. Critical accounting estimates and judgements

The HAECO Group makes estimates and assumptions as appropriate in the preparation of the accounts. These estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Impairment of assets

The HAECO Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Income taxes

The HAECO Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

4. Segment information

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

The segment information provided to HAECO Board for the reportable segments for the year ended is as follows:

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

Notes:

- a. "HAESL" means "Hong Kong Aero Engine Services Limited".
- b. "TAECO" means "Taikoo (Xiamen) Aircraft Engineering Company Limited".
- c. "TEXL" means "Taikoo Engine Services (Xiamen) Company Limited".

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

4. Segment information (continued)

	HAECO	TAECO	TEXL	HAESL			Total	
				At 100%	Adjustments to reflect HAECO Group's equity share	Other segments-subsiary companies		Inter-segment elimination/unallocated adjustments
<i>(in HK\$ Million)</i>								
Year ended 31st December 2008								
External turnover	3,029	1,758	—	7,424	(7,424)	26	—	4,813
Inter-segment turnover	173	6	—	3	(3)	—	(91)	88
Total turnover	<u>3,202</u>	<u>1,764</u>	<u>—</u>	<u>7,427</u>	<u>(7,427)</u>	<u>26</u>	<u>(91)</u>	<u>4,901</u>
Operating profit/(loss)	466	576	(26)	943	(943)	(44)	38	1,010
Finance income	11	4	2	3	(3)	1	—	18
Finance charge	(2)	(4)	—	(5)	5	(5)	—	(11)
Share of after-tax results of jointly controlled companies	—	—	—	101	296	—	65	462
Profit/(loss) before taxation	475	576	(24)	1,042	(645)	(48)	103	1,479
Taxation (charge)/credit	(55)	(77)	1	(160)	160	4	(2)	(129)
Profit/(loss) for the year	<u>420</u>	<u>499</u>	<u>(23)</u>	<u>882</u>	<u>(485)</u>	<u>(44)</u>	<u>101</u>	<u>1,350</u>
Depreciation and amortisation	149	118	12	59	(59)	12	—	291
Provision for impairment of stock and rotatable spares	18	—	—	—	—	—	—	18
Auditors' remuneration - statutory audit fees	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

4. Segment information (continued)

	HAESL							Total
	HAECO	TAECO	TEXL	At 100%	Adjustments to reflect HAECO Group's equity share	Other segments- subsidiary companies	Inter- segment elimination/ unallocated adjustments	
<i>(in HK\$ Million)</i>								
At 31st December 2009								
Total segment assets	<u>3,963</u>	<u>2,388</u>	<u>1,073</u>	<u>2,238</u>	<u>(2,238)</u>	<u>411</u>	<u>(192)</u>	<u>7,643</u>
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	<u>426</u>	<u>199</u>	<u>167</u>	<u>157</u>	<u>(157)</u>	<u>2</u>	<u>—</u>	<u>794</u>
Total segment liabilities	<u>1,140</u>	<u>539</u>	<u>659</u>	<u>916</u>	<u>(916)</u>	<u>369</u>	<u>(187)</u>	<u>2,520</u>
HAESL								
	HAECO	TAECO	TEXL	At 100%	Adjustments to reflect HAECO Group's equity share	Other segments- subsidiary companies	Inter- segment elimination/ unallocated adjustments	Total
<i>(in HK\$ Million)</i>								
At 31st December 2008								
Total segment assets	<u>3,691</u>	<u>2,384</u>	<u>932</u>	<u>2,423</u>	<u>(2,423)</u>	<u>391</u>	<u>(213)</u>	<u>7,185</u>
Total segment assets include:								
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	<u>484</u>	<u>170</u>	<u>6</u>	<u>61</u>	<u>(61)</u>	<u>209</u>	<u>—</u>	<u>869</u>
Total segment liabilities	<u>1,016</u>	<u>628</u>	<u>476</u>	<u>1,141</u>	<u>(1,141)</u>	<u>300</u>	<u>(199)</u>	<u>2,221</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

4. Segment information (continued)

Reportable segments' assets are reconciled to total assets as follows:

	<u>2009</u>	<u>2008</u>
	<i>(in HK\$ Million)</i>	
Total segment assets	7,643	7,185
Unallocated: investment in jointly controlled companies	988	907
Unallocated: intangible assets — goodwill	<u>30</u>	<u>29</u>
Total assets	<u>8,661</u>	<u>8,121</u>

The HAECO Group's jointly controlled companies, except for Singapore Aero Engine Services Pte. Limited, are held by HAECO and TAECO.

Reportable segments' liabilities are equal to total liabilities.

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

HAESL has been determined as a segment, although it is a jointly controlled company. HAECO Board reviews the full income statement and net assets of this entity as part of its performance review and resource allocation decisions. Full information on turnover, profit, assets and liabilities has been included in the above, although these amounts do not appear in the HAECO Group's income statement and statement of financial position on a line by line basis. Adjustments are also presented in the above to reflect the HAECO Group's equity share of HAESL in the income statement and statement of financial position.

	<u>2009</u>	<u>2008</u>
	<i>(in HK\$ Million)</i>	
HAECO Group's turnover derived from external customers:		
In Hong Kong	1,957	2,285
From other countries	<u>2,088</u>	<u>2,616</u>
	<u>4,045</u>	<u>4,901</u>
Total non-current assets other than financial instruments, deferred tax assets and retirement benefit assets:		
In Hong Kong	2,594	2,364
In other countries (mainly in Mainland China)	<u>2,892</u>	<u>2,704</u>
	<u>5,486</u>	<u>5,068</u>
Turnover in HAECO and TAECO derived from a single external customer	<u>1,891</u>	<u>2,069</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

5. Staff remuneration and benefits

Total staff remuneration and benefits including pension scheme contributions, salaries, allowances, benefits in kind and staff benefit administration costs for 2009 amounted to HK\$1,980 million (2008: HK\$1,965 million). Of the five highest paid employees, three (2008: four) were Directors and two (2008: one) were Executive Officers. Remuneration details are given in note 6.

6. Directors' and executive officers' remuneration

Total number of Directors who served during the year was sixteen (2008: seventeen) and total number of Executive Officers who served during the year was four (2008: three). Their remuneration was as follows:

	HAECO Group						Total	
	Cash		Non Cash					
	Basic salary/ Directors' fees ^a	Bonus ^b	Allowances, gratuities, and benefits	Retirement schemes contributions	Bonus paid to retirement benefits	Housing & other benefits	2009	2008
	<i>(in HK\$ Thousand)</i>							
Executive Directors:								
Christopher Pratt	529	—	26	673	—	315	1,543	1,729
Chan Ping Kit	3,666	3,993	1,140	12	—	4,598	13,409	11,205
Augustus Tang	2,844	478	632	—	—	425	4,379	833
Charles Bremridge <i>(to 1st April 2009)</i>	375	988	145	474	753	504	3,239	6,448
J Robert Gibson <i>(to 6th March 2007)</i>	—	—	—	—	—	—	—	235
Mark Hayman	1,859	1,108	898	—	—	16	3,881	3,953
Michelle Low	1,680	975	570	—	—	249	3,474	2,883
Ashokumar Sathianathan <i>(to 31st January 2009)</i>	254	984	485	1	—	2	1,726	3,246
	<u>11,207</u>	<u>8,526</u>	<u>3,896</u>	<u>1,160</u>	<u>753</u>	<u>6,109</u>	<u>31,651</u>	<u>30,532</u>
Non-Executive Directors:								
Martin Cubbon <i>(to 13th May 2009)</i>	—	—	—	—	—	—	—	—
Christopher Gibbs	—	—	—	—	—	—	—	—
Davy Ho	—	—	—	—	—	—	—	—
Peter Johansen	415	—	—	—	—	—	415	—
Merlin Swire <i>(from 1st January 2009)</i>	—	—	—	—	—	—	—	—
Tony Tyler <i>(to 30th September 2008)</i>	—	—	—	—	—	—	—	—
	<u>415</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>415</u>	<u>—</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

6. Directors' and executive officers' remuneration (continued)

	HAECO Group						Total	
	Cash		Non Cash					
	Basic salary/ Directors' fees ^a	Bonus ^b	Allowances, gratuities, and benefits	Retirement schemes contributions	Bonus paid to retirement benefits	Housing & other benefits	2009	2008
<i>(in HK\$ Thousand)</i>								
Independent Non-Executive Directors:								
Robert Adams	405	—	—	—	—	—	405	369
Dinty Dickson Leach <i>(to 6th May 2008)</i>	—	—	—	—	—	—	—	149
Albert Lam	300	—	—	—	—	—	300	300
Lincoln Leong	430	—	—	—	—	—	430	421
David Tong	300	—	—	—	—	—	300	300
	<u>1,435</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,435</u>	<u>1,539</u>
2009 total	<u>13,057</u>	<u>8,526</u>	<u>3,896</u>	<u>1,160</u>	<u>753</u>	<u>6,109</u>	<u>33,501</u>	
2008 total	<u>12,943</u>	<u>8,755</u>	<u>6,151</u>	<u>884</u>	<u>963</u>	<u>2,375</u>		<u>32,071</u>
Executive Officers:								
Summit Chan <i>(from 1st February 2009)</i>	1,166	—	400	—	—	171	1,737	—
John Chi	1,815	933	385	8	—	1,223	4,364	5,321
Patrick Healy	1,380	386	705	1,755	290	2,554	7,070	1,786
Merlin Swire <i>(to 30th June 2008)</i>	—	313	—	—	—	—	313	1,670
Kenny Tang <i>(from 7th September 2009)</i>	597	—	223	—	—	—	820	—
	<u>4,958</u>	<u>1,632</u>	<u>1,713</u>	<u>1,763</u>	<u>290</u>	<u>3,948</u>	<u>14,304</u>	<u>8,777</u>
2009 total	<u>4,958</u>	<u>1,632</u>	<u>1,713</u>	<u>1,763</u>	<u>290</u>	<u>3,948</u>	<u>14,304</u>	
2008 total	<u>2,792</u>	<u>1,253</u>	<u>1,258</u>	<u>434</u>	<u>327</u>	<u>2,713</u>		<u>8,777</u>

Notes:

- a. Annual Directors' fees are determined by HAECO Board and for 2009 comprised director's fee of HK\$300,000 (2008: HK\$300,000), fee for members serving on Audit Committee of HK\$75,000 (2008: HK\$75,000) and fee for members serving on Remuneration Committee of HK\$30,000 (2008: HK\$30,000) respectively. The fee for Chairman of Audit Committee is HK\$100,000 (2008: HK\$100,000) and fee for Chairman of Remuneration Committee is HK\$40,000 (2008: HK\$40,000).
- b. Bonuses paid to the Executive Directors and Executive Officers are based on previous years' results.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

7. Other net gains

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
Net foreign exchange gains	40	58
Fair value losses on derivative financial instruments:		
Forward foreign exchange contracts not qualifying for hedge accounting	—	(4)
Profit on sale of jointly controlled companies	—	38
	<u>40</u>	<u>92</u>

8. Net finance (charge)/income

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
Finance income:		
Short-term deposits and bank balances	7	18
Finance charge:		
Bank loans	(12)	(11)
	<u>(5)</u>	<u>7</u>

9. Taxation

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
Current taxation:		
Hong Kong profits tax	(8)	53
Overseas taxation	9	86
	1	139
Deferred taxation (<i>note 18</i>):		
Increase in deferred tax assets	—	(24)
Increase in deferred tax liabilities	39	14
	<u>40</u>	<u>129</u>

Hong Kong profits tax is calculated at 16.5% (2008: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at tax rates applicable in jurisdictions in which the HAECO Group is assessable for tax.

The HAECO Group's share of jointly controlled companies' tax charge of HK\$70 million (2008: HK\$83 million) is included in the share of after-tax results of jointly controlled companies shown in the consolidated income statement.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

9. Taxation (continued)

The tax charge on the HAECO Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate of HAECO as follows:

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
Profit before taxation	800	1,479
Calculated at a tax rate of 16.5% (2008: 16.5%)	132	244
Share of after-tax results of jointly controlled companies	(69)	(76)
Effect of different tax rates in other countries	(9)	8
Income not subject to tax	(9)	(24)
Unused tax losses not recognised	10	7
Over-provisions in prior years	—	(2)
Effect of changes in tax rates	(17)	(20)
Others	2	(8)
Total charge	<u>40</u>	<u>129</u>

10. Profit attributable to HAECO Shareholders

Of the profit attributable to HAECO Shareholders, HK\$648 million (2008: HK\$550 million) is dealt with in the financial statements of HAECO.

11. Dividends

	HAECO	
	2009	2008
	<i>(in HK\$ Million)</i>	
Interim dividend, paid on 22nd September 2009, of HK\$0.50 per share (2008: HK\$0.93 per share)	83	155
Final dividend, proposed, of HK\$1.50 per share (2008 actual dividend paid: HK\$2.25 per share)	<u>249</u>	<u>374</u>
	<u>332</u>	<u>529</u>

The proposed final dividend is not accounted for until it has been approved at the Annual General Meeting. The actual amount will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2010.

12. Earnings per share (basic and diluted)

Earnings per share are calculated by dividing the profit attributable to HAECO Shareholders of HK\$688 million (2008: HK\$1,138 million) by the weighted average number of 166,324,850 ordinary shares in issue during the year (2008: 166,324,850).

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

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

	HAECO Group							
	Property, plant and equipment						Leasehold land and land use rights	Intangible assets - computer software, goodwill and technical licences
	Buildings and building facilities	Plant, machinery and tools	Vehicles, equipment and furniture	Rotable spares	Assets under construction	Total		
	<i>(in HK\$ Million)</i>							
Cost								
At 1st January 2008	3,388	993	195	255	408	5,239	284	10
Translation differences	(8)	(3)	—	—	(2)	(13)	(2)	(1)
Acquisition of a subsidiary company	234	118	1	—	—	353	81	537
Additions and transfers	326	299	30	16	170	841	20	8
Disposals	(5)	(21)	(12)	(9)	—	(47)	—	—
At 31st December 2008	3,935	1,386	214	262	576	6,373	383	554
Translation differences	1	—	—	—	—	1	1	—
Additions and transfers	854	186	(6)	3	(250)	787	—	7
Disposals	(3)	(27)	(12)	(15)	—	(57)	—	—
At 31st December 2009	<u>4,787</u>	<u>1,545</u>	<u>196</u>	<u>250</u>	<u>326</u>	<u>7,104</u>	<u>384</u>	<u>561</u>
Accumulated depreciation, amortisation and impairment								
At 1st January 2008	1,014	620	167	41	—	1,842	46	8
Translation differences	(3)	(2)	(1)	—	—	(6)	—	—
Acquisition of a subsidiary company	27	46	—	—	—	73	4	—
Depreciation and amortisation charge for the year	145	108	9	21	—	283	7	1
Impairment charge for the year	—	—	—	14	—	14	—	—
Disposals	—	(16)	(12)	(2)	—	(30)	—	—
At 31st December 2008	1,183	756	163	74	—	2,176	57	9
Depreciation and amortisation charge/ (transfer) for the year	164	143	(3)	19	—	323	10	1
Impairment charge for the year	—	—	—	24	—	24	—	—
Disposals	(1)	(22)	(11)	(3)	—	(37)	—	—
At 31st December 2009	<u>1,346</u>	<u>877</u>	<u>149</u>	<u>114</u>	<u>—</u>	<u>2,486</u>	<u>67</u>	<u>10</u>
Net book value								
At 31st December 2009	<u>3,441</u>	<u>668</u>	<u>47</u>	<u>136</u>	<u>326</u>	<u>4,618</u>	<u>317</u>	<u>551</u>
At 31st December 2008	<u>2,752</u>	<u>630</u>	<u>51</u>	<u>188</u>	<u>576</u>	<u>4,197</u>	<u>326</u>	<u>545</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

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

	HAECO							
	Property, plant and equipment						Leasehold land	Intangible assets - computer software
	Buildings and building facilities	Plant, machinery and tools	Vehicles, equipment and furniture	Rotable spares	Assets under construction	Total		
	<i>(in HK\$ Million)</i>							
Cost								
At 1st January 2008	2,167	487	151	255	115	3,175	21	10
Additions and transfers	15	56	17	16	380	484	—	—
Disposals	(5)	(4)	(9)	(9)	—	(27)	—	—
At 31st December 2008	2,177	539	159	262	495	3,632	21	10
Additions and transfers	848	61	(12)	3	(474)	426	—	—
Disposals	—	(9)	(10)	(15)	—	(34)	—	—
At 31st December 2009	3,025	591	137	250	21	4,024	21	10
Accumulated depreciation, amortisation and impairment								
At 1st January 2008	633	342	131	41	—	1,147	4	8
Depreciation and amortisation charge for the year	77	40	9	21	—	147	1	1
Impairment charge for the year	—	—	—	14	—	14	—	—
Disposals	—	(4)	(9)	(2)	—	(15)	—	—
At 31st December 2008	710	378	131	74	—	1,293	5	9
Depreciation and amortisation charge/ (transfer) for the year	86	59	(10)	19	—	154	—	1
Impairment charge for the year	—	—	—	24	—	24	—	—
Disposals	—	(7)	(9)	(3)	—	(19)	—	—
At 31st December 2009	796	430	112	114	—	1,452	5	10
Net book value								
At 31st December 2009	2,229	161	25	136	21	2,572	16	—
At 31st December 2008	1,467	161	28	188	495	2,339	16	1

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

Of the leasehold land and land use rights of HK\$317 million (2008: HK\$326 million), HK\$16 million (2008: HK\$16 million) relates to the net book value of leasehold land held in Hong Kong by HAECO and HK\$301 million (2008: HK\$310 million) relates to the net book value of land use rights held in Mainland China by TAECO, Taikoo (Xiamen) Landing Gear Services Company Limited and TEXL. Both leasehold land and land use rights are held on medium-term leases.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

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

Of the intangible assets of HK\$551 million (2008: HK\$545 million), HK\$517 million (2008: HK\$511 million) relates to the carrying amount of technical licences with a remaining amortisation period of 21 years (2008: 22 years).

