Hong Kong Aircraft Engineering Company Limited

Annual Report 2017

Stock Code: 00044

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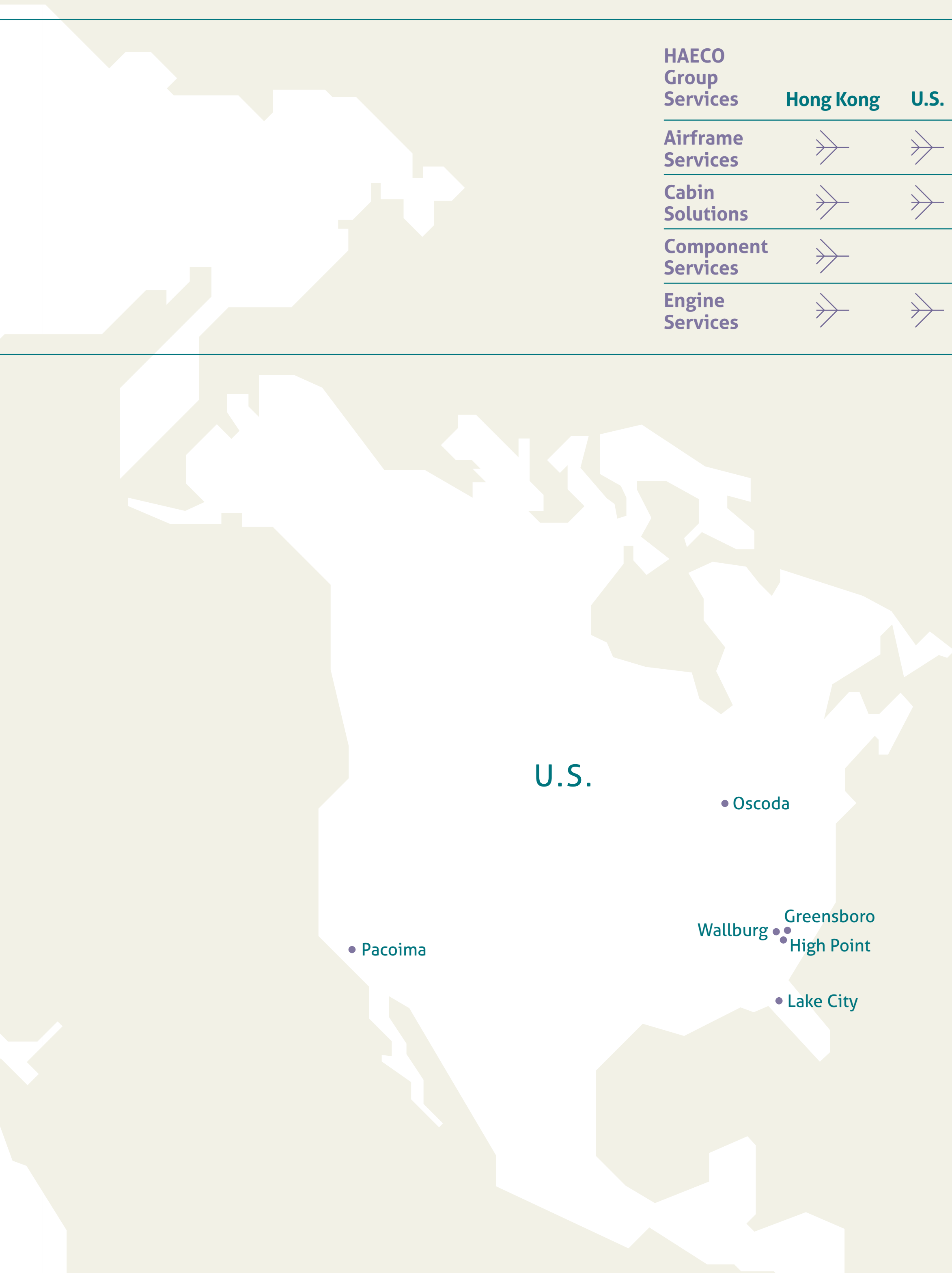
Your resourceful partner for world-class aircraft engineering and maintenance solutions.

HAECO Group Service Locations

Established in Hong Kong in 1950, HAECO is one of the world's leading independent aircraft engineering and maintenance groups. It is one of the largest Maintenance, Repair and Overhaul ("MRO") service providers in terms of capacity. Through its 17 subsidiaries and joint venture companies around the world, the Group offers a full spectrum of services including airframe services, line services, component services, engine services, inventory technical management, fleet technical management, cabin integration and reconfiguration services and interior products, private jet solutions, freighter conversion, parts manufacturing and technical training.

HAECO Group Services	Hong Kong	U.S.	Mainland China	Singapore
Airframe Services	✓	✓	✓	✓
Cabin Solutions	✓	✓	✓	
Component Services	✓		✓	
Engine Services	✓	✓	✓	




HAECO

Our Vision, Mission & Values

Our Vision

To be the best-in-class service provider of aircraft engineering and maintenance solutions – recognised for technical expertise, operational excellence, sustainability and the determination to deliver.

Our Mission

We will deliver aircraft engineering and maintenance solutions above and beyond expectations which we believe are fundamental to safe and enjoyable skies.

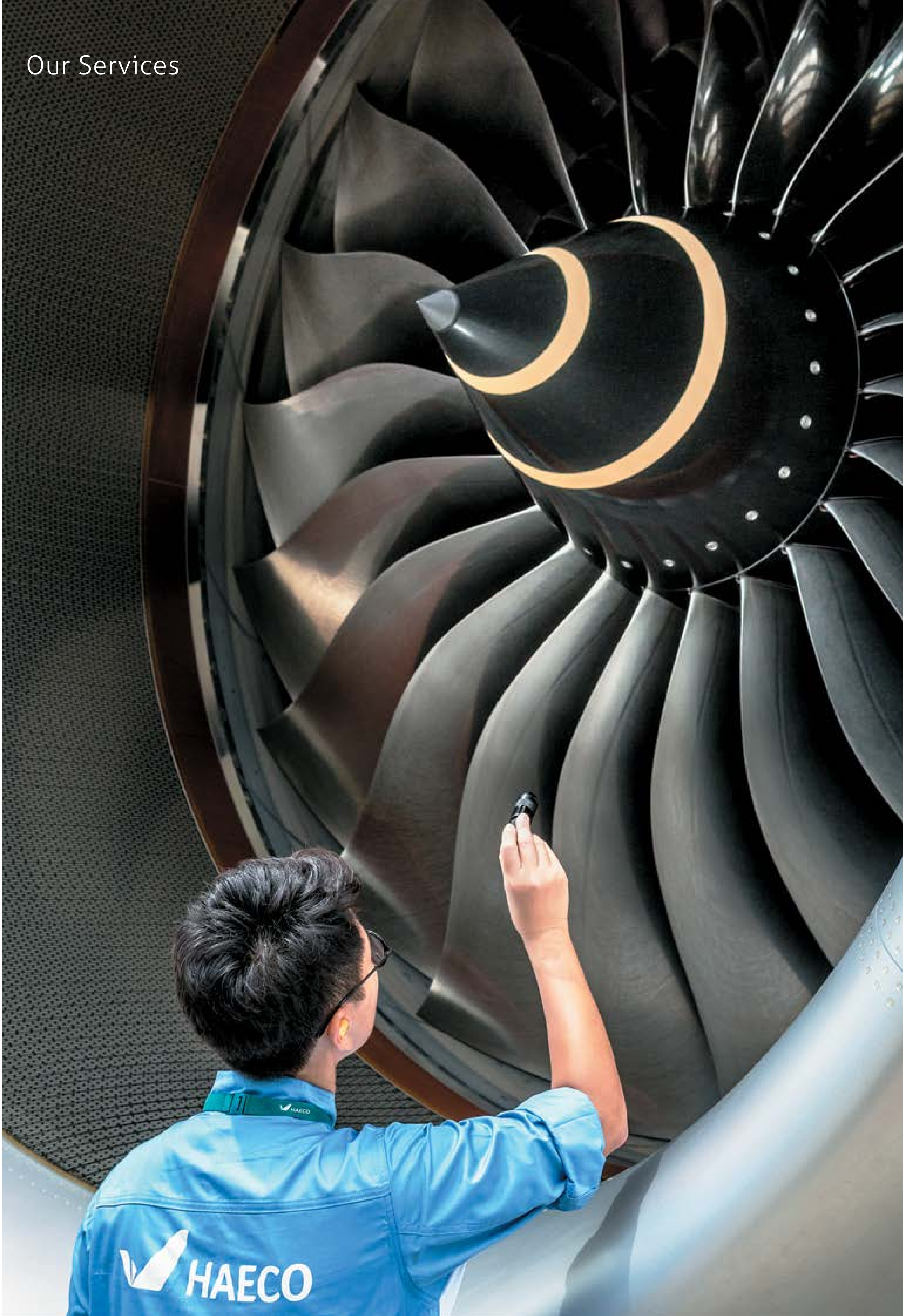
Our Values

Safety – We put safety and quality first. We strive to deliver products and services that attain the highest levels of safety and quality. We believe that all injuries are preventable and we seek to achieve zero harm in all our activities.

Integrity – We are ethical and honest, we deliver on our commitments and we create trusting relationships with our people, customers and partners.

Teamwork – We work together, building strong partnerships and relationships with our colleagues, customers and partners. We respect the views of others, we encourage their input and contribution and we believe in the power of working in teams to achieve more than we can as individuals. We nurture and develop our people, enabling them to grow in an open and trusting environment.

Excellence – We are dedicated to innovation and excellence. We are progressive and believe in investing for the long-term benefit of all our stakeholders. We embrace continuous improvement as a way of delivering value and retaining talent. We deliver the highest technical standards and continually look to increase the range, depth and quality of our services.


HAECO

One Group. Full Services.

Airframe Services

Offers airframe maintenance, cabin reconfiguration, structural modification, freighter conversion fulfilment, as well as line services covering transit checks and certification, defect clearance, cabin management, ramp services and 24/7 aircraft-on-ground support across Asia and the United States.

Cabin Solutions

Provides turnkey cabin integration solutions for commercial airline and private jet customers worldwide, covering design engineering, reconfiguration, certification services and vendor management. The Group is an authorised aircraft seat and cabin interior products original equipment manufacturer.

Component Services

Provides component repair and overhaul services for hydraulic, mechanical, avionics and pneumatic systems across the Airbus and Boeing commercial aircraft fleets, and with wheels and brakes, tyres, aerostructures, landing gear and auxiliary power units through the Group's subsidiaries and joint ventures facilities.

Engine Services

Operates world-class repair, overhaul and testing facilities for Rolls-Royce RB211 and Trent engines in Hong Kong, a GE Aviation-authorised GE90 facility in Xiamen, Mainland China, and a Pratt & Whitney JT8D facility in Oscoda, Michigan in the United States.

HAECO's Strategy

The strategic objective of HAECO is sustainable growth in shareholder value over the long term. The strategies employed in order to achieve this objective are:

Continuing to increase the range, depth and quality of aircraft engineering services offered by the HAECO Group

We will continue to develop and enhance our technical capabilities, with the aim of meeting our customers' needs at competitive prices.

We intend to expand our inventory and technical management services and our component repair capabilities. We intend these businesses to achieve the scale necessary to utilise fully the assets employed in them. This should enable us to earn satisfactory returns while charging competitive prices.

We aim for the highest professional standards of work in all our businesses.

We aim to expand geographically, by starting new operations ourselves or in joint ventures with others.

Employing staff who will be committed to HAECO for the long term and providing them with career paths and training consistent with HAECO's strategic objectives

We aim to offer competitive remuneration and benefit packages to our staff.

We will continue to provide high standards of staff training.

We will continue to promote health and safety in our operations.

Maintaining and developing strategic relationships with manufacturers of aircraft and aircraft equipment

We intend to maintain and develop strong strategic relationships with manufacturers of aircraft and aircraft equipment. We believe that this will increase the value of the services we provide to our customers.

Financial Highlights

		2017	2016	Change
Results				
Revenue	*HK$ Million*	**14,546**	13,760	+5.7%
Net operating (loss)/profit	*HK$ Million*	**(209)**	38	-650.0%
Share of after-tax results of joint venture companies				
– Hong Kong Aero Engine Services Limited and Singapore Aero Engine Services Pte. Limited (before disposal of investment)	*HK$ Million*	**244**	218	+11.9%
– Gain on disposal of Singapore Aero Engine Services Pte. Limited	*HK$ Million*	**–**	805	-100.0%
– Other joint venture companies	*HK$ Million*	**70**	49	+42.9%
(Loss)/profit attributable to the Company's shareholders	*HK$ Million*	**(541)**	975	-155.5%
(Loss)/earnings per share for (loss)/profit attributable to the Company's shareholders (basic and diluted)	*HK$*	**(3.25)**	5.86	-155.5%
First and second interim dividends per share	*HK$*	**1.03**	1.55	-33.5%
Special interim dividend per share	*HK$*	**–**	2.35	-100.0%
Total dividends per share	*HK$*	**1.03**	3.90	-73.6%
Financial Position				
Net borrowings	*HK$ Million*	**2,369**	2,368	+0.0%
Gearing ratio	*%*	**33.0**	31.5	+1.5%pt
Total equity	*HK$ Million*	**7,185**	7,519	-4.4%
Equity attributable to the Company's shareholders per share	*HK$*	**33.48**	37.12	-9.8%
Cash Flows				
Net cash generated from operating activities	*HK$ Million*	**841**	1,023	-17.8%
Net cash inflow before financing activities	*HK$ Million*	**326**	1,062	-69.3%

Note:
The average number of shares in issue is 166,324,850 in 2017 (2016: 166,324,850).
Additional financial information about the Group's joint venture companies is presented on pages 87-89.

Chairman's Letter

In 2017, most HAECO businesses did well but those businesses in America continued to incur losses. The HAECO Group overall reported an attributable loss of HK$541 million in 2017. This loss included an impairment charge of HK$625 million in respect of the goodwill attributable to HAECO USA Holdings, Inc. ("HAECO Americas") and a write-off of HK$249 million in respect of HAECO Americas' net deferred tax assets. This compares with a profit of HK$975 million in 2016, which included a gain of HK$805 million on disposal of the interest of Hong Kong Aero Engine Services Limited ("HAESL") in Singapore Aero Engine Services Pte. Limited ("SAESL") and an impairment charge of HK$285 million in respect of the goodwill attributable to HAECO Americas. Disregarding the impairment charges in both years, the net deferred tax asset write-off in 2017 and the gain on disposal in 2016, the HAECO Group made an attributable profit of HK$340 million in 2017, compared with an attributable profit of HK$516 million in 2016.

The Directors have declared a second interim dividend of HK$0.50 per share for the year ended 31st December 2017. Together with the first interim dividend of HK$0.53 per share paid on 19th September 2017, this results in total dividends for the year of HK$1.03 per share and represents a total distribution of HK$171 million. The second interim dividend, which totals HK$83 million (2016: HK$153 million), will be paid on 24th April 2018 to shareholders on the register at the close of business on 29th March 2018. Shares of the Company will be traded ex-dividend as from Tuesday, 27th March 2018.

More airframe and line services work was done by the Group in Hong Kong and in Xiamen in 2017. Line services results benefited from increased aircraft movements. The increase in airframe services work reflected higher demand and the deferral of some customers' work from 2016. In America less airframe services work was done, reflecting the completion of some significant aircraft and cabin modification programmes in 2016 and the loss of significant work from a major customer from August 2017. Line services work had been discontinued in America in 2016.

Revenue from cabin and seat work increased in 2017. More seats were sold, but there were fewer interior reconfigurations and fewer Panasonic communication equipment installation kits were delivered.

A larger number of engines were repaired and overhauled in 2017 than in 2016, and more work was done per engine. More components and avionics maintenance manhours were sold during the year. The Group's inventory technical management subsidiary (HAECO ITM Limited ("HAECO ITM")) benefited from the loan of more aircraft parts and more repair work.

The Group continued to invest in order to increase the scale of operations and technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure for 2017 was HK$843 million. Capital expenditure committed at the end of the year was HK$887 million.

Prospects

The prospects for the Group's different businesses in 2018 are satisfactory. More engines are expected to be repaired and overhauled. The component and avionics overhaul business is expected to improve gradually, with the development of new capabilities. Demand for line services is expected to be firm. Demand for airframe services is expected to be roughly similar to that of 2017, with little change in Hong Kong and Xiamen, and an increase in America. The number and mix of seats sold are expected to be similar to those in 2017. Forward bookings for cabin integration work are low. Significantly less Panasonic communication equipment work is expected.

Airframe services results will depend on the outcome of efforts to improve efficiency and work flow in America. We expect to realise some of the benefits of this work in 2018.

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

The commitment and hard work of employees of the Company and its subsidiary and joint venture companies are central to our continuing success. On behalf of the Directors, I would like to take this opportunity to thank them for their continued dedication and commitment to aviation safety.

John Slosar
Chairman
Hong Kong, 13th March 2018

Review of Operations

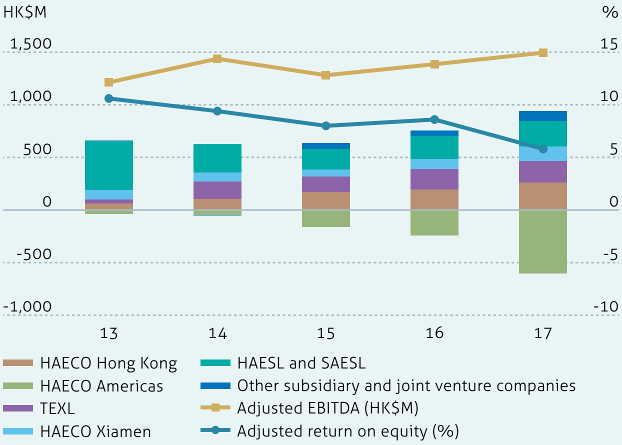
The (loss)/profit attributable to the Company's shareholders comprises:

	2017 HK$M	2016 HK$M	Change
HAECO Hong Kong	**257**	172	+49.4%
HAECO Americas	**(1,483)**	(523)	-183.6%
HAECO Xiamen	**135**	94	+43.6%
TEXL	**209**	196	+6.6%
Share of:			
HAESL and SAESL	**244**	1,023	-76.1%
Other subsidiary and joint venture companies	**97**	13	+646.2%
	(541)	975	-155.5%

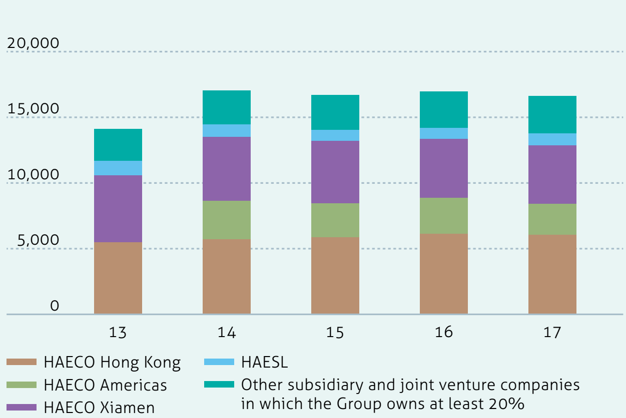
The following table shows the attributable (loss)/profit adjusted so as to exclude the net gain on disposal of SAESL in 2016, impairment charges in respect of goodwill and plant, machinery and tools in 2016 and 2017 and the write-off of net deferred tax assets in respect of HAECO Americas in 2017.