Impairment test of goodwill

Goodwill is allocated to the HAECO Group's cash-generating unit ("CGU") identified by operating segment.

	<u>2009</u>	<u>2008</u>
	<i>(in HK\$ Million)</i>	
TEXL	<u>30</u>	<u>29</u>

The recoverable amount attributable to this CGU is determined based on a value in use calculation. This calculation uses the financial budget and plan covering a period of ten years. Cash flows beyond this period are extrapolated at the same level as in the tenth year. The discount rate used at 31st December 2009 was 5.6%. The discount rate is pre-tax and reflects the specific risks relating to the CGU.

14. Subsidiary companies

	<u>HAECO</u>	
	<u>2009</u>	<u>2008</u>
	<i>(in HK\$ Million)</i>	
Unlisted shares at cost	<u>738</u>	<u>738</u>

The principal subsidiary companies are set out in note 34.

A loan due from a subsidiary company of HK\$11 million (2008: HK\$12 million included in trade and other receivables) is unsecured and interest free (2008: unsecured and interest free). The loan terms have been revised to extend the loan repayment from 2009 to 2012.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

15. Jointly controlled companies

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Unlisted shares at cost	183	130	135	92
Attributable post-acquisition reserves	805	777	—	—
	<u>988</u>	<u>907</u>	<u>135</u>	<u>92</u>
Dividends received and receivable from jointly controlled companies during the year	<u>392</u>	<u>381</u>	<u>376</u>	<u>362</u>

The principal jointly controlled companies are set out in note 34.

Included in trade and other receivables are loans due from a jointly controlled company to the HAECO Group of HK\$19 million (2008: HAECO Group: HK\$3 million; HAECO: HK\$2 million) which are unsecured and carry interest at 3.6% per annum (2008: HAECO Group: LIBOR plus 0.6% per annum; HAECO: LIBOR plus 0.6% per annum). The loans are repayable at various dates in 2010.

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

	HAESL		Others		Total	
	2009	2008	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>					
Turnover	3,166	3,342	329	360	3,495	3,702
Operating expenses	(2,791)	(2,918)	(260)	(283)	(3,051)	(3,201)
Operating profit	375	424	69	77	444	501
Net finance charge	(1)	—	—	(1)	(1)	(1)
Share of after-tax results of jointly controlled companies	47	45	—	—	47	45
Profit before taxation	421	469	69	76	490	545
Taxation	(58)	(72)	(12)	(11)	(70)	(83)
Profit for the year	<u>363</u>	<u>397</u>	<u>57</u>	<u>65</u>	<u>420</u>	<u>462</u>
Dividends paid	<u>350</u>	<u>343</u>	<u>42</u>	<u>38</u>	<u>392</u>	<u>381</u>
Net assets employed:						
Non-current assets	468	423	301	189	769	612
Current assets	628	761	174	164	802	925
	<u>1,096</u>	<u>1,184</u>	<u>475</u>	<u>353</u>	<u>1,571</u>	<u>1,537</u>
Current liabilities	(313)	(484)	(171)	(117)	(484)	(601)
Non-current liabilities	(99)	(29)	—	—	(99)	(29)
	<u>684</u>	<u>671</u>	<u>304</u>	<u>236</u>	<u>988</u>	<u>907</u>
Financed by:						
Shareholders' equity	<u>684</u>	<u>671</u>	<u>304</u>	<u>236</u>	<u>988</u>	<u>907</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

16. Financial instruments by category

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

	HAECO Group			HAECO
	Loans and receivables	Derivatives	Total	Loans and receivables
	<i>(in HK\$ Million)</i>			
At 31st December 2009				
Assets				
Derivative financial instruments	—	17	17	—
Trade and other receivables	538	—	538	420
Loan to a subsidiary company	—	—	—	11
Dividend receivable	—	—	—	44
Bank balances and short-term deposits	983	—	983	393
Total	1,521	17	1,538	868
	Derivatives	Other financial liabilities	Total	Other financial liabilities
	<i>(in HK\$ Million)</i>			
At 31st December 2009				
Liabilities				
Derivative financial instruments	15	—	15	—
Trade and other payables	—	989	989	605
Borrowings	—	1,126	1,126	200
Total	15	2,115	2,130	805
	HAECO Group			HAECO
	Loans and receivables	Derivatives	Total	Loans and receivables
	<i>(in HK\$ Million)</i>			
At 31st December 2008				
Assets				
Derivative financial instruments	—	58	58	—
Trade and other receivables	648	—	648	580
Dividend receivable	—	—	—	88
Bank balances and short-term deposits	892	—	892	307
Total	1,540	58	1,598	975

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

16. Financial instruments by category (continued)

	HAECO Group			HAECO
	Derivatives	Other financial liabilities	Total	Other financial liabilities
	<i>(in HK\$ Million)</i>			
At 31st December 2008				
Liabilities				
Derivative financial instruments	25	—	25	—
Trade and other payables	—	1,112	1,112	693
Borrowings	—	677	677	—
Total	25	1,789	1,814	693

Note: No derivatives are recognised at fair value through profit and loss (2008: assets of HK\$2 million; liabilities of HK\$6 million).

The derivative financial instruments, the deposits and bank balances are placed with banks which have credit ratings not lower than “A” in compliance with HAECO’s financial risk management policy. The trade receivables are transacted with those customers whose ratings, in the opinion of the directors of HAECO, are reasonable and acceptable. Based on historical experience, the unrecoverable rate is less than 0.5% of turnover.

17. Retirement benefits

(a) Overall

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

The Hong Kong Aircraft Engineering Company Local Staff Retirement Benefits Scheme (“Local Scheme”) provides resignation and retirement benefits to its members upon their cessation of service with HAECO. HAECO meets the full cost of all benefits due by the Scheme to members, who are not required to contribute to the Scheme.

Similarly, the Hong Kong Aircraft Engineering Company Staff Retirement Benefits Scheme (“Expatriate Scheme”) is for staff employed on expatriate terms. Both members and HAECO contribute to the Scheme.

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

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

17. Retirement benefits (continued)

(a) Overall (continued)

The retirement benefit expense/(income) was recognised in the income statement as described in note 23 under principal accounting policies and was as follows:

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
Local Scheme	57	(32)
Expatriate Scheme	3	(11)
MPF, statutory and other defined contribution schemes	60	54
	<u>120</u>	<u>11</u>

(b) Defined benefits retirement schemes

The amount recognised in the consolidated income statement was as follows:

	HAECO Group					
	Local Scheme		Expatriate Scheme		Total	
	2009	2008	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>					
Current service cost	82	101	4	5	86	106
Interest cost	93	76	6	4	99	80
Expected return on plan assets	(121)	(193)	(9)	(15)	(130)	(208)
Net actuarial losses/(gains)	3	(16)	2	(5)	5	(21)
Total	<u>57</u>	<u>(32)</u>	<u>3</u>	<u>(11)</u>	<u>60</u>	<u>(43)</u>
Actual return on plan assets	<u>581</u>	<u>(962)</u>	<u>48</u>	<u>(81)</u>	<u>629</u>	<u>(1,043)</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

17. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

The amount recognised in the statement of financial position was determined as follows:

	HAECO Group and HAECO					
	Local Scheme		Expatriate Scheme		Total	
	2009	2008	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>					
At 31st December:						
Fair value of plan assets	2,312	1,735	166	142	2,478	1,877
Present value of obligations	(1,924)	(1,790)	(107)	(115)	(2,031)	(1,905)
Net assets/(liabilities)	388	(55)	59	27	447	(28)
Net unrecognised actuarial (gains)/ losses	(167)	212	(8)	27	(175)	239
Retirement benefit assets recognised in the statement of financial position	<u>221</u>	<u>157</u>	<u>51</u>	<u>54</u>	<u>272</u>	<u>211</u>

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

	HAECO Group and HAECO					
	Local Scheme		Expatriate Scheme		Total	
	2009	2008	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>					
Assets at 1st January	157	125	54	43	211	168
Increase due to:						
Total expense - as shown above	(57)	32	(3)	11	(60)	43
Contributions paid	121	—	—	—	121	—
Assets at 31st December	<u>221</u>	<u>157</u>	<u>51</u>	<u>54</u>	<u>272</u>	<u>211</u>

HK\$67 million of the contributions paid represent supplementary lump-sum funding contributions.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

17. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

Principal actuarial assumptions for the year:

	HAECO Group and HAECO			
	Local Scheme		Expatriate Scheme	
	2009	2008	2009	2008
Discount rate	4.75%	5.30%	4.75%	5.30%
Expected rate of return on plan assets	8.00%	7.00%	8.00%	7.00%
Expected rate of future salary increases	4.00%	3.61%	4.00%	3.01%

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

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

	HAECO Group and HAECO					
	Local Scheme		Expatriate Scheme		Total	
	2009	2008	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>					
At 1st January	1,735	2,808	142	231	1,877	3,039
Employer contributions	121	—	—	—	121	—
Employee contributions	—	—	2	3	2	3
Expected return on plan assets	121	193	9	15	130	208
Benefits paid	(125)	(111)	(26)	(11)	(151)	(122)
Actuarial gains/(losses)	460	(1,155)	39	(96)	499	(1,251)
At 31st December	<u>2,312</u>	<u>1,735</u>	<u>166</u>	<u>142</u>	<u>2,478</u>	<u>1,877</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

17. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

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

	HAECO Group and HAECO					
	Local Scheme		Expatriate Scheme		Total	
	2009	2008	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>					
At 1st January	1,790	2,202	115	131	1,905	2,333
Current service cost	82	101	6	8	88	109
Interest cost	93	76	6	4	99	80
Actual benefits paid	(125)	(111)	(26)	(11)	(151)	(122)
Actuarial losses/(gains)	84	(478)	6	(17)	90	(495)
At 31st December	<u>1,924</u>	<u>1,790</u>	<u>107</u>	<u>115</u>	<u>2,031</u>	<u>1,905</u>

The major categories of plan assets are as follows:

	HAECO Group and HAECO							
	Local Scheme				Expatriate Scheme			
	2009	2009	2008	2008	2009	2009	2008	2008
	<i>(in HK\$ Million)</i>							
Equities	1,678	73%	1,157	67%	115	69%	95	67%
Bonds	634	27%	560	32%	51	31%	45	32%
Cash and others	—	—	18	1%	—	—	2	1%
Total	<u>2,312</u>	<u>100%</u>	<u>1,735</u>	<u>100%</u>	<u>166</u>	<u>100%</u>	<u>142</u>	<u>100%</u>

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

Expected employer contributions for the year ending 31st December 2010 are HK\$50 million for Local Scheme and nil for Expatriate Scheme.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

17. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

Other disclosures are as follows:

	HAECO Group and HAECO				
	Total				
	2009	2008	2007	2006	2005
	<i>(in HK\$ Million)</i>				
Fair value of plan assets	2,478	1,877	3,039	2,676	2,315
Present value of obligations	(2,031)	(1,905)	(2,334)	(2,155)	(2,052)
Surplus/(deficit)	<u>447</u>	<u>(28)</u>	<u>705</u>	<u>521</u>	<u>263</u>
Experience (losses)/gains on scheme liabilities	<u>(26)</u>	<u>11</u>	<u>(11)</u>	<u>87</u>	<u>Note</u>
Experience gains/(losses) on scheme assets	<u>499</u>	<u>(1,251)</u>	<u>288</u>	<u>276</u>	<u>76</u>

Note: This information is not reported as it is not readily available and is not required by the Accounting Standards.

18. Deferred taxation

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

	HAECO Group
	Provisions
	<i>(in HK\$ Million)</i>
Deferred tax assets	
At 1st January 2008	8
Credited to income statement	<u>24</u>
At 31st December 2008	32
Credited to other comprehensive income	<u>7</u>
At 31st December 2009	<u><u>39</u></u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

18. Deferred taxation (continued)

	HAECO Group			
	Accelerated tax depreciation	Retirement benefit assets	Others	Total
	<i>(in HK\$ Million)</i>			
Deferred tax liabilities				
At 1st January 2008	217	10	(1)	226
Acquisition of a subsidiary company	—	—	37	37
Charged to income statement	2	—	12	14
Credited to other comprehensive income	—	—	(5)	(5)
At 31st December 2008	219	10	43	272
Charged to income statement	30	—	9	39
At 31st December 2009	249	10	52	311

	HAECO			
	Accelerated tax depreciation	Retirement benefit assets	Others	Total
	<i>(in HK\$ Million)</i>			
Deferred tax liabilities				
At 1st January 2008	217	10	(14)	213
Charged to income statement	2	—	—	2
At 31st December 2008	219	10	(14)	215
Charged to income statement	30	—	11	41
At 31st December 2009	249	10	(3)	256

Deferred tax is calculated in full on temporary differences under the liability method. The tax rate used in respect of Hong Kong deferred tax is 16.5% (2008: 16.5%). Overseas deferred tax is calculated using tax rates prevailing in the respective jurisdictions.

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The HAECO Group has unrecognised tax losses of HK\$96 million (2008: HK\$47 million) to carry forward against future taxable income. Tax losses of HK\$23 million will expire in 2013, HK\$46 million will expire in 2014 and HK\$27 million have no expiry date (2008: HK\$24 million in 2013; HK\$2 million in 2028; HK\$21 million no expiry date).