	2017 HK$M	2016 HK$M	Change
(Loss)/profit attributable to the Company's shareholders	**(541)**	975	-155.5%
Adjusting items			
Gain on disposal of SAESL, net of associated expenses	**–**	(783)	+100.0%
Impairment charge in respect of goodwill	**625**	285	+119.3%
Impairment charge in respect of plant, machinery and tools	**7**	39	-82.1%
Write-off of net deferred tax assets	**249**	–	N/A
Adjusted profit	**340**	516	-34.1%
The adjusted profit by company is analysed below:			
HAECO Hong Kong	**257**	194	+32.5%
HAECO Americas	**(602)**	(238)	-152.9%
HAECO Xiamen	**135**	94	+43.6%
TEXL	**209**	196	+6.6%
Share of:			
HAESL and SAESL	**244**	218	+11.9%
Other subsidiary and joint venture companies	**97**	52	+86.5%
	340	516	-34.1%

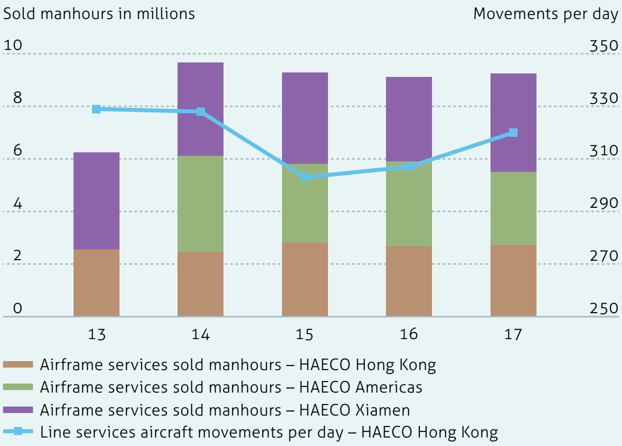
Adjusted Attributable Profits by Company



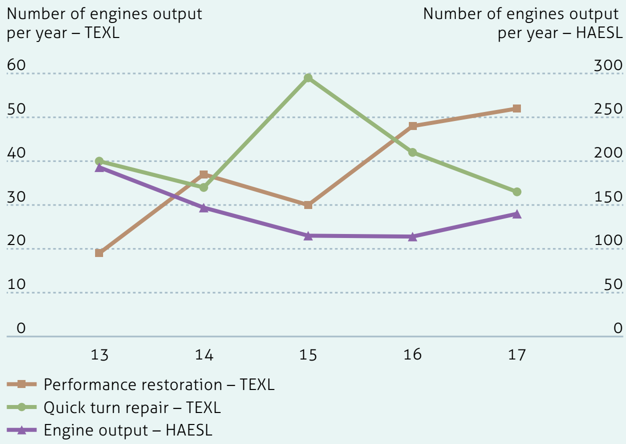
Number of Staff



Airframe Services Sold Manhours and Line Services Aircraft Movements



Engine Output



Industry Background

Orders for new aircraft are firm. Aircraft manufacturers have record order books and are increasing production. More aircraft means in principle more demand for their maintenance and repair. But new aircraft need less maintenance and repair than older aircraft, and original equipment manufacturers are doing more maintenance and repair work than they used to. On balance, maintenance and repair work demand is still expected to grow in the medium and longer term.

HAECO Hong Kong (100% owned)

HAECO Hong Kong continues developing and enhancing its technical capabilities to meet customers' needs.

HAECO's business in Hong Kong ("HAECO Hong Kong") comprises airframe services, line services at the passenger and cargo terminals at Hong Kong International Airport ("HKIA"), component services and material management. Disregarding the profit on the disposal of an interest in SAESL in 2016, HAECO Hong Kong recorded a 32.5% increase in profit in 2017.

Airframe Services

HAECO Hong Kong performs scheduled maintenance checks, modifications and overhaul work on a wide variety of aircraft types. It competes on turnaround time and quality of workmanship with other maintenance, repair and overhaul facilities worldwide. Manhours sold increased from 2.67 million in 2016 to 2.70 million in 2017. The increase reflected the deferral of some customers' work from 2016. 78.3% of the work was for airlines based outside Hong Kong.

Line Services

HAECO Hong Kong undertakes technical and non-technical line services for airlines operating at HKIA. The average number of aircraft movements handled per day increased in 2017 by 4.2% to 320. Line services manhours sold increased, reflecting this increase in volume.

HAECO Hong Kong introduced a mobile application to its line services division, allowing frontline staff to efficiently access and update work-related information anytime, anywhere.

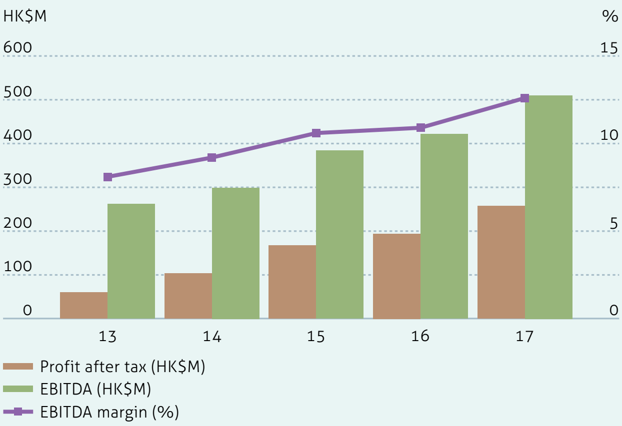
Component Services

HAECO Hong Kong overhauls components and avionics at Tseung Kwan O in Hong Kong and through HAECO Component Overhaul (Xiamen) Limited ("HAECO Component Overhaul (Xiamen)") in Xiamen. Manhours sold, including both Hong Kong and Xiamen, were 0.215 million in 2017, an increase of 4.4% compared to 2016. The increase reflected additional component maintenance capabilities.

HAECO Hong Kong employed 6,057 staff at the end of 2017, 1.6% fewer than at the end of 2016. The decrease principally reflects improved efficiency and a slight reduction in the number of trainees.

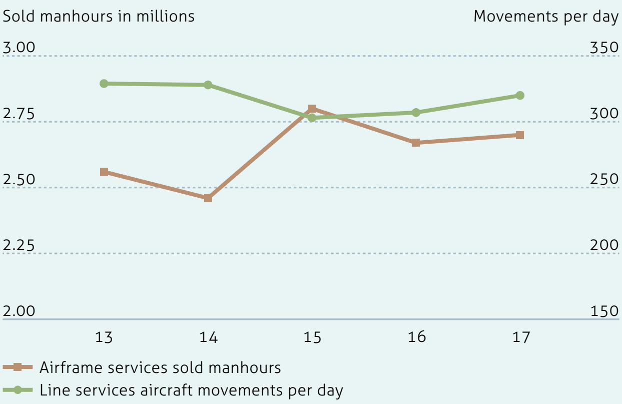
In 2018, HAECO Hong Kong expects demand for its airframe services to be stable. Demand for line services in Hong Kong is expected to be firm. The component and avionics overhaul business is expected to improve gradually, with the development of new capabilities.

HAECO Hong Kong
Profitability



Remark: The above figures do not include the expenses arising in connection with the disposal of SAESL.

HAECO Hong Kong
Key Operating Drivers



HAECO Americas (100% owned)

The new hangar in Greensboro, North Carolina – HAECO Americas' headquarters – commenced operations in the first quarter of 2018.

HAECO Americas' business comprises airframe services, engine repair services, the manufacture of seats and cabin interior products and reconfiguration services. Line services work was discontinued in 2016. HAECO Americas recorded a loss of HK$1,483 million in 2017 (including an impairment charge of HK$625 million in respect of goodwill and the write-off of net deferred tax assets of HK$249 million). Excluding impairment charges in both years and the write-off of net deferred tax assets in 2017, HAECO Americas' 2017 loss was HK$602 million, compared to a loss of HK$238 million in 2016. The higher loss reflected less airframe services, reconfiguration services and Panasonic communication equipment work. The results were also adversely affected (by comparison with 2016) by the non-recognition of deferred tax assets in respect of 2017 tax losses.

Airframe Services

Demand for HAECO Americas' airframe services decreased. 2.80 million manhours were sold in 2017 compared with 3.24 million in 2016 reflecting the completion of some significant aircraft and cabin modification programmes in 2016 and the loss of significant work from a major customer from August 2017. Results were adversely affected by the additional costs of training and recruiting staff in preparation for the opening of a fifth hangar at Greensboro in 2018.

HAECO Cabin Solutions' Vector™ seating platform provides airlines with a wide range of selectable features, including Inflight Entertainment screen, Personal Electronic Device holder, bi-fold tray table and more.

Cabins and Seats

Revenue from cabins and seats increased in 2017. More seats were sold (approximately 7,300 premium and economy seats compared with 3,400 in 2016), but there was less reconfiguration work and fewer Panasonic communication equipment installation kits delivered. Overall, cabin and seats work was loss making, with losses being made on some seat contracts.

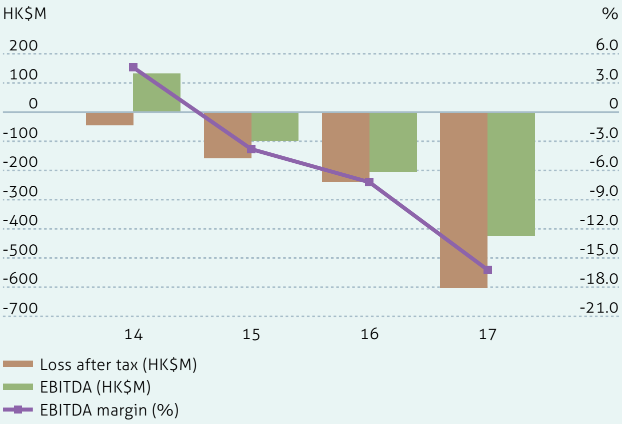
As required by applicable accounting standards, a review of the carrying value of the business of HAECO Americas was undertaken. As a result of this review (which took into account the prospects for the airframe maintenance business of HAECO Americas), an impairment charge of HK$625 million was made in 2017 in respect of the goodwill recorded.

The write-off of net deferred tax assets in 2017 resulted from a review of the ability to set past tax losses in the US off against future profits in the US in light of timing certainty required by applicable accounting standards.

HAECO Americas employed 2,331 staff at the end of 2017, 13.9% less than at the end of 2016.

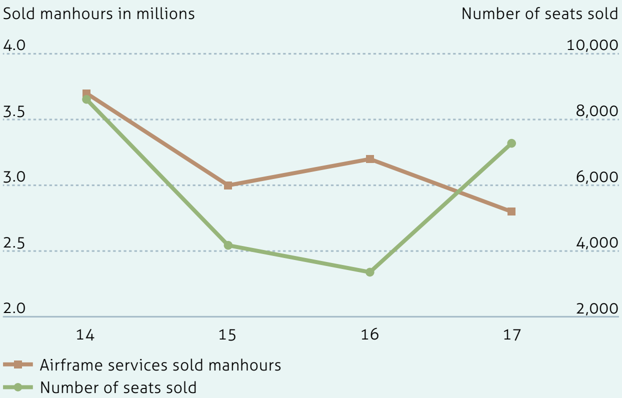
Demand for HAECO Americas airframe services is expected to increase in 2018. More work is expected from a major customer. However, airframe services results will depend on the outcome of efforts to improve efficiency and work flow. We expect to realise some of the benefits of this work in 2018. The number and mix of seats sold in 2018 are expected to be similar to 2017. Forward bookings for cabin integration work are low. Significantly less Panasonic communication equipment work is expected.

HAECO Americas
Profitability



Remark: The above figures do not include the impairment charges in 2016 and 2017 or the write-off of net deferred tax assets of HK$249 million in 2017.

HAECO Americas
Key Operating Drivers



HAECO Xiamen (58.55% owned)

HAECO Xiamen provides a complete range of airframe services, including airframe maintenance, modification, cabin reconfiguration and passenger-to-freighter conversion.

The business of Taikoo (Xiamen) Aircraft Engineering Company Limited ("HAECO Xiamen") comprises airframe services, line services, private jet work, parts manufacturing and technical training. It recorded a 43.6% increase in attributable profit in 2017 compared to 2016.

Airframe Services

HAECO Xiamen provides airframe services in Xiamen. Manhours sold in 2017 were 3.76 million, representing 17.1% growth in volume reflecting higher demand, which generated a 22.1% increase in revenue.

Line Services

HAECO Xiamen provides line services in Xiamen, Beijing, Tianjin, Yinchuan, Chongqing, Zhengzhou, and Chengdu. It handled an average of 54 aircraft movements per day in 2017, 8.0% more than in 2016. Revenue increased by 14.9%.

Private Jet Work

Revenue from private jet work recorded an increase of 159.8% in 2017. A Boeing 747-400 VVIP cabin modification project, which commenced in the second half of 2017, is scheduled to complete in March 2018.

Parts Manufacturing and Technical Training

HAECO Xiamen manufactures aviation parts and provides technical training for internal and external parties in Xiamen. Parts manufacturing revenue increased by 25.7% in 2017. Revenue from technical training increased by 14.9% in 2017.

HAECO Xiamen employed 4,450 staff at the end of 2017, 0.6% fewer than at the end of 2016.

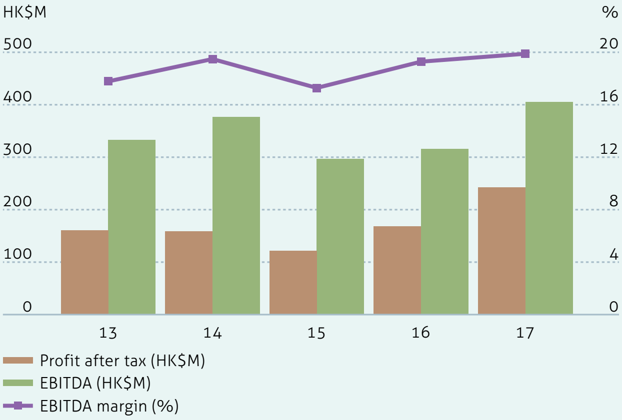
Demand for HAECO Xiamen's airframe services in 2018 is expected to be similar to 2017. Demand for line services and parts manufacturing is expected to be stable.

New Airport in Xiamen

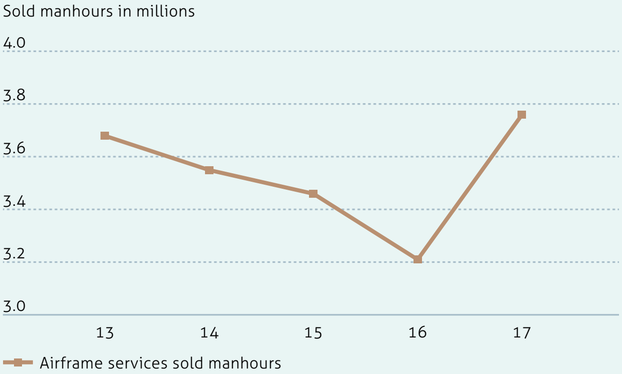
The relocation proposed by the Xiamen municipal government of the Gaoqi airport to a new airport in the Xiang'an district remains subject to central government approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material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

As one of the leading independent MROs in Asia, HAECO Xiamen is renowned throughout the aviation industry for its extensive airframe maintenance capabilities and technical expertise.

HAECO Xiamen
Profitability



HAECO Xiamen
Key Operating Driver



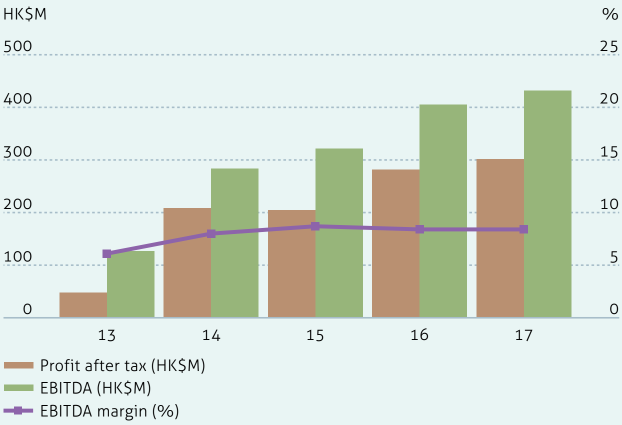
TEXL (72.86% owned)

Based in Xiamen in Mainland China, TEXL specialises in the overhaul, repair and testing of GE90 series engines.

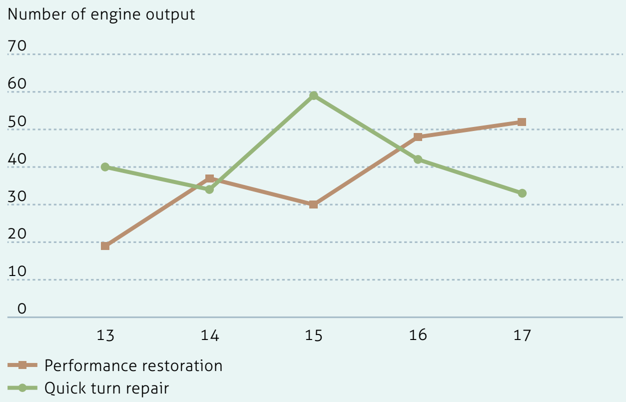
Taikoo Engine Services (Xiamen) Company Limited ("TEXL") repairs and overhauls General Electric engines and engine components in Xiamen in Mainland China. It has a service agreement with General Electric under which it provides maintenance, repair and overhaul services for GE90-110B and GE90-115B engines. In 2017, TEXL completed 52 engine performance restorations and 33 quick turn repairs on GE90 aircraft engines (compared with 48 engine performance restorations and 42 quick turn repairs in 2016). With more engine performance restorations, compressor module repair work and component repair work, TEXL recorded a higher profit in 2017 than that in 2016.

Demand for TEXL's overhaul services is expected to be stable in 2018.

TEXL
Profitability



TEXL
Key Operating Drivers



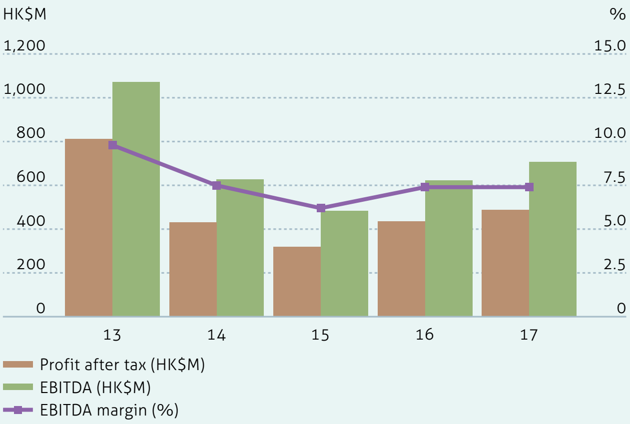
HAESL (45% owned until 30th June 2016 and 50% owned thereafter)

Based in Hong Kong, in 2017 HAESL began inducting Trent XWB-84 engines, which power the Airbus A350-900 aircraft, and developing capability to overhaul Trent XWB-97 engines, which power the Airbus A350-1000 aircraft. The company also celebrated its 20th anniversary and the completion of its Phase VI facility in this year.

HAESL repairs and overhauls Rolls-Royce engines and engine components at Tseung Kwan O in Hong Kong. It recorded an 11.7% increase in profit (on a 100% basis) in 2017 compared to 2016 (disregarding in 2016 the profit on disposal of its interest in SAESL). The increase in profit principally reflected an increase in volume. 140 engines were overhauled in 2017, compared with 114 in 2016. HAESL invested heavily during 2017 in new facilities and tooling and recruited more people, in order to accommodate new engines types and expected volume growth.

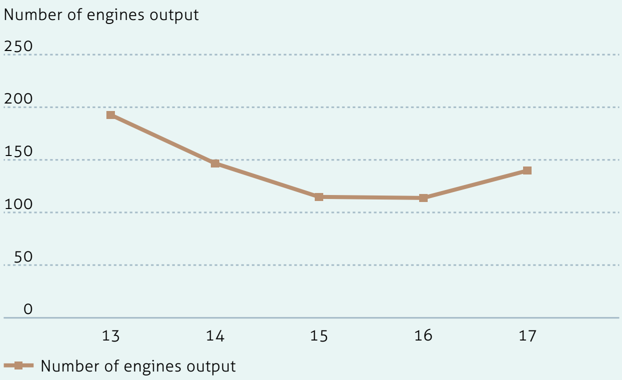
HAESL is expected to overhaul more engines in 2018 and, in particular, to overhaul more Trent XWB engines, two of which were overhauled in 2017.