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

18. Deferred taxation (continued)

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

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
Deferred tax assets:		
To be recovered after more than 12 months	38	26
To be recovered within 12 months	<u>1</u>	<u>6</u>
	<u>39</u>	<u>32</u>

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
Deferred tax liabilities:		
To be settled after more than 12 months	299	249
To be settled within 12 months	<u>12</u>	<u>23</u>
	<u>311</u>	<u>272</u>

	HAECO	
	2009	2008
	<i>(in HK\$ Million)</i>	
Deferred tax liabilities:		
To be settled after more than 12 months	247	201
To be settled within 12 months	<u>9</u>	<u>14</u>
	<u>256</u>	<u>215</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

19. Derivative financial instruments

	HAECO Group			
	Assets		Liabilities	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Forward foreign exchange contracts:				
Cash flow hedges	17	56	15	19
Not qualifying for hedge accounting	—	2	—	6
Total	17	58	15	25
Less non-current portion				
Forward foreign exchange contracts:				
Cash flow hedges	4	9	—	18
Current portion	13	49	15	7

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

Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31st December 2009 were HK\$726 million (2008: HK\$1,363 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 36 months. Gains and losses recognised in the cash flow hedge reserve in equity (note 26) on forward foreign exchange contracts as of 31st December 2009 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the consolidated income statement. This is generally within 3 years from the reporting date unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the assets.

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

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

20. Financial guarantees

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

The liabilities guaranteed will mature at various dates from 2010 to 2012. Their face values are as follows:

	HAECO	
	2009	2008
	<i>(in HK\$ Million)</i>	
Bank loans of a subsidiary company	<u>448</u>	<u>316</u>

21. Stocks and work in progress

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

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Carrying amounts at net realisable value:				
Stocks	<u>192</u>	<u>91</u>	<u>154</u>	<u>63</u>

The remaining balances are carried at cost.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

22. Trade and other receivables

The credit terms given to customers vary and are generally based on their individual financial strength. Credit evaluations of trade receivables are performed periodically to minimise credit risk associated with receivables.

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Trade receivables —				
in HK dollars	97	102	97	102
in US dollars	204	209	131	99
in other currencies	29	12	—	—
	330	323	228	201
Less: provision for impairment of receivables	(2)	(20)	(2)	(19)
	328	303	226	182
Amounts due from subsidiary companies	—	—	78	111
Amounts due from jointly controlled companies	33	15	10	9
Amounts due from related parties	49	152	22	136
Other receivables and prepayments	126	158	82	123
	<u>536</u>	<u>628</u>	<u>418</u>	<u>561</u>

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

The ageing analysis of these trade receivables is as follows:

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Current	177	137	116	83
Up to 3 months overdue	78	105	50	39
3 to 6 months overdue	5	3	1	2
Over 6 months overdue	70	78	61	77
	<u>330</u>	<u>323</u>	<u>228</u>	<u>201</u>

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

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

22. Trade and other receivables (continued)

At 31st December 2009, trade receivables of the HAECO Group of HK\$2 million (2008: HK\$20 million) and of HAECO of HK\$2 million (2008: HK\$19 million) were considered impaired and provided for. The impaired trade receivables relate to customers which are in unexpectedly difficult financial situations. The ageing of these receivables is as follows:

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Up to 3 months overdue	2	—	2	—
3 to 6 months overdue	—	—	—	—
Over 6 months overdue	—	20	—	19
	<u>2</u>	<u>20</u>	<u>2</u>	<u>19</u>

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

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
At 1st January	20	22	19	19
Provision for impairment of receivables	2	1	2	—
Utilised during the year	(20)	—	(19)	—
Unused amounts reversed	—	(3)	—	—
At 31st December	<u>2</u>	<u>20</u>	<u>2</u>	<u>19</u>

The creation and release of the provision for impaired receivables has been included in cost of direct material and job expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional settlement.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The HAECO Group does not hold any collateral as security.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

23. Trade and other payables

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Trade payables	77	133	32	14
Amounts due to subsidiary companies	—	—	34	4
Amounts due to jointly controlled companies	2	—	2	—
Amount due to related parties	21	26	10	24
Other payables and accruals	889	953	527	651
	<u>989</u>	<u>1,112</u>	<u>605</u>	<u>693</u>

The ageing analysis of trade payables is as follows:

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Current	70	124	30	6
Up to 3 months overdue	7	9	2	8
	<u>77</u>	<u>133</u>	<u>32</u>	<u>14</u>

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

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

24. Borrowings

For accounting purposes, the loans at 31st December are classified as follows:

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Short-term loans				
- in HK dollars	267	57	200	—
- in US dollars	158	230	—	—
- in other currencies	—	2	—	—
	<u>425</u>	<u>289</u>	<u>200</u>	<u>—</u>
Long-term loans at amortised cost				
- in HK dollars	30	—	—	—
- in US dollars	671	388	—	—
	701	388	—	—
Less: amount due within one year included under current liabilities				
- in US dollars	106	—	—	—
	<u>595</u>	<u>388</u>	<u>—</u>	<u>—</u>

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

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

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
Bank loans:		
Repayable within 1 year	106	—
Repayable between 1 and 2 years	437	—
Repayable between 2 and 5 years	158	388
	<u>701</u>	<u>388</u>

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

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
6 months or less	<u>1,126</u>	<u>677</u>	<u>200</u>	<u>—</u>

The HAECO Group's and HAECO's weighted average effective interest rates per annum at 31st December 2009 are 0.95% (2008: 2.68%) and 0.62% (2008: no bank loans) respectively.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

25. Share capital

	HAECO			
	2009		2008	
	<i>Number of shares</i>	<i>In HK\$ Million</i>	<i>Number of shares</i>	<i>In HK\$ Million</i>
Authorised:				
Ordinary shares of HK\$1.00 each				
At 31st December	<u>210,000,000</u>	<u>210</u>	<u>210,000,000</u>	<u>210</u>
Issued and fully paid:				
Ordinary shares of HK\$1.00 each				
At 31st December	<u>166,324,850</u>	<u>166</u>	<u>166,324,850</u>	<u>166</u>

During the year, no purchase, sale or redemption of HAECO Shares has been effected on the Hong Kong Stock Exchange by HAECO or its subsidiary companies.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

26. Reserves

	Revenue reserve		Capital redemption reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>									
HAECO Group										
At 1st January	4,749	4,132	19	19	10	11	17	81	4,795	4,243
Profit for the year	688	1,138	—	—	—	—	—	—	688	1,138
Other comprehensive income										
Cash flow hedges										
- recognised during the year	—	—	—	—	—	—	6	(38)	6	(38)
- deferred tax recognised	—	—	—	—	—	—	4	3	4	3
- transferred to other net gains	—	—	—	—	—	—	(26)	(29)	(26)	(29)
Exchange translation differences on foreign operations	—	—	—	—	1	(1)	—	—	1	(1)
Total comprehensive income/(loss) for the year	688	1,138	—	—	1	(1)	(16)	(64)	673	1,073
Previous year's final dividend paid	(374)	(366)	—	—	—	—	—	—	(374)	(366)
Current year's interim dividend paid	(83)	(155)	—	—	—	—	—	—	(83)	(155)
At 31st December	<u>4,980</u>	<u>4,749</u>	<u>19</u>	<u>19</u>	<u>11</u>	<u>10</u>	<u>1</u>	<u>17</u>	<u>5,011</u>	<u>4,795</u>
HAECO										
At 1st January	3,320	3,291	19	19	—	—	—	—	3,339	3,310
Total comprehensive income for the year	648	550	—	—	—	—	—	—	648	550
Previous year's final dividend paid	(374)	(366)	—	—	—	—	—	—	(374)	(366)
Current year's interim dividend paid	(83)	(155)	—	—	—	—	—	—	(83)	(155)
At 31st December	<u>3,511</u>	<u>3,320</u>	<u>19</u>	<u>19</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,530</u>	<u>3,339</u>

The HAECO Group and HAECO revenue reserves include HK\$249 million (2008: HK\$374 million) representing the proposed final dividend for the year (note 11).

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

27. Minority interests

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
At 1st January	939	485
Share of profits for the year	72	212
Share of cash flow hedge reserve	(13)	(50)
Share of exchange translation differences on foreign operations	—	(3)
Share of total comprehensive income for the year	59	159
Minority interests in a new subsidiary company	—	36
Capital contribution from minority interests	—	35
Dividends (paid and payable)/cancellation	(34)	224
At 31st December	<u>964</u>	<u>939</u>

28. Receipt in advance

An advanced payment was received from Cathay Pacific Airways Limited in 2005 for storage services charges up to June 2018. At 31st December 2009, the current portion included in other payables under current liabilities is HK\$11 million (2008: HK\$11 million) while the non-current portion is HK\$79 million (2008: HK\$90 million).

29. Notes to the consolidated statement of cash flows

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

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
Operating profit	385	1,010
Depreciation, amortisation and impairment provision	358	305
Other net gains	(4)	(34)
Loss/(profit) on disposal of property, plant and equipment	14	(6)
Operating profit before working capital changes	753	1,275
Increase in retirement benefit assets	(61)	(43)
Increase in stocks and work in progress	(7)	(32)
Decrease in trade and other receivables	96	33
Increase/(decrease) in trade and other payables	20	(29)
Decrease in receipt in advance	(11)	(11)
Cash generated from operations	<u>790</u>	<u>1,193</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

29. Notes to the consolidated statement of cash flows (continued)

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

	HAECO Group	
	2009	2008
	<i>(in HK\$ Million)</i>	
Cash and cash equivalents	844	881
Deposits maturing after three months	139	11
	<u>983</u>	<u>892</u>

The HAECO Group's and HAECO's weighted average effective interest rates per annum on these deposits at 31st December 2009 were 0.73% (2008: 0.91%) and 0.05% (2008: 0.31%) respectively. These deposits had an average maturity of 59 days (2008: 25 days) for the HAECO Group and 28 days (2008: 25 days) for HAECO.

30. Capital commitments

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Contracted but not provided for in the financial statements	201	459	12	407
Authorised by Directors but not contracted for	<u>1,182</u>	<u>1,786</u>	<u>124</u>	<u>121</u>
	<u>1,383</u>	<u>2,245</u>	<u>136</u>	<u>528</u>
HAECO Group's share of capital commitments of jointly controlled companies not included above:				
Contracted but not provided for in the financial statements	149	136		
Authorised by Directors but not contracted for	<u>80</u>	<u>138</u>		

Capital commitments mainly relate to the construction of a sixth hangar by TAECO and engine overhaul facilities by TEXL at Xiamen, Mainland China.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

31. Lease commitments

At 31st December 2009, the future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	HAECO Group		HAECO	
	2009	2008	2009	2008
	<i>(in HK\$ Million)</i>			
Land and buildings:				
Not later than 1 year	106	99	105	98
Later than 1 year but not later than 5 years	408	391	407	390
Later than 5 years	<u>2,362</u>	<u>2,340</u>	<u>2,362</u>	<u>2,340</u>
	<u>2,876</u>	<u>2,830</u>	<u>2,874</u>	<u>2,828</u>

32. Business combinations

On 26th June 2008, HAECO and TAECO acquired 75.01% and 10% interests respectively in TEXTL, a company that provides overhaul, maintenance and test services for aircraft engines. The HAECO Group's effective shareholding is 80.67%. As part of the transaction the HAECO Group also entered into a Branded Service Agreement for TEXTL to acquire a GE-Branded Service Agreement with the right to maintain GE90 engines for a period of 22 years. The HAECO Group's share of total consideration for the acquisition of TEXTL and the GE-Branded Service Agreement was HK\$636 million.

No revenue and a loss of HK\$23 million were contributed to the HAECO Group for the year from TEXTL to 31st December 2008. If the acquisition had occurred on 1st January 2008, the HAECO Group's consolidated turnover and consolidated profit for the year would have been increased by HK\$18 million and decreased by HK\$11 million respectively.

(a) Details of goodwill and net assets acquired are given below.

(in HK\$ Million)

HAECO Group's share of purchase consideration is as follows:	
Cash paid	227
Deferred consideration	<u>409</u>
	636
Fair value of net identifiable assets acquired	<u>(606)</u>
Goodwill	<u>30</u>

The goodwill is attributable to TEXTL's strong position and profitability in its market and the significant synergies expected to arise after its acquisition by the HAECO Group.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

32. Business combinations (continued)

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	Fair value
	<i>(in HK\$ Million)</i>	
Cash and cash equivalents	21	21
Land use rights	18	77
Property, plant and equipment	192	280
Payables	(97)	(97)
Deferred tax liabilities	—	(37)
Net assets acquired	134	244
Intangible assets acquired	507	507
	641	751
Minority interests		(145)
HAECO Group's share of total net assets acquired		606

(b) Details of cash outflow on acquisition are as follows:

	<i>(in HK\$ Million)</i>
Outflow of cash to acquire TEXTL, net of cash acquired:	
HAECO Group's share of cash consideration	227
The minority's share of cash consideration	12
Total cash consideration	239
Cash and cash equivalents in TEXTL	(21)
Cash outflow on acquisition	218

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

33. Related party and continuing connected transactions

The HAECO Group has a number of transactions with its related parties and connected persons. Details of the remuneration of key management are set out in note 6. All trading transactions are conducted in the normal course of business at prices and on terms similar to those charged to/by and contracted with other third party customers/suppliers of the HAECO Group. The aggregated transactions and balances which are material to the HAECO Group and which have not been disclosed elsewhere in the annual report are summarised below:

	Note	Jointly controlled companies		Other related parties		Total	
		2009	2008	2009	2008	2009	2008
(in HK\$ Million)							
Revenue from provision of services:							
Cathay Pacific Airways Limited Group	a	—	—	1,891	2,069	1,891	2,069
Other revenue	b	49	99	—	—	49	99
		<u>49</u>	<u>99</u>	<u>1,891</u>	<u>2,069</u>	<u>1,940</u>	<u>2,168</u>
Purchases:							
Costs payable to John Swire & Sons (H.K.) Limited under services agreement							
- Service fees payable during the year	a			20	35	20	35
- Expenses reimbursed at cost	a			36	28	36	28
Subtotal	a			56	63	56	63
- Share of administrative services				4	3	4	3
Total				60	66	60	66
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited							
				4	4	4	4
Spares purchases from Cathay Pacific Airways Limited							
				16	61	16	61
Other purchases	c	3	8	9	12	12	20
		<u>3</u>	<u>8</u>	<u>89</u>	<u>143</u>	<u>92</u>	<u>151</u>

Notes:

- These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules as detailed in note e. The other transactions are not connected transactions or continuing connected transactions which give rise to any disclosure or other obligations under Chapter 14A of the Listing Rules.
- Other revenue from jointly controlled companies mainly came from the provision to HAESL of engine component repairs and facilities rental on a commercial arm's length basis and of certain administrative services charged at cost.
- Purchases from jointly controlled companies comprised mainly aircraft component overhaul charges by HAESL.
- Amounts due from and due to jointly controlled companies and other related parties at 31st December 2009 are disclosed in notes 22 and 23 to the accounts.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

33. Related party and continuing connected transactions (continued)

Notes: (continued)

e. *Continuing connected transactions during 2009:*

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

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

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

CX is a substantial shareholder and therefore a connected person of HAECO under the Listing Rules. The transactions under the Framework Agreement are continuing connected transactions in respect of which an announcement dated 21st May 2007 was published and a circular dated 5th June 2007 was sent to shareholders.

For the year ended 31st December 2009, the fees payable by CX Group to the HAECO Group under the Framework Agreement totalled HK\$1,891 million.

(b) *John Swire & Sons (H.K.) Limited (“JSSHK”)*

Pursuant to an agreement dated 1st December 2004, as amended and restated on 18th September 2008, (“JSSHK Services Agreement”) with JSSHK, JSSHK provides services to HAECO and its subsidiaries. The services comprise full or part time services of members of the staff of the John Swire & Sons Limited (“Swire”) group, other administrative and similar services and such other services as may be agreed from time to time. They also include advice and expertise of the directors and senior officers of the Swire group including (but not limited to) assistance in negotiating with regulatory and other governmental or official bodies, and in procuring for HAECO and its subsidiary, jointly controlled and associated companies the use of relevant trademarks owned by Swire. No fee is payable in consideration of such procurement obligation or such use.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of HAECO’s consolidated profit before taxation and minority interests after certain adjustments. The fees for each year are payable in cash in arrears in two instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. HAECO also reimburses the Swire group at cost for all the expenses incurred in the provision of the services.