HAESL
Profitability



Remark: The above figures do not include the gain on disposal of SAESL and any share of after-tax results of SAESL.

HAESL
Key Operating Driver



Other Principal Subsidiary and Joint Venture Companies

To meet the unique requirements of customers, HAECO ITM offers customised, innovative and cost-effective inventory technical management solutions.

- HAECO ITM (70% owned) provides inventory technical management services to Cathay Pacific and other airlines. The total number of aircraft for which services were provided in 2017 was 272, similar to the number in 2016. The profit of HAECO ITM increased in 2017. More aircraft parts were loaned and there was more repair business.
- Taikoo (Xiamen) Landing Gear Services Company Limited ("HAECO Landing Gear Services") (69.66% owned until October 2017 and 86.53% owned thereafter) overhauls landing gears in Xiamen in Mainland China. It did more work in 2017 than in 2016. Its losses were reduced accordingly. Its 2016 losses included an impairment charge in respect of plant, machinery and tools.
- HAECO Component Overhaul (Xiamen) (100% owned) overhauls components in Xiamen in Mainland China. It did more work in 2017 than in 2016 and consequently made a smaller loss.
- Shanghai Taikoo Aircraft Engineering Services Company Limited ("HAECO Shanghai") (68.78% owned) provides line services in Shanghai and Nanjing. The average number of aircraft movements handled per day was 49 in 2017, 4.3% more than in 2016. Profits fell due to higher staff costs, which reflected an increase in manpower in the second half of 2016.
- Singapore HAECO Pte. Limited ("HAECO Line Services (Singapore)") (100% owned) provides line services in Singapore. It recorded a smaller profit in 2017 than in 2016. It did less work.
- Goodrich Asia-Pacific Limited (49% owned) refurbishes carbon brakes and wheel hubs in Hong Kong. Its profit increased in 2017 as a result of higher sales and reduced direct job expenses.

Based in Xiamen in Mainland China, HAECO Landing Gear Services completed its first repair and overhaul of Boeing 747-8 landing gear in 2017.

HAECO Component Overhaul (Xiamen) became an authorised repair centre for Panasonic's inflight entertainment and communications technology for Mainland China in 2017.

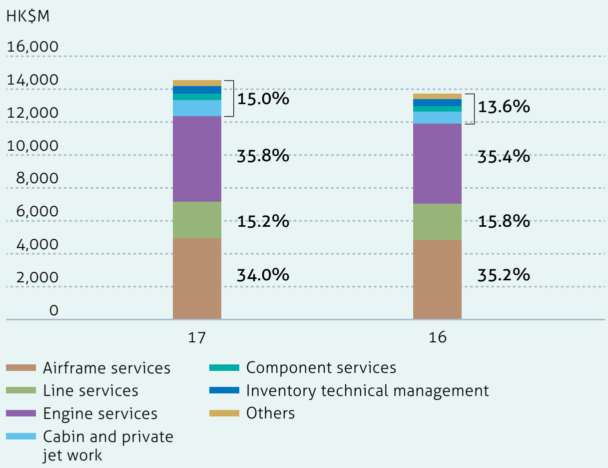
- Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("HAECO Spirit AeroSystems") (48.10% owned) repairs and overhauls composite structures at Jinjiang in Fujian Province in Mainland China. It made a smaller profit in 2017 than in 2016. It did less work and material costs increased.
- Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited (33.27% owned) sells and retreads aircraft tyres at Jinjiang in Fujian Province in Mainland China. It broke even in 2017, as it did in 2016.
- Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited (20.49% owned) overhauls fuel control systems and pumps in Xiamen in Mainland China. Its profit increased in 2017 as a result of higher sales and a lower tax rate.
- Honeywell TAECO Aerospace (Xiamen) Company Limited (30.86% owned) overhauls auxiliary power units and other rotable spares. Its profit increased in 2017. It did more work.
- Taikoo (Shandong) Aircraft Engineering Company Limited (35.86% owned) performs airframe maintenance, passenger to freighter conversions and line services at Jinan in Shandong Province in Mainland China for Boeing 737 and other narrow-body aircraft. Its profits increased in 2017 reflecting more airframe and line services work.

Based at Jinjiang in Fujian Province in Mainland China, HAECO Spirit AeroSystems specialises in aerostructure repair and overhaul services.

Operational Review by Service Type

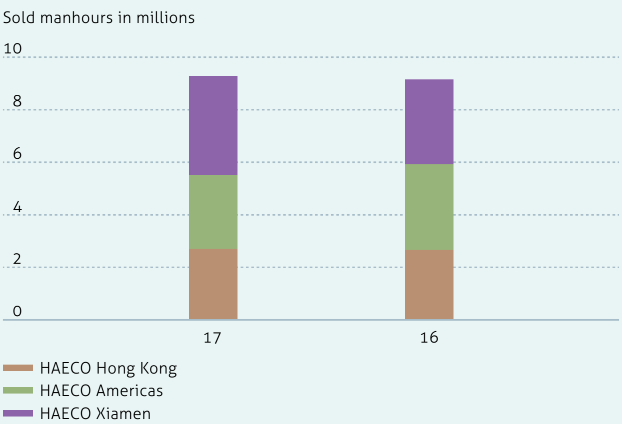
Revenue increased by 5.7% to HK$14,546 million in 2017. An analysis of the total revenue by service type is shown below.

Total Revenue



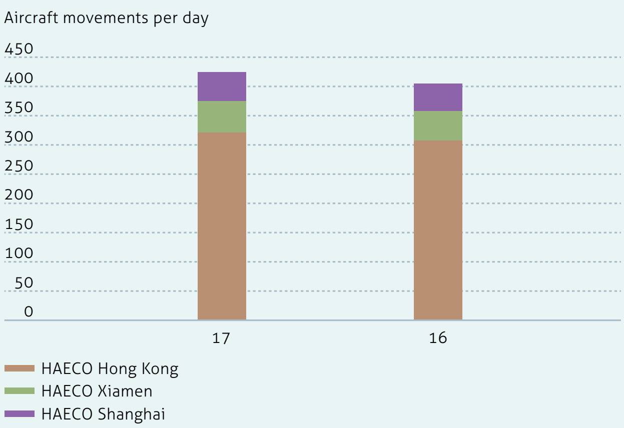
The following graphs illustrate the key factors which influence the Group's revenue:

Airframe Services
Number of Sold Manhours



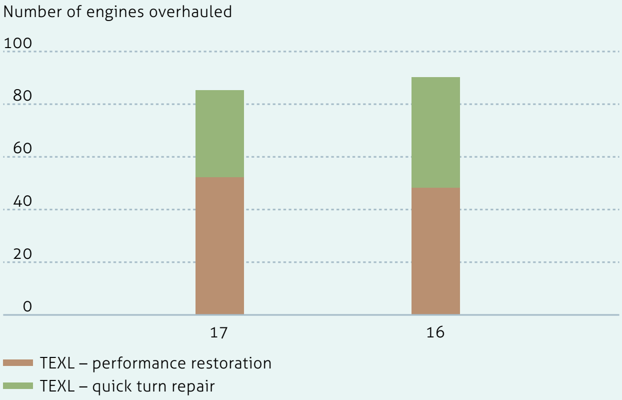
The Group's revenue from airframe services in 2017 was comparable to that of 2016. The Group sold 9.26 million airframe services manhours in 2017, 0.14 million more than in 2016. More airframe services work was performed in Hong Kong and Xiamen in 2017. Less work was performed in America, principally due to the loss of significant work from a major customer.

Line Services
Number of Aircraft Movements



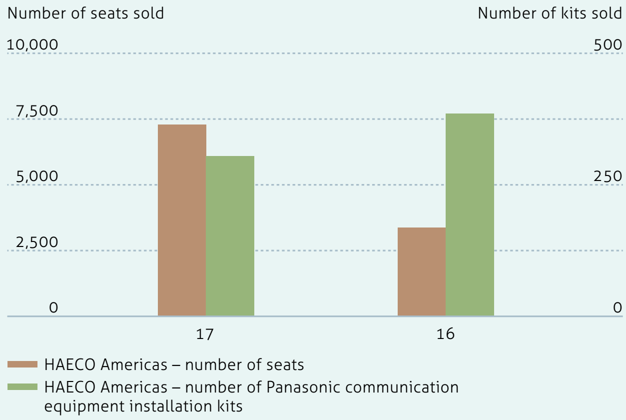
The increase in the Group's revenue from line services principally reflected the performance of HAECO Hong Kong. The average number of aircraft movements handled increased in 2017 by 4.2% to 320 per day. In Mainland China, the average number of aircraft movements handled by HAECO Xiamen increased by 8.0% to 54 per day in 2017 and the average number handled by HAECO Shanghai increased by 4.3% to 49 per day. The line services business of HAECO Americas was closed in 2016.

Engine Services
Number of Engines Overhauled



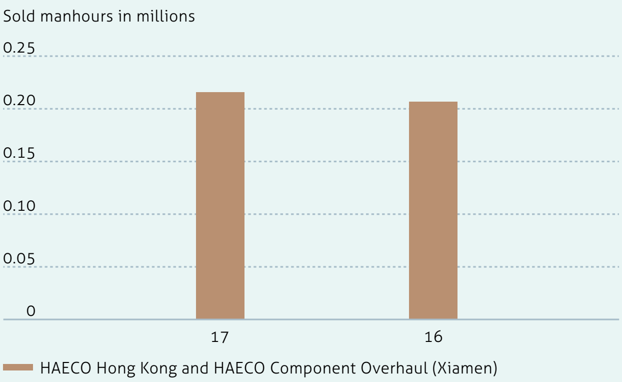
The Group's revenue from engine services increased in 2017, mainly because TEXL did more engine performance restoration work.

Cabin and Private Jet Work
Number of Seats and Panasonic Communication Equipment Installation Kits Sold



The Group's revenue from cabin and private jet work increased in 2017. This reflected more seats having being sold and more work on private jets, partly offset by less cabin reconfiguration services work and fewer Panasonic communication equipment installation kits delivered.

Component Services
Number of Sold Manhours



The Group's component services revenue increased in 2017, mainly because more landing gear overhaul work was done. More manhours sold for components and avionics work (an increase of 4.4% compared to 2016) also contributed to the increase.

Inventory Technical Management
Number of Aircraft Served

The Group's revenue from inventory technical management was stable in 2017. The total number of aircraft for which services were provided in 2017 was 272, similar to the number in 2016.

Consolidated Statement of Profit or Loss

	2017	2016	Change	Reference
	HK$M	HK$M	HK$M	
Revenue				
– HAECO Hong Kong The increase reflects more line services work.	**4,041**	3,879	162	
– HAECO Americas The decrease reflects less airframe services work, reconfiguration services and Panasonic communication equipment installation kit work, partly offset by the sale of more seats.	**2,625**	2,836	(211)	
– HAECO Xiamen The increase mainly reflects more airframe services work.	**2,041**	1,640	401	
– TEXL The increase reflects more engine performance restorations and component repair work, partly offset by fewer quick turn repairs.	**5,162**	4,808	354	
– Others The increase mainly reflects more work at HAECO Landing Gear Services.	**677**	597	80	
– Total	**14,546**	13,760	786	Note 4
Staff remuneration and benefits The increase mainly reflects salary increases, partly offset by a reduction in headcount at HAECO Americas.	**(5,110)**	(5,059)	(51)	Note 5
Cost of direct material and job expenses The increase reflects more performance restoration work at TEXL, more airframe services work at HAECO Xiamen and the sale of more seats at HAECO Americas.	**(7,335)**	(6,679)	(656)	
Depreciation, amortisation and impairment The increase principally reflects a higher impairment charge in respect of goodwill attributable to HAECO Americas.	**(1,270)**	(966)	(304)	Notes 12 and 13
Other operating expenses The decrease mainly reflects reduced expenses at HAECO Hong Kong and HAECO Americas.	**(918)**	(959)	41	
Other net (losses)/gains The net losses in 2017, compared with net gains in 2016, reflected net foreign exchange losses in 2017, partly offset by higher government subsidies received in Mainland China.	**(2)**	30	(32)	Note 7

Consolidated Statement of Profit or Loss (continued)

	2017 HK$M	2016 HK$M	Change HK$M	Reference
Operating (loss)/profit An operating loss was incurred in 2017, compared with a profit in 2016. This reflected a higher impairment charge in respect of goodwill attributable to HAECO Americas. Disregarding the impairment charges, improved results at HAECO Hong Kong, HAECO Xiamen, TEXL and HAECO Landing Gear Services were partly offset by an increased loss at HAECO Americas.	**(89)**	127	(216)	
Net finance charges The increase principally reflects a higher fair value loss on a put option over a non-controlling interest in a subsidiary company.	**(120)**	(89)	(31)	Note 8
Share of after-tax results of joint venture companies The reduction principally reflects the absence of the gain on disposal of an interest in SAESL recorded in 2016. Disregarding this gain, an increase was recorded, reflecting more work at HAESL.	**314**	1,072	(758)	Note 15
Taxation The increase principally reflects non-recognition of deferred tax assets and the write-off of net deferred tax assets at HAECO Americas. The higher profits at HAECO Hong Kong and HAECO Xiamen also contributed to the increase.	**(451)**	(17)	(434)	Note 9
Non-controlling interests The increase reflects a higher profit at HAECO Xiamen and a reduced loss at HAECO Landing Gear Services.	**(195)**	(118)	(77)	Note 28
(Loss)/profit attributable to the Company's shareholders	**(541)**	975	(1,516)	

Consolidated Statement of Financial Position

	2017	2016	Change	Reference
	HK$M	HK$M	HK$M	
Property, plant and equipment The increase mainly reflects the construction of a new hangar at HAECO Americas.	**5,719**	5,264	455	Note 12
Intangible assets The decrease principally reflects the impairment of goodwill attributable to HAECO Americas. The amortisation of intangible assets at HAECO Americas also contributed to the decrease.	**1,466**	2,166	(700)	Note 13
Joint venture companies The increase reflects HAECO's share of profits from HAESL and the joint venture companies in Mainland China, and translation differences arising from foreign exchange rates, partly offset by dividends distributed.	**1,727**	1,607	120	Note 15
Trade and other receivables The increase principally reflects more receivables at TEXL and HAECO Americas.	**1,689**	1,595	94	Note 22
Trade and other payables (current portion) The increase principally reflects more accrued capital expenditure at HAECO Americas and more deferred income at TEXL.	**2,576**	2,194	382	Note 23
Loans and finance lease obligations (current and non-current portion) The decrease principally reflects the repayment of bank loans at HAECO Hong Kong and TEXL.	**3,360**	3,689	(329)	Note 24

Consolidated Statement of Cash Flows

	2017 HK$M	2016 HK$M	Change HK$M	Reference
Cash generated from operations The decrease principally reflects a higher loss at HAECO Americas, partly offset by better results at HAECO Hong Kong and HAECO Xiamen.	**1,096**	1,199	(103)	Note 31(a)
Net interest paid The increase reflects higher interest rates.	**(77)**	(73)	(4)	
Dividends received from joint venture companies The decrease principally reflects a lower dividend from HAESL, due to the absence of a dividend attributable to the disposal of its interest in SAESL in 2016.	**243**	1,169	(926)	
Purchase of shares in a joint venture company The amount in 2016 represents the payment for the acquisition of an additional 5% shareholding in HAESL.	**–**	(452)	452	Note 15
Purchase of property, plant and equipment The increase mainly reflects the construction of a new hangar at HAECO Americas.	**(837)**	(717)	(120)	
Net loans repaid Bank loans at HAECO Hong Kong and TEXL were repaid in 2017.	**(362)**	(449)	87	

Capital Structure

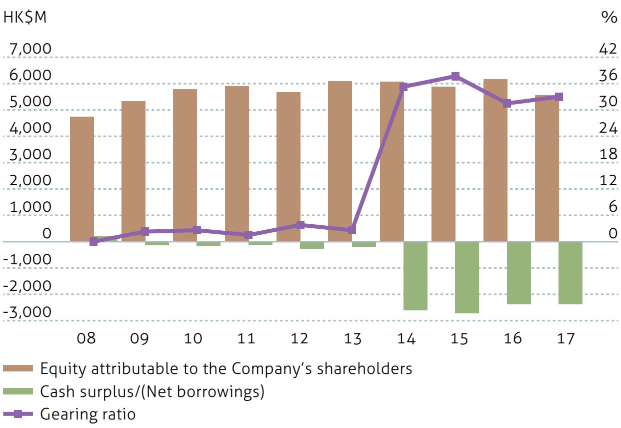
The Group aims to maintain a capital structure which safeguards its ability to operate as a going concern and enables it to provide returns for shareholders and to secure access to finance at a reasonable cost.

Net Borrowings and Gearing

At 31st December 2017, the Group's net borrowings were HK$2,369 million, representing an increase of HK$1 million from those at 31st December 2016. The gearing ratio was 33.0%, compared with 31.5% at 31st December 2016. The increase principally reflects the impairment charges, which are non-cash items but still reduce the total equity of the Group. The Group's net borrowings by company are analysed below:

	2017	2016
	HK$M	HK$M
HAECO Hong Kong	**(744)**	(1,050)
HAECO Americas	**(2,204)**	(2,122)
HAECO Xiamen	**387**	596
TEXL	**157**	177
Other subsidiary companies	**35**	31
	(2,369)	(2,368)

Equity, Cash Surplus/Net Borrowings and Gearing



Changes in Financing

During the year, no additional committed financing was obtained by the Group.

The Group repaid term loan facilities aggregating US$19 million in Mainland China and US$2.5 million in the United States during the year.

Sources of Financing

At 31st December 2017, net borrowings consisted of long-term loans of HK$3,247 million, short-term loans of HK$106 million and finance lease obligations of HK$7 million, net of bank balances and short-term deposits of HK$991 million. Committed facilities were HK$4,805 million at 31st December 2017, of which HK$1,517 million were undrawn. In addition, there were uncommitted facilities of HK$2,442 million at the same date, of which HK$2,336 million were undrawn. Sources of funds at 31st December 2017 comprised:

	Available	Drawn	Undrawn expiring within one year	Undrawn expiring beyond one year
	HK$M	HK$M	HK$M	HK$M
Committed facilities				
– Loans and finance leases	4,805	3,288	400	1,117
Uncommitted facilities				
– Loans and overdraft	2,442	106	2,336	–
Total	**7,247**	**3,394**	**2,736**	**1,117**

Facilities – Loan

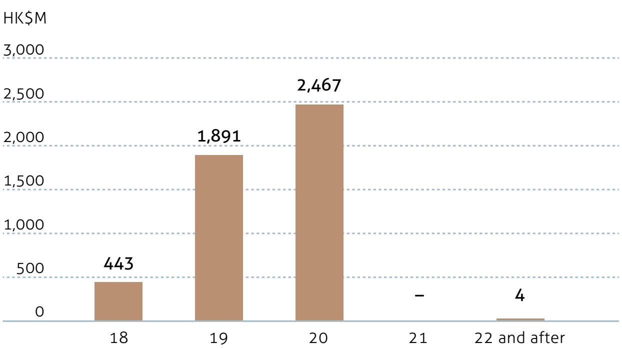
Maturity Profile and Refinancing

Loans are repayable on various dates up to 2020. Finance leases are repayable on various dates up to 2030.