The current term of the JSSHK Services Agreement is from 1st January 2008 to 31st December 2010 and is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Swire is the ultimate holding company of Swire Pacific Limited which owns approximately 45.96% (2008: 33.52%) of the issued capital of HAECO and JSSHK, a wholly owned subsidiary of Swire, is therefore a connected person of HAECO under the Listing Rules. The transactions under the JSSHK Services Agreement are continuing connected transactions in respect of which announcements dated 1st December 2004, 7th March 2006 and 1st October 2007 were published.

For the year ended 31st December 2009, the fees payable by HAECO to JSSHK under the JSSHK Services Agreement totalled HK\$20 million and expenses of HK\$36 million were reimbursed at cost.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

34. Principal subsidiary and jointly controlled companies at 31st December 2009

	Place of incorporation and operation	Principal activities	Issued share capital	Owned directly	Owned by subsidiary and jointly controlled companies	Attributable to the HAECO Group
Subsidiary companies:						
HAECO ATE Component Service Limited	Hong Kong	Aircraft component repair services	Share capital of HK\$2,000,000	100%	—	100%
Singapore HAECO Pte. Limited	Singapore	Line maintenance	Share capital of SGD1	100%	—	100%
Taikoo (Xiamen) Aircraft Engineering Company Limited*	Xiamen	Aircraft overhaul and maintenance	Registered capital of US\$41,500,000	56.55%	—	56.55%
Taikoo Engine Services (Xiamen) Company Limited*	Xiamen	Commercial aero engine overhaul services	Registered capital of US\$63,000,000	75.01%	10%	80.67%
Taikoo (Xiamen) Landing Gear Services Company Limited*	Xiamen	Landing gear repair and overhaul	Registered capital of US\$13,890,000	50%	10%	55.66%
Jointly controlled companies:						
Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited*	Jinjiang	Tyre services for commercial aircraft	Registered capital of US\$5,000,000	28%	9%	33.09%
Goodrich Asia-Pacific Limited	Hong Kong	Carbon brake machining and wheel hub overhaul	Share capital of HK\$9,200,000	49%	—	49%
Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited* [#]	Xiamen	Aircraft fuel control, flight control and electrical component repairs	Registered capital of US\$5,000,000	—	35%	19.79%
Honeywell TAECO Aerospace (Xiamen) Company Limited*	Xiamen	Aircraft hydraulic, pneumatic, avionic component and other aviation equipment repairs	Registered capital of US\$5,000,000	25%	10%	30.66%
Hong Kong Aero Engine Services Limited [#]	Hong Kong	Commercial aero engine overhaul services	Share capital of HK\$200	45%	—	45%
Singapore Aero Engine Services Pte. Limited [#]	Singapore	Commercial aero engine overhaul services	Share capital of US\$54,000,000	—	20%	9%
Taikoo (Shandong) Aircraft Engineering Company Limited* [#]	Jinan	Heavy maintenance services for narrow-body aircraft	Registered capital of RMB200,000,000	30%	10%	35.66%
Taikoo Sichuan Aircraft Engineering Services Company Limited* [#]	Chengdu	Line maintenance and aircraft maintenance	Registered capital of RMB60,000,000	40%	9%	45.09%
Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited*	Jinjiang	Composite material aeronautic parts/systems repair, manufacturing and sales	Registered capital of US\$11,663,163	41.8%	10.76%	47.88%

Principal subsidiary and jointly controlled companies are those which, in the opinion of the directors of HAECO, materially affect the results or assets of the HAECO Group.

* *Equity joint venture incorporated in Mainland China.*

Companies not audited by PricewaterhouseCoopers.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

PRINCIPAL ACCOUNTING POLICIES

1. Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and under the historical cost convention as modified by the revaluation of financial assets (including derivative instruments) at fair value through profit or loss.

The preparation of 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 HAECO Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3 to the financial statements.

In 2009, the HAECO Group adopted the following new or revised standards and interpretations of HKFRS below, which are relevant to its operations. Where applicable, the 2008 comparatives have been amended as required.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
Amendments to HKFRS 1 and HKAS 27	Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments — Fair Value Measurements and Liquidity Risk of Financial Instruments
HKFRS 8	Operating Segments
Annual improvements to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants in October 2008	

The adoption of such standards or interpretations does not result in substantial changes to the HAECO Group’s accounting policies and has no significant effect on the results. However, as a result of the adoption of HKAS 1 (revised) “Presentation of Financial Statements”, changes in equity arising from transactions with shareholders in their capacity as shareholders are presented separately from all other income and expenses in a revised statement of changes in equity. All such items of income and expenses as a result of non-owner changes in equity are presented in the statement of comprehensive income.

HKFRS 8 “Operating Segments” replaces HKAS 14 “Segment Reporting”. It requires a “management approach” under which information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

1. Basis of preparation (continued)

The HAECO Group has not early adopted the following new standards or interpretations that have been issued but are not yet effective. The adoption of such standards or interpretations would not result in substantial changes to the HAECO Group's accounting policies.

		Effective for accounting periods beginning on or after
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owner	1st July 2009
HKAS 24 (Revised)	Related Party Disclosures	1st January 2011
HKAS 27 (Revised)	Consolidated and Separate Financial Statements	1st July 2009
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement	1st July 2009
HKFRS 3 (Revised)	Business Combinations	1st July 2009
HKFRS 9	Financial Instruments	1st January 2013
Second Improvements to HKFRSs — Amendments to:		
HKAS 7	Cash Flow Statement	1st January 2010
HKAS 17	Leases	1st January 2010
HKAS 36	Impairment of Assets	1st January 2010
HKAS 38	Intangible Assets	1st January 2010
HKAS 39	Financial Instruments: Recognition and Measurement	1st July 2009
HKFRS 8	Operating Segments	1st January 2010

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of HAECO and its subsidiary companies made up to 31st December.

Subsidiary companies are fully consolidated from the date on which control is transferred to the HAECO Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiary companies by the HAECO Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the HAECO Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary company acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between companies of the HAECO Group are eliminated upon consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiary and jointly controlled companies have been changed where necessary to ensure consistency with the policies adopted by the HAECO Group.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

2. Basis of consolidation (continued)

Minority interests in the statement of financial position, comprise the proportion of the net assets of subsidiary companies attributable to shareholders external to the HAECO Group. The HAECO Group applies a policy of treating transactions with minority interests as transactions with parties external to the HAECO Group. Disposals to minority interests result in gains and losses for the HAECO Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary company.

3. Subsidiary companies

Subsidiary companies are those companies in which the HAECO Group, directly or indirectly, has an interest of more than half the voting powers or otherwise has the power to govern the financial and operating policies.

In HAECO's statement of financial position, investments in subsidiary companies are stated at cost less provision for any impairment losses. The results of subsidiary companies are accounted for by HAECO on the basis of dividends received and receivable.

4. Jointly controlled companies

A joint control represents contractual arrangement whereby the HAECO Group and other parties undertake an economic activity which is subject to shared control and none of the participating parties has unilateral control over the economic activity of the entity.

Investments in jointly controlled companies are accounted for using the equity method of accounting and are initially recognised at cost. The excess of the cost of investment in jointly controlled companies over the fair value of the HAECO Group's share of the identifiable net assets acquired represents goodwill. The HAECO Group's investments in jointly controlled companies include goodwill (net of any accumulated impairment losses) arising on acquisitions.

The consolidated income statement includes the HAECO Group's share of results of jointly controlled companies. In the consolidated statement of financial position, the investment in jointly controlled companies represents the HAECO Group's share of net assets. When the HAECO Group's share of losses in a jointly controlled company equals or exceeds its interest in the jointly controlled company, including any other unsecured receivables, the HAECO Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled company. Results reported by jointly controlled companies are changed where necessary to ensure no material inconsistency with the accounting policies adopted by the HAECO Group.

In HAECO's statement of financial position, investments in jointly controlled companies are stated at cost less provision for any impairment losses. The results of jointly controlled companies are accounted for by HAECO on the basis of dividends received and receivable.

5. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as HAECO Board.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

6. Foreign currency translation

Items included in financial statements of each of the HAECO Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is HAECO's functional and presentation currency.

Foreign currency denominated monetary assets and liabilities and the statements of financial position are translated into Hong Kong dollars, the HAECO Group's presentation currency, at the rates of exchange ruling at the statement of financial position date. Foreign currency transactions during the year are translated at the market exchange rates ruling at the transaction dates. Exchange differences are reflected in the income statement except for unrealised differences on net investments in foreign subsidiary and jointly controlled companies which are taken directly to reserves.

The statements of financial position of foreign subsidiary and jointly controlled companies denominated in foreign currencies are translated at the rates of exchange ruling at the statement of financial position date whilst the income statements are translated at the weighted average exchange rates during the year. When foreign subsidiary or jointly controlled companies are sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

7. Assets under operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases.

Payments made and due under operating lease agreements are aggregated and charged to operating profit evenly over the periods of the respective leases.

8. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the HAECO Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Rates of depreciation are calculated using the straight line method to allocate the cost of property, plant and equipment to their residual values over their estimated useful lives. Depreciation rates in use for property, plant and equipment are as follows:

Buildings and building facilities	2.5% to 10%
Equipment, plant, machinery and tools	7.3% to 33%
Motor vehicles	18% to 20%
Rotable spares	7%
Assets under construction	Nil

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

8. Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount.

The gain or loss on disposal of property, plant and equipment represents the difference between the net sales proceeds and the carrying amount of the asset, and is recognised in the income statement.

9. Intangible assets

(i) Goodwill

Goodwill arising on consolidation represents the excess of cost of acquisition of subsidiary and jointly controlled companies over the HAECO Group's share of the fair value ascribed to the separable net assets at the date of acquisition. Goodwill on acquisitions of subsidiary companies is included in intangible assets. Goodwill on acquisitions of jointly controlled companies is included in investments in jointly controlled companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment arising on goodwill is recognised in the income statement immediately. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to a cash generating unit for the purpose of impairment testing.

(ii) Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the acquisition of identifiable and unique software products controlled by the HAECO Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software costs are amortised over their estimated useful life of five years.

(iii) Technical licences

Separately acquired technical licences are shown at historical cost. Technical licences acquired in a business combination are recognised at fair value at the acquisition date. Technical licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical licences over their estimated useful life of twenty two years.

10. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

11. Financial assets

The HAECO Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. The HAECO Group's loans and receivables comprise "trade and other receivables" and cash and cash equivalents in the statement of financial position.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

Regular purchases and sales of financial assets are recognised on the trade date — the date on which the HAECO Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the HAECO Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "other net gains" in the period in which they arise.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

11. Financial assets (continued)

(iii) Available-for-sale financial assets (continued)

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the statement of financial position date.

The HAECO Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in principal accounting policy 15.

12. Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date to the derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The HAECO Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedge); or (3) hedges of net investments in foreign operations.

The HAECO Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The HAECO Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect the surplus/deficit (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to income statement.

12. Derivative financial instruments and hedging activities (continued)

(iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

13. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiary or jointly controlled companies to secure loans, overdrafts and other banking facilities. Financial guarantees are recorded in the financial statements at fair value.

14. Stocks and work in progress

Stocks are stated at the lower of cost, calculated on a weighted average basis, and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Work in progress represents the gross amount due from customers for all contract work in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers are included within "trade receivables".

15. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the HAECO Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 3 months overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

16. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions and short-term liquid investments which were within three months of maturity when acquired, less bank overdrafts.

17. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any company of the HAECO Group purchases HAECO's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to HAECO's equity holders until the shares are cancelled.

18. Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

19. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the HAECO Group has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

20. Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Taxation rates enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiary and jointly controlled companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

21. Provisions

Provisions are recognised when the HAECO Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

22. Turnover and revenue recognition

Turnover represents the aggregated amounts invoiced to customers and changes in work in progress. Invoices are raised either on completion or on stage completion depending on the terms of individual contracts. Incomplete contract work is recognised based on a “percentage of completion method” to determine the appropriate amount. The stage of completion is measured by reference to the costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Total revenue recognised for the completed contracts is equal to the aggregated amounts invoiced for the contract.

Finance income is recognised on an accrual basis.

Dividend income is recognised when the right to receive payment is established.

23. Staff benefits**(i) Retirement benefits**

HAECO offers either Mandatory Provident Fund (“MPF”) or one of two defined benefit retirement schemes to staff. The latter schemes are held under trust arrangements and actuarially valued as required on a regular basis using a prospective actuarial valuation method. They are funded in accordance with the actuarial recommendation.

HAECO’s contributions to the MPF are charged to the income statement as incurred. For the two defined benefit schemes, retirement benefit costs, which are assessed using the projected unit credit method, are charged to the income statement. Under this method, plan assets are measured at fair value; retirement benefit obligations are measured as the present value of the estimated future cash flows. Actuarial gains and losses to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets are recognised in the consolidated income statement over the expected average remaining service lives of the participating employees.

The above calculations are performed annually by an actuary or the administration manager of the schemes.

TAECO, Taikoo (Xiamen) Landing Gear Services Company Limited and TEXL pay contributions to the required statutory retirement scheme for their local employees. The scheme is operated by the Mainland China government. In addition, TAECO also operates a defined contribution scheme for employees who have worked for more than five years. Both the employers and the employees are required to contribute to the scheme. Contributions to the schemes are charged to the income statement in the period to which the contributions relate.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

23. Staff benefits (continued)

(i) Retirement benefits (continued)

Singapore HAECO Pte. Limited pays contributions to the required statutory retirement scheme, Central Provident Fund, for its local employees. The scheme is operated by the Singapore government and contributions to the scheme are charged to the income statement in the period to which the contributions relate.

HAECO Bahrain Aircraft Services Company Limited pays contributions to the required statutory retirement scheme for its local employees. The scheme is operated by the General Organization for Social Insurance in Bahrain and contributions to the scheme are charged to the income statement in the period to which the contributions relate.

(ii) Staff leave entitlements

Costs related to staff annual leave are recognised as the leave accrues to staff.

24. Dividend distribution

Final dividends are recognised as a liability on approval by HAECO Shareholders. Interim dividends are recognised as a liability on approval by HAECO's Board.

25. Related parties

Related parties are individuals and companies, including subsidiary and jointly controlled companies, where the individual, company or group has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions.

III. INDEBTEDNESS**a) Borrowings**

As at the close of business on 31st May 2010, being the latest practicable date prior to the date of this Composite Document for the purpose of this indebtedness statement, the HAECO Group had total outstanding borrowings of approximately HK\$1,324 million, comprising short term unsecured bank loans of HK\$468 million and long term unsecured bank loans of HK\$856 million.

b) Guarantees

As at 31st May 2010, HAECO has guaranteed the drawn components of bank loans of a subsidiary company (which are included in the outstanding borrowings referred to in a) above). Under the terms of the financial guarantee contracts, HAECO will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due. The face values of liabilities under this guarantee amounted to HK\$538 million.

Save as aforesaid or otherwise mentioned in this Composite Document and apart from intra-group liabilities and normal trade payables, the HAECO Group had no other bank overdrafts or loans, or other similar indebtedness, mortgages, charges, or guarantees or other material contingent liabilities as at the close of business on 31st May 2010.

IV. MATERIAL CHANGE

The HAECO Directors confirm that, save as disclosed in the third paragraph under “Information on HAECO and the HAECO Group” in the “Letter from the HAECO Board” in this Composite Document, as at the Latest Practicable Date, there has been no material change in the financial or trading position or outlook of HAECO since 31st December 2009, the date to which the latest audited consolidated financial statements of HAECO were made up.

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this Composite Document received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with their opinion on the values of the property interests of the HAECO Group as at 31st May 2010.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

28th June 2010

The Directors
Hong Kong Aircraft Engineering Company Limited
80 South Perimeter Road
Hong Kong International Airport
Lantau
Hong Kong

Dear Sirs,

Instructions, Purpose and Date of Valuation

In accordance with your instructions for us to value the properties in which Hong Kong Aircraft Engineering Company Limited (the “Company” or “HAECO”) or its subsidiaries (hereinafter together referred to as the “Group”) have interests in Hong Kong and the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the values of the properties as at 31st May 2010 (the “date of valuation”).