The weighted average term and cost of the Group's debt is:

	2017	2016
Weighted average term of debt	**2.1 years**	3.0 years
Weighted average cost of debt	**2.58%**	2.36%

Total Available Committed Facilities by Maturity (at 31st December 2017)



Finance Charges

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

	31st December 2017		31st December 2016	
	HK$M		HK$M	
Fixed	**1,186**	**35%**	865	23%
Floating	**2,208**	**65%**	2,873	77%
Sub-total	**3,394**	**100%**	3,738	100%
Less: Unamortised loan fee	**34**		49	
Total	**3,360**		3,689	

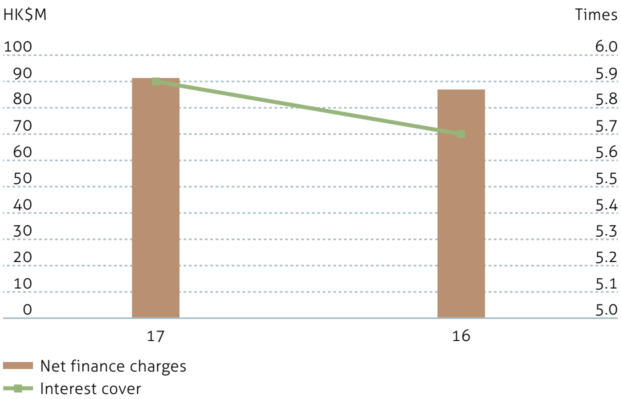
The exposure of the Group's loans to interest rate changes (after interest rate swaps) can be illustrated as follows:

		Fixed interest rate maturing in:			
	Floating interest rate	1 year or less	1 to 5 years	Over 5 years	Total
	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2017	**2,208**	**199**	**983**	**4**	**3,394**
At 31st December 2016	2,873	3	858	4	3,738

Interest Cover

An analysis of the interest cover and net finance charges (disregarding the charge arising from the fair value of a put option over a non-controlling interest in a subsidiary company) in 2016 and 2017 is shown below:

Interest Cover



Remark: The operating profit from which the interest cover above is derived excludes impairment charges and expenses arising in connection with the disposal of SAESL.

Currency Profile

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

	2017		2016	
	HK$M		HK$M	
Currency				
Hong Kong dollar	**1,404**	**41.4%**	1,611	43.1%
United States dollar	**1,990**	**58.6%**	2,127	56.9%
Total	**3,394**	**100.0%**	3,738	100.0%

Currency Hedging

HAECO Xiamen tries to mitigate its exposure to increase in the value of the Renminbi by retaining surplus funds in Renminbi and by selling US dollars forward. At 31st December 2017, HAECO Xiamen had sold forward a total of US$18.8 million to fund part of its Renminbi requirements for 2018 and 2019. The weighted average exchange rate applicable to these forward sales was RMB 6.85 to US$1. A breakeven position resulted from forward foreign exchange contracts in 2017.

Governance Culture

The Group is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, HAECO believes that shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to shareholders
- that the interests of those who deal with the Company are safeguarded
- that overall business risk is understood and managed appropriately
- the delivery of high-quality products and services to the satisfaction of customers and
- that high standards of ethics are maintained

Corporate Governance Statement

The Corporate Governance Code (the "CG Code") as published by The Stock Exchange of Hong Kong Limited sets out the principles of good corporate governance and provides two levels of recommendation:

- code provisions, with which issuers are expected to comply, but with which they may choose not to comply, provided they give considered reasons for non-compliance
- recommended best practices, with which issuers are encouraged to comply, but which are provided for guidance only

The Company supports the principles-based approach of the CG Code and the flexibility this provides for the adoption of corporate policies and procedures which recognise the individuality of companies. HAECO has adopted its own corporate governance code which is available on its website **www.haeco.com**. Corporate governance does not stand still; it evolves with each business and operating environment. The Company is always ready to learn and adopt best practices.

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

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

The Board of Directors

Role of the Board

The Company is governed by a Board of Directors, which has responsibility for strategic leadership and control of the Group designed to maximise shareholder value, while taking due account of the interests of those with whom the Group does business and others.

Responsibility for achieving the Company's objectives and running the business on a day-to-day basis is delegated to management. The Board exercises a number of reserved powers which include:

- maintaining and promoting the culture of the Company
- formulation of long-term strategy
- approving public announcements, including financial statements
- committing to major acquisitions, divestments and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue, or buy-back, of equity securities under the relevant general mandates
- approving treasury policy
- setting dividend policy
- approving appointments to the Board
- reviewing the board diversity policy with a view to the Board having a balance of skills, experience and diversity of perspectives appropriate to the Company's businesses
- ensuring that appropriate management development and succession plans are in place
- setting the Group remuneration policy
- approving annual budgets and forecasts
- reviewing operational and financial performance
- reviewing the effectiveness of the Group's risk management and internal control systems
- ensuring the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

To assist it in fulfilling its duties, the Board has established three committees, the Executive Committee, the Audit Committee and the Remuneration Committee. The work of these Committees is reported to the Board.

Chairman and Chief Executive

The CG Code requires that the roles of Chairman and Chief Executive be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the running of the Board and the executives who run the business.

J.R. Slosar, the Chairman, is responsible for:

- leadership of the Board
- setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda

- facilitating effective contributions from and dialogue with all Directors and constructive relations between them
- ensuring that all Directors are properly briefed on issues arising at Board meetings and that they receive accurate, timely and clear information
- obtaining consensus amongst the Directors
- ensuring, through the Board, that good corporate governance practices and procedures are followed

A.K.W. Tang, the Chief Executive Officer, is responsible for implementing the policies and strategies set by the Board in order to ensure the successful day-to-day management of the Group's business.

Throughout the year, there was a clear division of responsibilities between the Chairman and the Chief Executive.

Board Composition

The Board is structured with a view to ensuring it is of a high calibre and has a balance of key skills and knowledge so that it works effectively as a team and individuals or groups do not dominate decision-making.

The Board comprises the Chairman, four other Executive Directors and six Non-Executive Directors. Their biographical details are set out in the section of this annual report headed Directors and Officers on pages 47 and 48 and are posted on the Company's website.

J.R. Slosar, A.K.W. Tang, W.E.J. Barrington, G.T.F. Hughes and R.J. Sharpe are directors and/or employees of the John Swire & Sons Limited ("Swire") group. M.B. Swire is a shareholder, director and employee of Swire. Before she ceased to be a director of the Company, F.N.Y. Lung was an employee of the Swire group.

The Non-Executive Directors bring independent advice, judgement and, through constructive challenge, scrutiny of executives and review of performance and risks. The Audit and Remuneration Committees of the Board comprise only Non-Executive Directors.

The Board considers that four of the six Non-Executive Directors are independent in character and judgement and fulfill the independence guidelines set out in Rule 3.13 of the Listing Rules. Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules.

The Independent Non-Executive Directors:

- provide open and objective challenge to management and other Board members
- raise intelligent questions and challenge constructively and with vigour
- bring outside knowledge of the businesses and markets in which the Group operates, providing informed insight and responses to management

The number of Independent Non-Executive Directors represents at least one-third of the Board of Directors.

Appointment and Re-election

Potential new Directors are identified and considered for appointment by the Board. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and all Executive and Non-Executive Directors are subject to re-election by shareholders every three years.

Potential new Board members are identified on the basis of skills and experience which, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board.

Full details of changes in the Board during the year and to the date of this report are provided in the section of this annual report headed Directors' Report on page 52.

Board Diversity

The Board has a board diversity policy, which is available on the Company's website.

In order to achieve a diversity of perspectives among members of the Board, it is the policy of the Company to consider a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders.

Responsibilities of Directors

On appointment, the Directors receive information about the Group including:

- the role of the Board and the matters reserved for its attention
- the role and terms of reference of Board Committees
- the Group's corporate governance practices and procedures
- the powers delegated to management and
- the latest financial information

Directors update their skills, knowledge and familiarity with the Group through their participation at meetings of the Board and its committees and through regular meetings with management at the head office and in the divisions. Directors are regularly updated by the Company Secretary on their legal and other duties as Directors of a listed company.

Through the Company Secretary, Directors are able to obtain appropriate professional training and advice.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Group. All Directors disclose to the Board on their first appointment their interests as a Director or otherwise in other companies or organisations and such declarations of interests are updated regularly.

Details of Directors' other appointments are shown in their biographies in the section of this annual report headed Directors and Officers on pages 47 and 48.

Board Processes

All committees of the Board follow the same processes as the full Board.

The dates of the 2017 Board meetings were determined in 2016 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met five times in 2017. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 36. Average attendance at Board meetings was 96%. All Directors attended Board meetings in person or through electronic means of communication during the year.

Agendas and accompanying Board papers are circulated with sufficient time to allow the Directors to prepare before meetings.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole.

Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting papers, are made available to all Directors. The minutes record the matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comment and records respectively.

Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings.

A typical Board meeting would consist of:

- review of a report by the Chief Executive Officer on the results since the last meeting and an explanation of changes in the business environment and their impact on budgets and the longer-term plan
- the raising of new initiatives and ideas
- the presentation of papers to support decisions requiring Board approval
- an update of legal and compliance matters for Directors' consideration
- any declarations of interest.

The executive management provides the Board with such information and explanations as are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board. Queries raised by Directors are answered fully and promptly.

When necessary, the Independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility. One such meeting was held in 2017.

The Chairman meets at least annually with the Non-Executive Directors without the Executive Directors being present.

Directors	Meetings Attended/Held: Board	Meetings Attended/Held: Audit Committee	Meetings Attended/Held: Remuneration Committee	Meetings Attended/Held: 2017 Annual General Meeting	Continuous Professional Development: Type of Training (Note)
Executive Directors					
J.R. Slosar - Chairman	5/5			√	A
W.E.J. Barrington	5/5			√	A
C.P. Gibbs (re-designated on 1st June 2017)	5/5	1/1		√	A
F.N.Y. Lung (resigned on 30th September 2017)	4/4			√	A
R.J. Sharpe (appointed on 1st October 2017)	1/1			N/A	A
A.K.W. Tang	5/5			√	A
Non-Executive Directors					
G.T.F. Hughes (re-designated on 1st June 2017)	5/5	2/2		√	A
M.B. Swire	4/5			√	A
Independent Non-Executive Directors					
R.E Adams	2/2	1/1	1/1	√	A
B.Y.C. Cha	4/5	3/3		√	A
Y.K. Leung	5/5		1/1	√	A
J.L. Lewis	5/5		2/2	√	A
P.P.W. Tse	5/5	3/3	2/2	√	A
Average attendance	96%	100%	100%	100%	

Note:

A: All the Directors received training materials, including from the Company's external legal advisor, about matters relevant to their duties as directors. They also kept abreast of matters relevant to their role as directors by such means as attendance at seminars and conferences and reading and viewing materials about financial, commercial, economic, legal, regulatory and business affairs.