Definition of Market Value

Our valuation of each of the properties represents its market value which in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Valuation Basis and Assumption

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value which will affect the values.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

In valuing the properties, we have complied with the requirements set out in Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Codes on Takeovers and Mergers and Share Repurchases of the Securities and Futures Commission and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

In the course of our valuation of the properties in the PRC, we have assumed that transferable land use rights in respect of the properties for their respective specific terms at nominal annual land use fees have been granted and that any land grant premiums payable have been fully paid. We have relied on the information and advice given by the Group regarding the title to the properties and the interests of the Group in the properties. In valuing the properties, we have assumed that the Group has enforceable titles to the properties and has free and uninterrupted right to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

In respect of the properties situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Group and the advice provided by the Group's PRC legal adviser, Jingtian and Gongcheng, are set out in the notes to the respective valuation certificates.

Method of Valuation

Due to the specific nature of the properties and lack of market comparables available, we have valued the properties in Groups I and II by the Depreciated Replacement Cost ("DRC") Approach. The DRC Approach is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimization. For the land portion, we have made reference to comparable sales evidence as available in the relevant market. The DRC is subject to adequate potential profitability of the business of the Group.

We have assumed that the design and construction of the buildings are in compliance with the local planning regulations and have been approved by the relevant authorities. We have also taken into account the construction cost expended up to the date of valuation.

The properties in Group III are leased/licensed to the Group in Hong Kong and are considered to have no commercial value due to the restrictions against assignment or otherwise due to the lack of substantial profit rents.

Land Tenure

In valuing the properties in Hong Kong the Government Leases of which expired before 30th June 1997, we have taken into account the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of People's Republic of China on the Question of Hong Kong as well as in the New Territories Leases (Extension) Ordinance, under which such leases have been extended without premium until 30th June 2047 and rents of 3% of the rateable value are charged per annum from the date of extension.

In respect of the properties in Hong Kong, we have been provided with copies of the title documents relating to the properties and have caused searches to be made at the Land Registry. In respect of the properties in the PRC, we have been provided by the Group with copies of extracts from the relevant documents. However, we have not inspected the original documents to verify ownership or to ascertain any amendments which may not appear on the copies handed to us. All documents and leases have been used for reference only and all dimensions, measurements and areas are approximate. No on-site measurement has been taken.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and its legal adviser, Jingtian and Gongcheng, in respect of the title to the properties in the PRC.

Source of Information

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, identification of land and buildings, tenures, particulars of occupancy, development schemes, construction costs, site and floor areas, site and floor plans, construction schedules and costs, interests attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates are based on the information provided to us and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

Site Inspection

We have inspected the exterior and, wherever possible, the interior of the properties. However, we have not carried out investigations on site to determine the suitability of soil

conditions and services etc. for any development. Where necessary, our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred for development of the properties. Moreover, no structural survey of the existing buildings has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report that the properties are free of rot, infestation or any other structural defect. No test was carried out on any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and gross floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

Currency

Unless otherwise stated, all sums stated in our valuations are in Hong Kong Dollars (HK\$) for the properties in Hong Kong and in Renminbi (RMB) for the properties in the PRC.

Remarks

As advised by the Group, the potential tax liabilities which would arise on the disposal of the property interests held by the Group mainly include profits tax (16.5%) for Hong Kong properties; business tax (5% on sales revenue), land appreciation tax (ranging from 30% to 60% of the net appreciation amount) and corporate income tax (ranging from 15% to 25%) for the PRC properties. There is little likelihood that the potential tax liabilities will crystallize as the properties are held for business operations and the Group has no intention to sell them.

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K. F. Chan
Registered Professional Surveyor (GP)
China Real Estate Appraiser
MSc., M.H.K.I.S., M.R.I.C.S
Director

Note: Mr. Andrew K. F. Chan is a Registered Professional Surveyor who has over 22 years' experience in the valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 31st May 2010 <i>HK\$</i>	Attributable interest to the Group %	Capital value in existing state as at 31st May 2010 attributable to the Group <i>HK\$</i>
Group I — Properties held and occupied by the Group in Hong Kong			
1. HAECO Aircraft Base Maintenance Facilities, 80 South Perimeter Road, Hong Kong International Airport, Lantau Island, New Territories	2,125,000,000	100	2,125,000,000
2. Line Maintenance Facility on Cargo Apron, Hong Kong International Airport, Lantau Island, New Territories	11,000,000	100	11,000,000
3. 80 Chun Choi Street, Tseung Kwan O Industrial Estate, Tseung Kwan O, Sai Kung, New Territories	251,000,000	100	251,000,000
		Total of Group I:	<u><u>2,387,000,000</u></u>

Property	Capital value in existing state as at 31st May 2010 <i>RMB</i>	Attributable interest to the Group %	Capital value in existing state as at 31st May 2010 attributable to the Group <i>RMB</i>
Group II — Properties held and occupied by the Group in the PRC			
4. Hangars, the overhauling and maintenance facilities for commercial aircraft, the living zone and the training base at 20 Dailiao Road, Xiamen City, Fujian Province, the PRC	1,865,100,000	56.55	1,054,714,050
5. The landing gear services workshops and facilities in the aero industrial zone, Huli District, Xiamen City, Fujian Province, the PRC	12,600,000	55.66	7,013,160
6. The engine repair and overhaul workshop and facilities at 5 Gaoqi South Third Road, Xiamen City, Fujian Province, the PRC	190,000,000	80.67	153,273,000
		Total of Group II:	<u><u>1,215,000,210</u></u>

Property	Capital value in existing state as at 31st May 2010 <i>HK\$</i>	Attributable interest to the Group %	Capital value in existing state as at 31st May 2010 attributable to the Group <i>HK\$</i>
Group III — Properties leased/licensed to the Group in Hong Kong			
7. Portions of Level 4, Passenger Terminal Building, 8 Chun Yue Road, Hong Kong International Airport, Lantau Island, New Territories	No commercial value	100	No commercial value
8. Unit No. 4Y520 on Level 4, Passenger Terminal Building, 8 Chun Yue Road, Hong Kong International Airport, Lantau Island, New Territories	No commercial value	100	No commercial value
9. Unit No. 4Z550 on Level 4, Passenger Terminal Building, 8 Chun Yue Road, Hong Kong International Airport, Lantau Island, New Territories	No commercial value	100	No commercial value
10. Site south to Airside Petrol Filling Station 3 at the Cargo Apron, Hong Kong International Airport, Lantau Island, New Territories	No commercial value	100	No commercial value
Total of Group III:			No commercial value

VALUATION CERTIFICATE

Group I — Properties held and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st May 2010
1. HAECO Aircraft Base Maintenance Facilities, 80 South Perimeter Road, Hong Kong International Airport, Lantau Island, New Territories	<p>The property comprises various aircraft base maintenance facilities situated in the aircraft maintenance area on the western side of Hong Kong International Airport. (Please see note (3) for the details of the facilities).</p> <p>The property has a total site area of approximately 80,488.00 sq.m. (866,373 sq.ft.). In addition, it also comprises a vacant site to be leased by the Group namely Phase Two Third Hangar Base Maintenance Land. (see note (2))</p>	<p>Regarding the completed portions of the property, except a portion of the property as described in note (4), the property is currently occupied by the Group for the operation plant of aircraft maintenance, office and storage uses.</p> <p>The land mentioned in note (2) below is currently vacant.</p>	HK\$2,125,000,000
Part of The Remaining Portion of Chek Lap Kok Lot No. 1 and The Extension Thereto	<p>The property has a total gross floor area of approximately 104,134 sq.m. (1,120,898 sq.ft.).</p> <p>The land portion of the property is leased by Hong Kong Aircraft Engineering Company Limited from Airport Authority Hong Kong (the "Airport Authority") for a term from 30th October 1996 to 4th August 2036. The current Government rent payable on the property is an amount equal to 3% of the rateable value for the time being of the property per annum.</p>		

Notes:-

- (1) The property is situated on land being a portion of The Remaining Portion of Chek Lap Kok Lot No. 1 and The Extension Thereto. According to a Lease dated 30th October 1996 vide Memorial No. IS238151, a Deed of Modification of a Lease dated 18th March 2005 vide Memorial No. 05041602130398 and a Second Deed of Modification of a Lease dated 20th December 2006 vide Memorial No. 07010902080123, the land (except the reserved airspace over the height of the highest point of the hangar facilities), comprising a total site area of 80,488 sq.m. (866,373 sq.ft.) is leased from the Airport Authority for a term from 30th October 1996 to 4th August 2036. The current total monthly rent is approximately HK\$5,937,873 from 1st January 2010 to 31st December 2011. The rent is adjusted every 2 years by making reference to the Private Flatted Factories Index produced and published by the Government Rating and Valuation Department. The rent is exclusive of rates, Government rents and management fees.

(2) According to the Second Deed of Modification of a Lease dated 20th December 2006, the Airport Authority had granted the right to Hong Kong Aircraft Engineering Company Limited to occupy Phase One Third Hangar Base Maintenance Land with a site area of 17,500 sq.m. (188,908 sq.ft.) and Phase Two Third Hangar Base Maintenance Land with a site area of 9,000 sq.m. (96,876 sq.ft.). The effective date of the grant of the right to occupy Phase Two Third Hangar Base Maintenance Land is the completion of the Second Phase of the Third Hangar Facility. According to a Letter from the Airport Authority to Hong Kong Aircraft Engineering Company Limited dated 1st September 2009, the site area of Phase One Third Hangar Base Maintenance Land has been revised to 18,500 sq.m. (199,134 sq.ft.). The Group has not advised if there should be any adjustment of the site area of the Phase Two Third Hangar Base Maintenance Land.

(3) The property comprises the following aircraft maintenance facilities:

Building/structure	Year of Completion	Brief Description	Approximate Gross Floor Area
Hangar 1	1998	Hangar 1 comprises a single storey steel structure with two mobile tail enclosure steel structures. The facility also includes a 5-storey main building and a 2-storey ancillary building both of reinforced concrete structures for office, workshop, canteen, services and amenity uses.	59,366.00 sq.m. (639,016 sq.ft.)
Hangar 2	2006	Hangar 2 comprises a single storey steel structure including various internal ancillary office/storeroom buildings.	16,791.00 sq.m. (180,738 sq.ft.)
Hangar 3	2009	Hangar 3 comprises a single storey steel structure including various internal ancillary office/storeroom buildings.	27,977.00 sq.m. (301,144 sq.ft.)

(4) A portion of the property is subject to a Licence Agreement dated 7th November 2008 for the provision of a police observation post in Hangar 2 vide Memorial No. 08120502280015 between Hong Kong Aircraft Engineering Company Limited and The Financial Secretary Incorporated for a term from 3rd April 2008 to 5th July 2031 at an annual rent of HK\$1, if demanded.

(5) The Base Maintenance Facilities include two areas of approximately 101.5 sq.m. (1,093 sq.ft.) and 454.0 sq.m. (4,887 sq.ft.) for the use, on a licence basis, as a vehicular exit gate and the parking and anchoring of a mobile tail enclosure respectively. The total licence fee is HK\$41,663 per month.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st May 2010
2. Line Maintenance Facility on Cargo Apron, Hong Kong International Airport, Lantau Island, New Territories Part of The Remaining Portion of Chek Lap Kok Lot No. 1 and The Extension Thereto	<p>The property comprises a 2-storey office and workshop building situated in Hong Kong International Airport. The property was completed in 2006.</p> <p>The property has a total site area of approximately 300 sq.m. (3,229 sq.ft.).</p> <p>The property has a total gross floor area of approximately 497 sq.m. (5,350 sq.ft.).</p> <p>The land portion of the property is leased by Hong Kong Aircraft Engineering Company Limited from the Airport Authority for a term from 1st April 2006 to 4th August 2036. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.</p>	The property is currently occupied by the Group for office and storage uses in connection with the provision of the aircraft line maintenance services.	HK\$11,000,000

Notes:-

- (1) The property is situated on land being a portion of The Remaining Portion of Chek Lap Kok Lot No. 1 and The Extension Thereto. The site area of the land is approximately 300 sq.m. (3,229 sq.ft.) and is leased by the Airport Authority to Hong Kong Aircraft Engineering Company Limited under a Lease dated 20th January 2005 vide Memorial No. 05021500990180.
- (2) Under the Lease, the land of the property (except the reserved airspace over the height of the highest point of the Line Maintenance Facility) is leased from the Airport Authority for a term up to 4th August 2036. The current monthly rent is approximately HK\$71,484 from 1st January 2010 to 31st December 2011. The rent is adjusted annually by making reference to the Composite Consumer Price Index produced and published by the Government. The rent is exclusive of rates, Government rents and management fees.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st May 2010
3. 80 Chun Choi Street, Tseung Kwan O Industrial Estate, Tseung Kwan O, Sai Kung, New Territories Lease of Subsection 1 of Section G of Tseung Kwan O Town Lot No. 39 and the Extension Thereto	<p>The property comprises a 5-storey factory building completed in 1998.</p> <p>The property has a total gross floor area of approximately 22,952.50 sq.m. (247,061 sq.ft.). It is erected on a site with a registered site area of approximately 9,402.00 sq.m. (101,203 sq.ft.). Various car parking spaces, lorry parking spaces and loading/unloading platform are provided on the ground floor of the property.</p> <p>The land portion of the property is leased by Hong Kong Aircraft Engineering Company Limited from Hong Kong Industrial Estates Corporation (now known as Hong Kong Science and Technology Parks Corporation) for a term from 1st May 1996 to 27th June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.</p>	The property is currently occupied by the Group for office and workshop uses.	HK\$251,000,000

Notes:-

- (1) The Lease made between Hong Kong Industrial Estates Corporation (the "Corporation") (now known as Hong Kong Science and Technology Parks Corporation) and Hong Kong Aircraft Engineering Company Limited (the "Lessee") restricts assignment of the property by the Lessee. In the event that the Lessee is desirous of assigning the property at any time during the term of the Lease, the Lessee shall first offer to surrender its interest free from encumbrances and with vacant possession to the Corporation at a consideration calculated in accordance with a prescribed formula set out in the Lease. In the event that the offer is not accepted by the Corporation within a period of six weeks, it shall be deemed to have been rejected and the Lessee may thereafter dispose of the property by way of assignment subject to certain conditions.
- (2) Whereas, if the Corporation accepts the surrender of the property offered by the Lessee, the consideration payable by the Corporation as provided in the Lease will be the lesser of either of Clause (11)(b)(i) (A) or (B) of the Lease extracted as follows:

(11)(b)(i) (A) The total of the following two amounts reduced by ten percent:

- (I) in respect of the said land, a sum equivalent to the fraction of $1/t$ (one over "t") of eighty percent (80%) of the premium referred to in the Particulars of the Land multiplied by the number of complete years in the portion of the term hereby demised unexpired at the date of completion of the surrender and for the purposes of this sub-paragraph and also

sub-paragraph (d)(iii) hereunder the symbol "t" means or represents the number of complete year or years and any fraction thereof, comprised in the period from the commencement date to the 27th day of June 2047, which fraction of a year shall be deemed to be a complete year, and

- (II) in respect of any building (including any fixtures and fittings therein) constructed or erected in accordance with the provisions of the said Agreement for Lease or this Lease, the replacement cost thereof as at the date of the Corporation's acceptance of the surrender (if accepted) to be determined in the manner provided by the First Schedule hereto and discounted for depreciation which shall be calculated at the rate of five percent (5%) per annum or part thereof on the said replacement cost from the date of the occupation permit or temporary occupation permit (whichever shall be the earlier) for the first building on the said land or, in the event of redevelopment whereby all the building(s) on the said land has been replaced by new building(s), the first new building on the said land pursuant to such redevelopment.

or

- (B) in respect of both such land and such building (including any fixtures and fittings) therein, the market value thereof as at the date of the Corporation's acceptance of the surrender (if accepted), to be determined in the manner provided by the First Schedule hereto but reduced by ten percent.
- (3) In our valuation, we have disregarded the restrictions on assignment imposed by the Corporation and assumed the property is freely assignable in the market as at the date of valuation.

VALUATION CERTIFICATE

GROUP II — PROPERTIES HELD AND OCCUPIED BY THE GROUP IN THE PRC

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st May 2010
4. Hangars, the overhauling and maintenance facilities for commercial aircraft, the living zone and the training base at 20 Dailiao Road, Xiamen City, Fujian Province, the PRC	<p>The property spreads over several pieces of land with a total site area of approximately 590,382.49 sq.m. (see Notes (2) and (3)).</p> <p>The whole development comprises 6 aircraft hangars (5 existing hangars plus an expansion being constructed), overhauling and maintenance repair workshops, assembly workshops, warehouses, power stations, transformer substations, firehouses, canteens, dormitories, laundries, offices, training centres, aircraft parking aprons and the like completed between 1995 and 2009. The 6th expansion hangar is scheduled to be completed in March 2011.</p> <p>The property has a total gross floor area of approximately 409,739.88 sq.m. for the existing portions and a total planned gross floor area of approximately 45,791.64 sq.m. for the expansion portion (see Notes (2) and (6)).</p> <p>The property is held with land use rights for terms of 50 years mainly for industrial use (except the living zone which is for residential use) from various dates (see Notes (2) and (3)).</p>	The property is currently occupied and planned to be occupied by the Group mainly for aircraft overhauling, maintenance and ancillary uses.	<p>RMB1,865,100,000</p> <p>56.55% interest attributable to the Group : RMB1,054,714,050)</p> <p>(see Note (1))</p>

Notes:-

- (1) No commercial value has been assigned to the portions (living zone of a total gross floor area of 124,904.63 sq.m. and training base of a total gross floor area of 79,600.60 sq.m.) of the property where the relevant title certificates and Completion Certificates have not been obtained. However, on the assumption that the relevant title certificates and Completion Certificates have been obtained, and all land premium and other costs necessary for effecting the issue of the relevant title certificates have been fully paid, the capital value of the whole property as at 31st May 2010 would be RMB2,280,200,000 (56.55% interest attributable to the Group : RMB1,289,453,100).

- (2) According to 36 Real Estate Title Certificates all issued by Xiamen Municipal Real Estate Administrative Bureau, the ownership of part of the property located at 20 Dailiao Road, in respect of a total gross floor area of 170,334.17 sq.m. situated on various plots of land with a total site area of 274,000.69 sq.m. for industrial use, have been vested in 廈門太古飛機工程有限公司 (Taikoo (Xiamen) Aircraft Engineering Company Limited) (a subsidiary of HAECO owned as to 56.55% by HAECO), the details of which are as follows:

Name	Certificate No.	Date of issue	Land use term	Gross Floor Area (sq.m.)	Site Area (sq.m.)
<u>Hangar Phase I (Part)</u>					
No. B of Level 2, Hangar, Phase I	00553807	2007-8-30	1993-7-3 to 2043-7-2	7,281.95	5,499.94
No. B of Level 1, Hangar, Phase I	00553808	2007-8-30	1993-7-3 to 2043-7-2	19,093.83	14,421.25
No. B of Level 3, Hangar and stairhood, Phase I	00553839	2007-8-30	1993-7-3 to 2043-7-2	7,646.53	5,775.30
No. C of Level 2, Hangar, Phase I	00553840	2007-8-30	1993-7-3 to 2043-7-2	338.87	255.94
No. C of Level 3, Hangar, Phase I	00553841	2007-8-30	1993-7-3 to 2043-7-2	338.87	525.94
Chemicals warehouse, Phase I	00553842	2007-8-30	1993-7-3 to 2043-7-2	367.14	448.00
Transformer substation No. 2, Phase I	00553843	2007-8-30	1993-7-3 to 2043-7-2	586.47	715.94
Barrelled warehouse, Phase I	00553844	2007-8-30	1993-7-3 to 2043-7-2	592.89	723.47
Transformer substation No. 1, Phase I	00553845	2007-8-30	1993-7-3 to 2043-7-2	270.56	330.15
Firehouse, Phase I	00553846	2007-8-30	1993-7-3 to 2043-7-2	473.04	577.23
Sub-total of Hangar Phase I:				36,990.15	29,002.86

Name	Certificate No.	Date of issue	Land use term	Gross Floor Area (sq.m.)	Site Area (sq.m.)
<u>Hangar Phase II</u>					
Level 1, Associated house, Phase II	00540660	2007-7-10	1993-7-3 to 2043-7-2	8,670.11	17,709.23
Hangar, Phase II	00540651	2007-7-10	1993-7-3 to 2043-7-2	14,061.09	37,697.15
Power station, Phase II	00540652	2007-7-10	1993-7-3 to 2043-7-2	162.29	449.39
Transformer substation, Phase II	00540653	2007-7-10	1993-7-3 to 2043-7-2	382.56	1,059.33
Level 2, Woodwork building, Phase II	00540654	2007-7-10	1993-7-3 to 2043-7-2	2,412.47	5,502.66
Level 1, Woodwork building, Phase II	00540655	2007-7-10	1993-7-3 to 2043-7-2	2,163.63	4,935.09
Level 4, Associated house, Phase II	00540656	2007-7-10	1993-7-3 to 2043-7-2	8,948.88	18,278.63
Level 3, Associated house, Phase II	00540657	2007-7-10	1993-7-3 to 2043-7-2	8,903.31	18,185.56
Level 2, Associated house, Phase II	00540658	2007-7-10	1993-7-3 to 2043-7-2	9,071.24	18,528.57
Sub-total of Hangar Phase II:				54,775.58	122,345.61
<u>Hangar Phase III</u>					
Non-inflammable warehouse, Phase III	00554781	2007-9-5	2001-4-30 to 2051-4-29	409.68	1,032.91
Hangar, Phase III	00554772	2007-9-5	2001-4-30 to 2051-4-29	11,438.74	25,354.30
Level 1, Associated house, Phase III	00554773	2007-9-5	2001-4-30 to 2051-4-29	8,595.88	19,053.00
Level 2, Associated house, Phase III	00554774	2007-9-5	2001-4-30 to 2051-4-29	9,243.69	20,488.91
Transformer substation etc., Phase III	00554775	2007-9-5	2001-4-30 to 2051-4-29	432.11	878.01
Compressed drive station, Phase III	00554776	2007-9-5	2001-4-30 to 2051-4-29	148.83	375.24

APPENDIX III**PROPERTY VALUATION REPORT**

Name	Certificate No.	Date of issue	Land use term	Gross Floor Area (sq.m.)	Site Area (sq.m.)
Assembly workshop, Phase III	00554777	2007-9-5	2001-4-30 to 2051-4-29	535.40	1,349.88
Washing house, Phase III	00554778	2007-9-5	2001-4-30 to 2051-4-29	652.54	1,645.23
Gatehouse and switchboard house, Phase III	00554779	2007-9-5	2001-4-30 to 2051-4-29	41.96	105.79
Transformer substation and Level 1 of power plant, Phase III	00554780	2007-9-5	2001-4-30 to 2051-4-29	427.72	867.72
Sub-total of Hangar Phase III:				31,926.55	71,150.99
<u>Hangar Phase IV</u>					
Reception room, Phase IV	00555851	2007-9-12	2004-6-17 to 2054-6-17	22.81	33.47
Washing house and dining-room, Phase IV	00555847	2007-9-12	2004-6-17 to 2054-6-17	1,172.47	1,167.45
Transformer substation etc., Phase IV	00555841	2007-9-12	2004-6-17 to 2054-6-17	811.55	969.70
Hangar and associated house, Phase IV	00555856	2007-9-12	2004-6-17 to 2054-6-17	30,076.75	34,724.46
Firehouse, Phase IV	00555837	2007-9-12	2004-6-17 to 2054-6-17	610.15	895.30
Sub-total of Hangar Phase IV:				32,693.73	37,790.38
<u>Assembly Workshop</u>					
Assembly workshop	00528121	2007-5-15	2001-11-14 to 2051-11-13	1,122.04	1,598.71
Assembly workshop	00528119	2007-5-15	2001-11-14 to 2051-11-13	12,826.12	12,112.14
Sub-total of Assembly Workshop:				13,948.16	13,710.85

- (3) According to 6 Certificates for the Use of State-owned Land all issued by the People's Government of Xiamen Municipality, the land use rights of part of the property located at 20 Dailiao Road, comprising a total site area of 316,381.80 sq.m., have been vested in 廈門太古飛機工程有限公司 (Taikoo (Xiamen) Aircraft Engineering Company Limited), the details of which are as follows:

Name	Certificate No.	Use	Date of issue	Land use term	Site Area (sq.m.)
Hangar Phase V	00005724	Industrial	2006-12-6	2006-2-19 to 2056-2-19	46,314.61
Hangar Phase V(B)	00010096	Industrial	2008-5-16	2007-6-29 to 2057-6-29	101,847.80
Aircraft parking apron inside	00001462	Industrial	2005-5-24	2004-11-12 to 2054-11-12	9,629.58
Aircraft parking apron outside	00004504	Industrial	2006-5-12	2005-9-7 to 2055-9-6	19,978.48
Living zone	00001002	Residential	2003-9-3	1995-1-25 to 2045-1-25	95,007.60
Training base	00006064	Industrial	2007-7-2	2006-9-27 to 2056-9-27	43,603.73
Sub-total:					316,381.80

- (4) According to 6 Grant Contracts of Land Use Rights all issued by Xiamen State-owned Land Resources and Housing Bureau, the land use rights of part of the property, comprising a total site area of 316,381.77 sq.m., have been vested in 廈門太古飛機工程有限公司 (Taikoo (Xiamen) Aircraft Engineering Company Limited), the details of which are as follows:

Name	Contract No.	Use	Date of issue	Site Area (sq.m.)	Consideration (US\$)
Hangar Phase V	(2006) Xiadihezi (Xie) 026	Industrial	2006-6-22	46,314.59	1,852,583.76
Hangar Phase V(B)	(2007) Xiadihezi (Xie) 032	Industrial	2007-6-30	101,847.82	4,073,912.96
Aircraft parking apron inside	(2004) Xiadihezi (Xie) 060	Industrial	2005-2-1	9,629.58	385,183.12
Aircraft parking apron outside	(2006) Xiadihezi (Xie) 002	Industrial	2005-12-30	19,978.54	799,141.48
Living zone	(2003) Xiadihezi (Xie) 074	Residential	2003-8-19	95,007.74	RMB94,399,891.17
Training base	(2006) Xiadihezi (Xie) 017	Industrial	2007-3-16	43,603.5	1,744,139.92
Sub-total:				316,381.77	8,854,961.24 (+RMB94,399,891.17)

- (5) According to 4 Planning Permits for Construction Use of Land all issued by the Xiamen Urban Planning Bureau, the construction sites of certain parcels of land forming part of the development in respect of a total site area of 202,961.85 sq.m. are in compliance with the urban planning requirements, the details of which are as follows:

Name	Permit No.	Use	Date of issue	Site Area (sq.m.)
Hangar Phase V	(2005) Xiaguiyongdi 0358	Industrial	2005-12-5	46,314.59
Hangar Phase V(B)	(2007) Xiaguiyongdi 0219	Industrial	2007-6-20	101,847.82
Living zone	(2004) Xiaguiyongdi 0279	Residential	2004-11-23	11,179.37
Training base	(2006) Xiaguiyongdi 0136	Industrial	2006-4-24	43,620.07
Sub-total:				202,961.85

- (6) According to 13 Planning Permits for Construction Works all issued by the Xiamen Urban Planning Bureau, the construction of part of the development in respect of a total gross floor area of 285,197.35 sq.m. is in compliance with the urban construction works requirements, the details of which are as follows:

Name	Permit No.	Date of issue	Gross Floor Area (sq.m.)
Hangar Phase V	(2006) Xiaguijianshe 0055	2006-4-24	34,900.48
Hangar Phase V(B)	350206200802038	2008-3-12	45,791.64
Living zone	94-3032	1994-12-27	14,817.95
	94-3033	1994-12-27	3,028.06
	94-3034	1994-12-27	6,343.82
	94-3035	1994-12-27	3,691.60
	94-3036	1994-12-27	6,425.44
	94-3037	1994-12-27	1,155.00
	963046	1994-12-27	5,697.00
	963047	1994-12-27	5,156.00
	98J345	1998-8-5	60,927.20
	(2005) Xiaguijianshe 0005	2005-1-13	17,662.56
Training base	(2007) Xiaguijianshe 0009	2007-1-12	79,600.60
Sub-total:			285,197.35

- (7) According to 26 Permits for Commencement of Construction Works, the construction works of part of the property in respect of a total gross floor area of 260,395.54 sq.m. are in compliance with the relevant requirements and have been approved, the details of which are as follows:

Name	Permit No.	Date of issue	Gross Floor Area (sq.m.)
Hangar Phase V	350200200608300401	2006-8-30	—
	350200200606120201	2006-6-12	—
	350200200612120119	2006-12-12	—
	350200200609110119	2006-9-11	—
	350200200609060119	2006-9-6	—
	350200200609060219	2006-9-6	—
	350200200607190201	2006-7-19	12,000.00
	350200200607120101	2006-7-12	34,944.16
	350200200607110219	2006-7-11	—
Hangar Phase V(B)	350200200905210101	2009-5-21	33,335.00
	350200200909250201	2009-9-25	3,239.00
	350200200902190201	2009-2-19	—
	350200201001060319	2010-1-6	—
	350200200906080119	2009-6-8	—
	350200200905310119	2009-5-31	—
	350200200906260119	2009-6-26	—
	350200200906030519	2009-6-3	—
	350200200909170219	2009-9-17	—
	350200200901190101	2009-1-19	—
350200200805210401	2008-5-21	—	
Living Zone	350200200503310101	2005-3-31	17,662.56
Training Base	350200200710230419	2007-10-23	79,600.60
	350200200710230519	2007-10-23	—
	350200200708170401	2007-8-17	26,920.40
	350200200707200201	2007-7-20	22,783.82
	350200200707020101	2007-7-2	29,910.00
Sub-total:			260,395.54

- (8) According to Business Licence No. 350200400007969 dated 6th April 2010 issued by the Xiamen Industrial and Commercial Administration Bureau, 廈門太古飛機工程有限公司 (Taikoo (Xiamen) Aircraft Engineering Company Limited) was established as a limited liability company with a registered capital of US\$41,500,000.

- (9) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser which contains, inter alia, the following information:

- (i) 廈門太古飛機工程有限公司 (Taikoo (Xiamen) Aircraft Engineering Company Limited) has lawfully obtained and is the sole legal owner of part of the property (except Hangar Phase V, Hangar Phase V(B), aprons, living zone and training base). It is entitled to occupy and use such part of the property. It has the legal possession of and is entitled to lawfully transfer, let, mortgage and dispose of the authorized constructions erected thereon.

- (ii) 廈門太古飛機工程有限公司(Taikoo (Xiamen) Aircraft Engineering Company Limited) has lawfully obtained and is the sole owner of the land use rights of part of the property (including Hangar Phase V, Hangar Phase V(B), aprons, living zone and training base), it has the legal possession of and is entitled to lawfully transfer, let, mortgage and dispose of the authorized constructions erected thereon. After 廈門太古飛機工程有限公司(Taikoo (Xiamen) Aircraft Engineering Company Limited) has obtained the Real Estate Title Certificates of part of the property (including Hangar Phase V, Hangar Phase V(B), aprons living zone and training base), it will have the legal possession of and is entitled to lawfully transfer, let, mortgage and dispose of the authorized constructions erected thereon.
- (iii) 廈門太古飛機工程有限公司 (Taikoo (Xiamen) Aircraft Engineering Company Limited) has settled the land premium for the property in full.
- (iv) The property is free from any seizure, mortgage or any other encumbrances.
- (v) 廈門太古飛機工程有限公司 (Taikoo (Xiamen) Aircraft Engineering Company Limited) has obtained all the approvals for the development and construction of Hangar Phase V(B) of the property. It is legally entitled to the complete development rights of such part of the property. The permits, approvals and certificates in relation to the development obtained by廈門太古飛機工程有限公司 (Taikoo (Xiamen) Aircraft Engineering Company Limited) have not been revoked, modified, cancelled or rescinded.
- (10) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

Real Estate Title Certificate	Yes (part)
Certificate for the Use of State-owned Land	Yes (part)
Grant Contract of Land Use Rights	Yes (part)
Planning Permit for Construction Use of Land	Yes (part)
Planning Permit for Construction Works	Yes (part)
Business Licence	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st May 2010
5. The landing gear services workshops and facilities in the aero industrial zone, Huli District, Xiamen City, Fujian Province, the PRC	<p>The site area of the property is approximately 18,204 sq.m..</p> <p>The property comprises an undercarriage repair workshop, a transformer substation, a gatehouse, a water pump house and a firehouse completed in 2008.</p> <p>The property has a total gross floor area of approximately 14,570.6 sq.m..</p> <p>The property is held with land use rights for a term of 50 years from 29th June 2007 for industrial use.</p>	The property is occupied by the Group for aircraft, undercarriage repair and ancillary uses.	<p>RMB12,600,000</p> <p>(55.66% interest attributable to the Group : RMB7,013,160)</p> <p>(see Note (1))</p>

Notes:-

- (1) No commercial value has been assigned to the building portion of the property as the relevant Completion Certificate and Real Estate Title Certificate of the property have not been obtained yet. However, on the assumption that the relevant Completion Certificate and Real Estate Title Certificate have been obtained, and all land premium and other costs necessary for effecting the issue of the Real Estate Title Certificate have been fully paid, the capital value of the whole property as at 31st May 2010 would be RMB103,800,000 (55.66% interest attributable to the Group : RMB57,775,080).
- (2) According to Grant Contract of Land Use Rights No. (2007) Xiadihe (Xie) 024 dated 4th September 2007 entered into between Xiamen State-owned Land Resources and Housing Bureau (Party A) and 廈門太古起落架維修服務有限公司 (Taikoo (Xiamen) Landing Gear Services Company Limited) (a subsidiary of HAECO owned as to 50% by HAECO and as to 10% by Taikoo (Xiamen) Aircraft Engineering Company Limited) (Party B), the land use rights in respect of a site area of 18,204.003 sq.m. have been granted to Party B for a term of 50 years from 29th June 2007 for industrial use at a consideration of US\$728,160.12.
- (3) According to Planning Permit for Construction Use of Land No. (2007) Xiaguiyongdi 0115 dated 23rd March 2007 issued by the Xiamen Urban Planning Bureau, the construction site of a parcel of land on the property with a site area of 18,204 sq.m. for the development of industrial use is in compliance with the urban planning requirements.
- (4) According to Planning Permit for Construction Works No. (2007) Xiaguijianshe 0104 dated 1st June 2007 issued by the Xiamen Urban Planning Bureau, the construction on the property with a total gross floor area of 14,570.6 sq.m. is in compliance with the urban construction requirements and is approved.
- (5) According to three Permits for Commencement of Construction Works Nos. 350200200708020101, 350200200708220101 and 350200200802290119, dated 2nd August 2007, 22nd August 2007 and 29th February 2008 respectively, the construction works of the property of a total gross floor area of 14,570.60 sq.m. are in compliance with the relevant requirements and have been approved.

- (6) According to Business Licence No. 350200400004569 dated 8th April 2010 issued by the Xiamen Industrial and Commercial Administration Bureau, 廈門太古起落架維修服務有限公司 (Taikoo (Xiamen) Landing Gear Services Company Limited) was established as a limited liability company with a registered capital of US\$13,890,000.
- (7) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser which contains, inter alia, the following information:
- (i) After 廈門太古起落架維修服務有限公司 (Taikoo (Xiamen) Landing Gear Services Company Limited) has obtained the Real Estate Title Certificate of the property, it will have the legal possession of and will be entitled to lawfully transfer, let, mortgage and dispose of the authorized constructions erected thereon. There is no legal obstacle for 廈門太古起落架維修服務有限公司 (Taikoo (Xiamen) Landing Gear Services Company Limited) to obtain the Real Estate Title Certificate of the property.
- (ii) 廈門太古起落架維修服務有限公司 (Taikoo (Xiamen) Landing Gear Services Company Limited) has settled the land premium for the property in full and is in the course of applying for the Certificate for the Use of State-owned Land. There is no legal obstacle for 廈門太古起落架維修服務有限公司 (Taikoo (Xiamen) Landing Gear Services Company Limited) to obtain the Certificate for the Use of State-owned Land of the property.
- (iii) The property is free from any seizure, mortgage or any other encumbrances.
- (iv) 廈門太古起落架維修服務有限公司 (Taikoo (Xiamen) Landing Gear Services Company Limited) has obtained all the approvals for the development and construction of the property. It is legally entitled to the complete development rights of the property. The permits, approvals and certificates in relation to the development obtained by 廈門太古起落架維修服務有限公司 (Taikoo (Xiamen) Landing Gear Services Company Limited) have not been revoked, modified, cancelled or rescinded.
- (8) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

Real Estate Title Certificate	No
Grant Contract of Land Use Rights	Yes
Planning Permit for Construction Use of Land	Yes
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st May 2010
6. The engine repair and overhaul workshop and facilities at 5 Gaoqi South Third Road, Xiamen City, Fujian Province, the PRC	<p>The site area of the property is approximately 40,190.93 sq.m.. The property is developed in phases.</p> <p>Phase I of the property has 6 blocks, comprising a gatehouse, a gas station, a compressor house, a sewage station, industrial waste treatment facility and an engine repair workshop, which were completed in 2001.</p> <p>Phase II is being developed. Upon completion, the property will comprise an engine and component repair workshop and a canteen.</p> <p>Phase I of the property has a total gross floor area of approximately 8,637.09 sq.m.</p> <p>Phase II of the property has a total planned gross floor area of approximately 20,994.53 sq.m..</p> <p>The property is held with land use rights for terms of 50 years for industrial use from 14th May 1999.</p>	<p>Phase I of the property is mainly occupied by the Group for aero-engine repair and ancillary uses.</p> <p>Phase II of the property is under construction and is scheduled to be completed in December 2010.</p>	<p>RMB190,000,000</p> <p>(80.67% interest attributable to the Group : RMB153,273,000)</p>

Notes:-

- (1) According to 6 Real Estate Title Certificates all issued by Xiamen Municipal Real Estate Administrative Bureau, the land use and building ownership rights of part of the property located at 5 Gaoqi South Third Road, comprising a total gross floor area of 8,637.09 sq.m. situated on a site with a total site area of approximately 40,190.93 sq.m., have been vested in 廈門太古發動機服務有限公司 (Taikoo Engine Services (Xiamen) Company Limited) (a subsidiary of HAECO owned as to 75.01% by HAECO and as to 10% by Taikoo (Xiamen) Aircraft Engineering Company Limited), the details of which are as follows:

Name	Certificate No.	Use	Date of issue	Land use term	Gross Floor Area (sq.m.)
Phase I					
No. 11 gatehouse	00713206	Industrial	2009-9-28	1999-5-14 to 2049-5-13	11.79
No. 3 gas station	00713207	Industrial	2009-9-28	1999-5-14 to 2049-5-13	383.39
No. 4 compressor house	00713208	Industrial	2009-9-28	1999-5-14 to 2049-5-13	79.28
No. 5 sewage station	00713209	Industrial	2009-9-28	1999-5-14 to 2049-5-13	261.14

Name	Certificate No.	Use	Date of issue	Land use term	Gross Floor Area (sq.m.)
No. 1 workshop	00713210	Industrial	2009-9-28	1999-5-14 to 2049-5-13	7,466.24
No. 2 workshop (Industrial waste treatment facility)	00713211	Industrial	2009-9-28	1999-5-14 to 2049-5-13	435.25
Sub-total:					8,637.09

- (2) According to Planning Permit for Construction Use of Land No. 350206200802286 dated 23rd December 2008 issued by the Xiamen Urban Planning Bureau, the construction site of a parcel of land for the development of industrial use with a site area of 40,190.88 sq.m. is in compliance with the urban planning requirements.
- (3) According to Planning Permit for Construction Works No. 350206200902015 dated 1st February 2009 issued by the Xiamen Urban Planning Bureau, the construction of the property with a total gross floor area of 20,994.53 sq.m. is in compliance with the urban construction requirements and is approved.
- (4) According to three Permits for Commencement of Construction Works Nos. 350200200902270601, 350200200906050201 and 350200200911090219, dated 27th February 2009, 5th June 2009 and 9th November 2009 respectively, the construction works of the property of a total gross floor area of 20,994.53 sq.m. are in compliance with the relevant requirements and have been approved.
- (5) According to Business Licence No. 350200400005947 dated 22nd April 2010 issued by Xiamen Industrial and Commercial Administration Bureau, 廈門太古發動機服務有限公司 (Taikoo Engine Services (Xiamen) Company Limited) was established as a limited liability company with a registered capital of US\$63,000,000.
- (6) We have been provided with a legal opinion on the title to the property issued by the Group's PRC legal adviser which contains, inter alia, the following information:
- (i) 廈門太古發動機服務有限公司 (Taikoo Engine Services (Xiamen) Company Limited) has obtained the land use and building ownership rights, and is the sole legal owner of Phase I of the property.
- (ii) 廈門太古發動機服務有限公司 (Taikoo Engine Services (Xiamen) Company Limited) has obtained all the approvals for the development and construction of the property. It is legally entitled to the complete development rights of the property. The permits, approvals and certificates in relation to the development obtained by 廈門太古發動機服務有限公司 (Taikoo Engine Services (Xiamen) Company Limited) have not been revoked, modified, cancelled or rescinded.
- (iii) The property is free from any seizure, mortgage or any other encumbrances.
- (7) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

Real Estate Title Certificate	Yes (part)
Planning Permit for Construction Use of Land	Yes (part)
Planning Permit for Construction Works	Yes (part)
Permit for Commencement of Construction Works	Yes (part)
Business Licence	Yes

VALUATION CERTIFICATE

Group III — Properties leased/ licensed to the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st May 2010
7. Portions of Level 4, Passenger Terminal Building, 8 Chun Yue Road, Hong Kong International Airport, Lantau Island, New Territories	<p>The property comprises portions of the office/storage spaces on level 4 of the Passenger Terminal Building completed in 1998.</p> <p>The property has a total gross floor area of approximately 5,535.00 sq.m. (59,579 sq.ft.).</p> <p>The property is leased for a term of 5 years from 1st January 2005 to 31st December 2009 with 4 options to renew for terms of 5 years and 1 option to renew for a further term from 1st January 2030 to 5th July 2031. The current monthly rent of the property is approximately HK\$1,610,545. The rent is adjusted annually according to the rental index for Grade A offices of the private office — rental indices by grade in respect of the whole territory of Hong Kong produced and published by the Government Rating and Valuation Department. The rent is exclusive of rates, Government rents and management fees.</p>	The property is currently occupied by the Group for office and storage uses in connection with the provision of the aircraft maintenance services.	No commercial value
8. Unit No. 4Y520 on Level 4, Passenger Terminal Building, 8 Chun Yue Road, Hong Kong International Airport, Lantau Island, New Territories	<p>The property comprises a portion of the storage space on level 4 of the Passenger Terminal Building completed in 1998.</p> <p>The property has a total gross floor area of approximately 74.00 sq.m. (797 sq.ft.).</p> <p>The property is leased for a term of 3 years commencing on 4th June 2008. The current monthly rent of the property is approximately HK\$11,914. The rent is adjusted annually according to the rental index for Grade A offices of the private office — rental indices by grade in respect of the whole territory of Hong Kong produced and published by the Government Rating and Valuation Department. The rent is exclusive of rates, Government rents and management fees.</p>	The property is currently occupied by the Group for storage use.	No commercial value

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31st May 2010
9.	Unit No. 4Z550 on Level 4, Passenger Terminal Building, 8 Chun Yue Road, Hong Kong International Airport, Lantau Island, New Territories	<p>The property comprises a portion of the storage space on level 4 of the Passenger Terminal Building completed in 1998.</p> <p>The property has a total gross floor area of approximately 77.00 sq.m. (827 sq.ft.).</p> <p>The property is leased for a term of 3 years from 10th May 2010 to 9th May 2013. The current monthly rent of the property is approximately HK\$12,397. The rent is adjusted annually according to the rental index for Grade A offices of the private office — rental indices by grade in respect of the whole territory of Hong Kong produced and published by the Government Rating and Valuation Department. The rent is exclusive of rates, Government rents and management fees.</p>	The property is currently occupied by the Group for storage use.	No commercial value
10.	Site south to Airside Petrol Filling Station 3 at the Cargo Apron, Hong Kong International Airport, Lantau Island, New Territories	<p>The property comprises a site situated on the cargo apron in Hong Kong International Airport.</p> <p>The property has a site area of approximately 44.40 sq.m. (478 sq.ft.).</p> <p>The property is licensed for a period of 1 year from 6th July 2009 to 5th July 2010 with the option to extend for a further period of 1 year. The current monthly fee is approximately HK\$10,643. The fee is exclusive of rates, Government rents and management fees.</p>	The property is currently occupied by two containers used by the Group for storage of aircraft materials in connection with the provision of the aircraft line maintenance services.	No commercial value

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to HAECO and Swire Pacific.

The Swire Pacific Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than any information relating to the HAECO Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the HAECO Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statements in this Composite Document (other than those relating to the HAECO Group) misleading.

The HAECO Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document relating to the HAECO Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document by the HAECO Group have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statements in this Composite Document relating to the HAECO Group misleading.

2. SHARE CAPITAL OF HAECO

(a) Authorised and issued share capital

As at the Latest Practicable Date, the authorised and issued share capital of HAECO was as follows:

<i>Authorised</i>	<i>HK\$</i>
210,000,000 HAECO Shares of HK\$1.00 each	210,000,000
<i>Issued and fully paid</i>	
166,324,850 HAECO Shares of HK\$1.00 each	166,324,850

As at the Latest Practicable Date, no new HAECO Shares had been issued by HAECO since 31st December 2009 (being the date to which its latest published audited financial statements were prepared). All of the HAECO Shares currently in issue rank *pari passu* in all respects including as to dividends, voting rights and capital.

As at the Latest Practicable Date, there were no outstanding warrants or options or other securities carrying rights of conversion into or exchange or subscription for the HAECO Shares or derivatives issued by HAECO.

(b) Listing

The HAECO Shares are listed and traded on the main board of the Stock Exchange. No part of the issued capital of HAECO is listed or dealt in, nor is any listing of or permission to deal in the HAECO Shares being or proposed to be sought, on any other stock exchange.

(c) HAECO ADSs

As of 5:00 p.m. on 23rd June 2010 New York City time, 64,834 HAECO Shares were represented by HAECO ADSs. The HAECO ADSs have not been registered under the U.S. Securities Act of 1933, as amended.

3. MARKET PRICES

- (a) The table below shows the closing market prices of the HAECO Shares as quoted on the Stock Exchange (i) on the Latest Practicable Date; (ii) on the Last Trading Date; and (iii) at the end of each calendar month during the Relevant Period:

Date	Closing price per HAECO Share HK\$
(i) 25th June 2010, being the Latest Practicable Date	105.10
(ii) 4th June 2010, being the Last Trading Date	84.00
(iii) at the end of each calendar month during the Relevant Period:	
(A) 31st December 2009	100.80
(B) 29th January 2010	98.70
(C) 26th February 2010	99.45
(D) 31st March 2010	98.05
(E) 30th April 2010	98.95
(F) 31st May 2010	83.40

- (b) During the Relevant Period, the highest closing price of the HAECO Shares was HK\$106.70 per HAECO Share as quoted on the Stock Exchange on 5th January 2010 and the lowest closing price of the HAECO Shares was HK\$80.00 per HAECO Share as quoted on the Stock Exchange on 25th May 2010.

4. DISCLOSURE OF INTERESTS IN HAECO SHARES

- (a) As at the Latest Practicable Date, save as disclosed below, none of the HAECO Directors was interested within the meaning of Part XV of the SFO in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares:

Name of HAECO Director	Capacity	Number of issued HAECO Shares held (Long position)	Total interest in HAECO Shares	Percentage of HAECO's issued share capital (%)
D.C.L. Tong	Personal interest	20,000	20,000	0.0120

- (b) As at the Latest Practicable Date, save as disclosed below, Swire Pacific did not own any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.

Name of HAECO Shareholder	Capacity	Number of issued HAECO Shares held	Total interest in HAECO Shares	Percentage of HAECO's issued share capital (%)
Swire Pacific	Beneficial Owner	101,397,903	101,397,903	60.96

- (c) As at the Latest Practicable Date, save as disclosed below, none of the Swire Pacific Directors was interested within the meaning of Part XV of the SFO in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.

Name of HAECO Shareholder	Capacity	Number of issued HAECO Shares held (Long position)	Total interest in HAECO Shares	Percentage of HAECO's issued share capital (%)
T.G. Freshwater (Director of Swire Pacific)	Personal interest Family interest	10,000 1,200	11,200	0.0067
M.C.C. Sze (Director of Swire Pacific)	Personal interest	12,800	12,800	0.0077

- (d) As at the Latest Practicable Date, save for the holdings by exempt persons under the Takeovers Code and save as disclosed below, none of the parties acting in concert with Swire Pacific owned or controlled any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.

Name of HAECO Shareholder	Capacity	Number of issued HAECO Shares held	Total interest in HAECO Shares	Percentage of HAECO's issued share capital (%)
HSBC, Global Markets	Beneficial interest	24,800	24,800	0.0149
HSBC International Trustee Limited	See Note 1	947,200	947,200	0.5695
HSBC Trustee (Hong Kong) Limited	See Note 1	62,000	62,000	0.0373
HSBC Private Bank (Suisse) SA Hong Kong	See Note 1	222,000	222,000	0.1335

Note:

1. These are the interests of discretionary investment clients with the relevant HSBC Entities having discretion on investment decisions and voting.

- (e) As at the Latest Practicable Date, no person who owned or controlled any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares had, prior to the Despatch Date, irrevocably committed themselves to accept or reject the Offer.
- (f) As at the Latest Practicable Date, no subsidiary of HAECO, no pension fund of HAECO or of a subsidiary of HAECO and no adviser to HAECO as specified in class (2) of the definition of “associate” in the Takeovers Code but excluding any exempt principal trader owned or controlled any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.
- (g) As at the Latest Practicable Date, no fund managers (other than exempt fund managers) connected with HAECO managed any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares on a discretionary basis.
- (h) In light of the advice and recommendation from the HAECO Independent Board Committee set out above and having regard to their own individual circumstances and investment objectives, the intention of the HAECO Directors, in respect of their shareholdings in HAECO, to reject/accept the Offer is set out as follows:
- | | |
|-------------|--------|
| D.C.L. Tong | Reject |
|-------------|--------|
- (i) As at the Latest Practicable Date, except for certain borrowings or lendings by exempt persons under the Takeovers Code, none of HAECO, any HAECO Directors, Swire Pacific or any persons acting in concert with Swire Pacific had borrowed or lent any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares, save for any borrowed HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares which had been either on-lent or sold.

5. DISCLOSURE OF INTERESTS IN SWIRE PACIFIC SHARES

HAECO and HAECO Directors

- (a) As at the Latest Practicable Date, HAECO did not own any Swire Pacific Shares or any warrants, options, convertible securities or derivatives in respect of any Swire Pacific Shares.
- (b) As at the Latest Practicable Date, save as disclosed below, none of the HAECO Directors was interested within the meaning of Part XV of the SFO in any Swire Pacific Shares or any warrants, options, convertible securities or derivatives in respect of any Swire Pacific Shares.

Name of Swire Pacific Director	Capacity	Number of issued Swire Pacific Shares Held (Long position)	Total interest in Swire Pacific Shares	Percentage of Swire Pacific's issued share capital (%)
C.D. Pratt	Personal interest	41,000 Swire Pacific 'A' Shares	41,000 Swire Pacific 'A' Shares	0.0045
	Personal interest	100,000 Swire Pacific 'B' Shares	100,000 Swire Pacific 'B' Shares	0.0033
P.A. Johansen	Personal interest	31,500 Swire Pacific 'A' Shares	31,500 Swire Pacific 'A' Shares	0.0035
	Personal interest	200,000 Swire Pacific 'B' Shares	200,000 Swire Pacific 'B' Shares	0.0067
M.B. Swire	Personal interest	58,791 Swire Pacific 'A' Shares	270,538 Swire Pacific 'A' Shares	0.0299
	Trust interest	211,747 Swire Pacific 'A' Shares		
	Personal interest	2,241,483 Swire Pacific 'B' Shares	8,693,115 Swire Pacific 'B' Shares	0.2902
	Trust interest	6,451,632 Swire Pacific 'B' Shares		

6. DEALINGS IN HAECO SHARES

- (a) During the Relevant Period, none of the HAECO Directors had dealt for value in any HAECO Shares, convertible securities, warrants, options, or derivatives in respect of any HAECO Shares.

- (b) During the period commencing on 7th June 2010 and up to the Latest Practicable Date, no subsidiary of HAECO, no pension funds of HAECO or of any of its subsidiaries and no adviser to HAECO as specified in class (2) of the definition of “associate” in the Takeovers Code but excluding exempt principal traders (except as otherwise indicated) had dealt for value in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.
- (c) During the Relevant Period, (i) save for the Transaction and certain dealings by exempt persons under the Takeovers Code and excluding dealings on a non-discretionary basis by the respective associates of HAECO or Swire Pacific, which are subject to private disclosure under the Takeovers Code and (ii) save as disclosed below, none of Swire Pacific, the Swire Pacific Directors or parties acting in concert with any of them had dealt for value in any HAECO Shares or any other convertible securities, warrants, options or derivatives in respect of any HAECO Shares.

Party	Date of dealing	Number of HAECO Shares acquired/ (disposed of)	Price per HAECO Share (HK\$)
HSBC Private Bank (Suisse) SA Hong Kong	1st February 2010	(400)	97.10
HSBC Private Bank (Suisse) SA Hong Kong	1st February 2010	(400)	97.70
HSBC Private Bank (Suisse) SA Hong Kong	1st February 2010	(400)	97.70
HSBC Private Bank (Suisse) SA Hong Kong	1st February 2010	(400)	97.25
HSBC Private Bank (Suisse) SA Hong Kong	1st February 2010	(400)	97.30
HSBC Trustee (Hong Kong) Ltd	24th March 2010	(4,000)	100.50
HSBC Trustee (Hong Kong) Ltd	24th March 2010	(2,000)	100.70
HSBC Trustee (Hong Kong) Ltd	24th March 2010	(3,200)	100.60
HSBC Trustee (Hong Kong) Ltd	24th March 2010	(4,000)	100.30
HSBC Trustee (Hong Kong) Ltd	24th March 2010	(2,000)	100.10
HSBC Trustee (Hong Kong) Ltd	24th March 2010	(8,800)	100.20

Party	Date of dealing	Number of HAECO Shares acquired/ (disposed of)	Price per HAECO Share (HK\$)
HSBC Trustee (Hong Kong) Ltd	24th March 2010	(6,000)	100.40
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	99.00
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	99.05
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	99.30
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	99.25
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	99.25
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	99.40
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	99.50
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	99.45
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	99.45
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	100.80
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	100.60
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	400	100.80
HSBC Private Bank (Suisse) SA Hong Kong	7th April 2010	800	101.10
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	1,200	97.05
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.85
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.70
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.55

Party	Date of dealing	Number of HAECO Shares acquired/ (disposed of)	Price per HAECO Share (HK\$)
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.55
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.55
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.80
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.80
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.90
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.90
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.90
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	97.90
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	98.00
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	98.00
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	98.00
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	98.00
HSBC Private Bank (Suisse) SA Hong Kong	30th April 2010	400	98.00
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	4,400	89.00
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	89.00
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	800	89.00
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	800	89.00
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	89.00

Party	Date of dealing	Number of HAECO Shares acquired/ (disposed of)	Price per HAECO Share (HK\$)
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.80
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.80
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.70
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.50
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.40
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.40
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.40
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.35
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.40
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.40
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.35
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.35
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.35
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.30
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.30
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.15
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.80
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.70

Party	Date of dealing	Number of HAECO Shares acquired/ (disposed of)	Price per HAECO Share (HK\$)
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.55
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.40
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.40
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.35
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.35
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.35
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.35
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.30
HSBC Private Bank (Suisse) SA Hong Kong	17th May 2010	400	88.15
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	80.90
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	80.90
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	800	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	800	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00

Party	Date of dealing	Number of HAECO Shares acquired/ (disposed of)	Price per HAECO Share (HK\$)
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	80.80
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	2,400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	800	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	81.00
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	80.90
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	400	80.95
HSBC Private Bank (Suisse) SA Hong Kong	25th May 2010	800	81.00
HSBC, Global Markets	26th May 2010	24,800	80.20
HSBC Bank Plc	1st June 2010	98,318	Note 1
HSBC Bank Plc	3rd June 2010	(65,200)	Note 2
HSBC Bank Plc	8th June 2010	(33,118)	Note 2

Notes:

1. This transaction is a stock borrowing transaction.
2. These transactions are transactions in respect of unwinding of stock borrowings.

- (d) During the period commencing on 7th June 2010 and up to the Latest Practicable Date, no fund managers connected with HAECO (other than exempt fund managers) who managed funds on a discretionary basis had dealt for value in any HAECO Shares or any other convertible securities, warrants, options or derivatives in respect of any HAECO Shares.

7. DEALINGS IN SWIRE PACIFIC SHARES

During the Relevant Period, neither HAECO nor any HAECO Directors had dealt for value in any Swire Pacific Shares or any other convertible securities, warrants, options or derivatives in respect of any Swire Pacific Shares.

8. SERVICE CONTRACTS

None of the HAECO Directors had entered into any service contract with HAECO or any of its subsidiaries or associated companies (i) which was continuous with a notice period of 12 months or more; (ii) which was of fixed term with more than 12 months to run irrespective of the notice period; or (iii) which (including both continuous and fixed term contracts) had been entered into or amended within the Relevant Period.

9. LITIGATION

As at the Latest Practicable Date, neither HAECO nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the HAECO Directors to be pending or threatened by or against HAECO or any of its subsidiaries.

10. MATERIAL CONTRACTS

There were no material contracts entered into by HAECO or any of its subsidiaries during the period beginning two years before 7th June 2010 (being the date of the Joint Announcement) up to and including the Latest Practicable Date, other than contracts entered into in the ordinary course of business carried on or intended to be carried on by HAECO or any of its subsidiaries.

11. EXPERTS

The following are the qualifications of the experts who have been named in this Composite Document and/or given an opinion or advice which is contained in this Composite Document:

Name	Qualification
APA	A licensed corporation under the SFO to conduct Type 6 (advising on corporate finance) regulated activity

HSBC	A registered institution under the SFO to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities and a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
Rothschild	A licensed corporation under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
DTZ	Independent professional property valuer

12. CONSENTS

- (a) APA has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its joint letter with HSBC and references to its name in the form and context in which they are included.
- (b) HSBC has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its joint letter with APA and references to its name in the form and context in which they are included.
- (c) Rothschild has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its letter and references to its name in the form and context in which they are included.
- (d) DTZ has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion of the text of its report and references to its name in the form and context in which they are included.

13. MISCELLANEOUS

- (a) As at the Latest Practicable Date, no benefit (other than statutory compensation) would be given to any HAECO Directors as compensation for loss of office or otherwise in connection with the Offer.
- (b) As at the Latest Practicable Date, no agreement or arrangement existed between any HAECO Directors and any other persons which was conditional on or dependent upon the outcome of the Offer or was otherwise connected with the Offer.
- (c) The HAECO Directors confirmed that, as at the Latest Practicable Date, there was no material contract entered into by Swire Pacific in which any HAECO Directors had a material personal interest.

- (d) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between Swire Pacific, or any person acting in concert with Swire Pacific, and any other person.
- (e) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between HAECO, or any of HAECO's associates by virtue of class (1), (2), (3) or (4) of the definition of "associate" under the Takeovers Code, and any other person.
- (f) Save for the Sale and Purchase Agreement, there is no agreement, arrangement or understanding (including any compensation arrangement) between Swire Pacific or any of the persons acting in concert with it, on the one hand, and any HAECO Directors, recent directors of HAECO, HAECO Shareholders or recent shareholders of HAECO, on the other hand, having any connection with or dependence upon the Offer.
- (g) The HAECO Shares acquired in pursuance of the Offer will not be transferred, charged or pledged to any other persons; and unless otherwise required by the Listing Rules with regard to the public float requirements, Swire Pacific has no intention to transfer any such HAECO Shares acquired in the Offer.
- (h) As at the Latest Practicable Date, Cathay Pacific was owned as to 41.97% by Swire Pacific and its directors were C.D. Pratt, J.E. Hughes-Hallett, I.S.C. Shiu, J.R. Slosar, A.N. Tyler, Cai Jianjiang, P.N.L. Chen, Fan Cheng, J.W.J. Hughes-Hallett, Kong Dong, P.A. Kilgour, M.B. Swire, Zhang Lan, I.Y.L. Lee, J.C.K. So, C.C. Tung and P.T.S. Wong.
- (i) The registered office of Swire Pacific is at 35th Floor, Two Pacific Place, 88 Queensway, Hong Kong.
- (j) The registered office of HAECO is at 35th Floor, Two Pacific Place, 88 Queensway, Hong Kong.
- (k) The registered office of Cathay Pacific is at 35th Floor, Two Pacific Place, 88 Queensway, Hong Kong.
- (l) The principal business address of APA is Suite 610, One Pacific Place, 88 Queensway, Hong Kong.
- (m) The registered office of HSBC is at 1 Queen's Road Central, Hong Kong.
- (n) The principal business address of Rothschild is 16/F, Alexandra House, 18 Chater Road, Central, Hong Kong.
- (o) The Offer is unconditional in all respects and, as a result, there is no agreement or arrangement to which Swire Pacific is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offer.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and gazetted public holidays in Hong Kong) at the registered office of HAECO at 35th Floor, Two Pacific Place, 88 Queensway, Hong Kong from the date of this Composite Document up to the Closing Date:

- (a) the memorandum and articles of association of Swire Pacific;
- (b) the memorandum and articles of association of HAECO;
- (c) the annual reports of HAECO for each of the years ended 31st December 2008 and 31st December 2009;
- (d) the joint letter from APA and HSBC dated 28th June 2010 to the HAECO Shareholders, the text of which is set out on pages 5 to 14 of this Composite Document;
- (e) the letter from the HAECO Board dated 28th June 2010 to the HAECO Shareholders, the text of which is set out on pages 15 to 21 of this Composite Document;
- (f) the letter from the HAECO Independent Board Committee dated 28th June 2010 to the HAECO Independent Shareholders, the text of which is set out on pages 22 to 23 of this Composite Document;
- (g) the letter from Rothschild dated 28th June 2010 to the Independent HAECO Board Committee, the text of which is set out on pages 24 to 41 of this Composite Document;
- (h) the property valuation report and valuation certificate from DTZ dated 28th June 2010, the text of which is set out on pages 109 to 134 to this Composite Document; and
- (i) the written consents referred to in paragraph 12 of this Appendix IV.

The above documents can be viewed on the website of the SFC at www.sfc.hk and the website of HAECO at www.haeco.com as from the date of this Composite Document until the Closing Date.