Continuous Professional Development

All Directors named above have received the training referred to above and have been provided with "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" issued by the Hong Kong Institute of Directors. The Company makes available continuous professional development for all Directors at the expense of the Company so as to develop and refresh their knowledge and skills.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

Conflicts of Interest

If a Director has a material conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and abstains from voting. The matter is considered at a Board meeting and voted on by Directors who have no material interest in the transaction.

Delegation by the Board

Responsibility for delivering the Company's strategies and objectives, as established by the Board, and responsibility for day-to-day management is delegated to the Chief Executive. The Chief Executive has been given clear guidelines and directions as to his powers and, in particular, the circumstances under which he should report back to, and obtain prior approval from, the Board before making commitments on behalf of the Company.

The Board monitors management's performance against the achievement of financial and non-financial measures, the principal items monitored being:

- detailed monthly group performance reports covering financial and operational performance compared to budget, together with forecasts
- internal and external audit reports
- feedback from external parties such as customers, others with whom the Group does business, trade associations and service providers.

Securities Transactions

The Company has adopted a code of conduct (the "Securities Code") regarding securities transactions by Directors and officers on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. These rules are available on the Company's website.

A copy of the Securities Code has been sent to each Director of the Company and will be sent to each Director twice annually, immediately before the two financial period ends, with a reminder that the Director cannot deal in the securities and derivatives of the Company during the blackout period before the Group's interim and annual results have been published, and that all their dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors and senior executives of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests at 31st December 2017 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out in the section of this annual report headed Directors' Report on pages 52 and 53.

Executive Committee

The Executive Committee comprises four Executive Directors, one of whom, A.K.W. Tang, is the chairman of the committee, two senior executives of the Company and three senior executives of the subsidiaries of the Company. It is responsible to the Board for overseeing the day-to-day operations of the Company.

Remuneration Committee

Full details of the remuneration of the Directors are provided in note 6 to the financial statements.

The Remuneration Committee comprises three Non-Executive Directors, J.L. Lewis, Y.K. Leung and P.P.W. Tse. All of the Committee Members are Independent Non-Executive Directors, one of whom, J.L. Lewis, is Chairman. With effect from the conclusion of the Company's 2017 Annual General Meeting held on 12th May 2017, J.L. Lewis succeeded R.E. Adams as Chairman of the Remuneration Committee and Y.K. Leung was appointed as a member of the Remuneration Committee. P.P.W. Tse served for the whole of 2017.

The Remuneration Committee reviews and approves the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The Remuneration Committee exercises the powers of the Board to determine the remuneration packages of individual Executive Directors (including salaries, bonuses, benefits in kind and the terms on which they participate in any provident fund or other retirement benefit scheme), taking into consideration salaries paid by comparable companies, time commitments and responsibilities and employment conditions elsewhere in the Group.

The terms of reference of the Remuneration Committee have been reviewed with reference to the CG Code and are posted on the Company's website.

A Services Agreement exists between the Company and John Swire & Sons (H.K.) Limited, a wholly-owned subsidiary of John Swire & Sons Limited, which is the parent company of the Swire group. This agreement has been considered in detail and approved by the Independent Non-Executive Directors of the Company. Under the terms of the agreement, staff at various levels, including Executive Directors, are seconded to the Company. These staff report to and take instructions from the Board of the Company but remain employees of the Swire group. Given its substantial equity interest in the Company, it is in the best interests of the Swire group to ensure that executives of high quality are seconded to and retained within the Group.

In order to be able to attract and retain staff of suitable calibre, the Swire group provides a competitive remuneration package designed to be commensurate, overall, with those of its peer group. This typically comprises salary, housing, retirement benefits, leave passage and education allowances and, after three years' service, a bonus related to the overall profit of the Swire Pacific group. Although the remuneration of these executives is not directly linked to the profits of the Company, it is considered that these arrangements have contributed considerably to the maintenance of a flexible, motivated and high-calibre management team within the Group.

A number of Directors and senior staff with specialist skills are employed directly by the Company on terms similar to those applicable to the staff referred to above, with the principal exception that their bonuses are paid by reference to the results of the Company alone.

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors at its meeting in October 2017. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors, as disclosed in note 6 to the financial statements, was comparable with that paid to equivalent executives in peer group companies.

No Director takes part in any discussion about his or her own remuneration.

The following fee levels have been approved by the Board:

	2017	2018
	HK$	HK$
Fee		
Director's Fee	380,000	380,000
Fee for Audit Committee Chairman	140,000	140,000
Fee for Audit Committee Member	90,000	90,000
Fee for Remuneration Committee Chairman	50,000	50,000
Fee for Remuneration Committee Member	35,000	35,000

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for:

- the proper stewardship of the Company's affairs, to ensure the integrity of financial information
- preparing annual and interim financial statements and other related information that give a true and fair view of the Group's affairs and of its results and cash flows for the relevant periods, in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance
- selecting appropriate accounting policies and ensuring that these are consistently applied
- making judgements and estimates that are prudent and reasonable; and
- ensuring that the application of the going concern assumption is appropriate

Risk Management and Internal Control

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's risk management and internal control systems. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 41 and 42.

The foundation of strong risk management and internal control systems is dependent on the ethics and culture of the organisation, the quality and competence of its personnel, the direction provided by the Board, and the effectiveness of management.

Since profits are, in part, the reward for successful risk taking in business, the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key components of the Group's control structure are as follows:

Culture: The Board believes that good governance reflects the culture of an organisation. This is more significant than any written procedures.

The Company aims at all times to act ethically and with integrity, and to instil this behaviour in all its employees by example from the Board down. The Company has a Code of Conduct, which is posted on its internal intranet site.

The Company is committed to developing and maintaining high professional and ethical standards. These are reflected in the rigorous selection process and career development plans for all employees. The organisation prides itself on being a long-term employer which instils in individuals, as they progress through the Group, a thorough understanding of the Company's ways of thinking and acting.

Channels of communication are clearly established, allowing employees a means of communicating their views upwards with a willingness on the part of more senior personnel to listen. Employees are aware that, whenever the unexpected occurs, attention should be given not only to the event itself, but also to determining the cause.

Through the Company's Code of Conduct, employees are encouraged (and instructed as to how) to report control deficiencies or suspicions of impropriety to those who are in a position to take necessary action.

Risk assessment: The Board of Directors and the management each have a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated.

Management structure: The Group has a clear organisational structure that, to the extent required, delegates the day-to-day responsibility for the design, documentation and implementation of procedures and monitoring of risk. Individuals appreciate where they will be held accountable in this process.

A control self-assessment process requires management to assess, through the use of detailed questionnaires, the adequacy and effectiveness of risk management and internal controls over the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. This process and its results are reviewed by internal auditors and form part of the Audit Committee's annual assessment of control effectiveness.

Controls and review: The control environment comprises policies and procedures intended to ensure that relevant management directives are carried out and actions that may be needed to address risks are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties. Control activities can be divided into operations, financial reporting and compliance, although there may, on occasion, be some overlap between them. The typical control activities include:

- analytical reviews: for example, conducting reviews of actual performance versus budgets, forecasts, prior periods and competitors
- direct functional or activity management: reviews of performance reports, conducted by managers in charge of functions or activities

- information-processing: performing controls intended to check the authorisation of transactions and the accuracy and completeness of their reporting, for example, exception reports
- physical controls: ensuring equipment, inventories, securities and other assets are safeguarded and subjected to periodic checks
- performance indicators: carrying out analyses of different sets of data, operational and financial, examining the relationships between them, and taking corrective action where necessary
- segregation of duties: dividing and segregating duties among different people, with a view to strengthening checks and minimising the risk of errors and abuse.

The Company has in place effective processes and systems for the identification, capture and reporting of operational, financial and compliance-related information in a form and time-frame intended to ensure that staff carry out their designated responsibilities.

Internal audit: Independent of management, the Internal Audit department reports directly to the Chairman and performs regular reviews of key risk areas and monitors compliance with Group accounting, financial and operational procedures. The role of Internal Audit is discussed further on page 43.

Audit Committee

The Audit Committee, consisting of three Non-Executive Directors, P.P.W. Tse, B.Y.C. Cha and G.T.F. Hughes, assists the Board in discharging its responsibilities for corporate governance and financial reporting. Two of the Committee members are Independent Non-Executive Directors, one of whom, P.P.W. Tse is Chairman. R.E. Adams served as a Committee member until the conclusion of the Company's 2017 Annual General Meeting held on 12th May 2017. G.T.F. Hughes succeeded C.P. Gibbs as a Committee member with effect from 1st June 2017. P.P.W. Tse and B.Y.C. Cha served for the whole of 2017.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and comply with the CG Code. They are available on the Company's website.

The Audit Committee met three times in 2017. Regular attendees at the meetings are the Group Director Finance, the Head of Internal Audit of the Swire group and the external auditors. The Audit Committee meets at least twice a year with the external auditors, and at least once a year with the Head of Internal Audit, without the presence of management. Each meeting receives written reports from the external auditors and Internal Audit.

The work of the Committee during 2017 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2016 annual and 2017 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's risk management and internal control systems
- the Group's risk management processes
- the approval of the 2018 annual Internal Audit programme and review of progress on the 2017 programme

- periodic reports from Internal Audit and progress in resolving any matters identified in them
- significant accounting and audit issues
- the Company's policy regarding connected transactions and the nature of such transactions
- the relationship with the external auditors as discussed on page 44
- the Company's compliance with the CG Code.

In 2018, the Committee has reviewed, and recommended to the Board for approval, the 2017 financial statements.

Assessing the Effectiveness of Risk Management and Internal Control Systems

On behalf of the Board, the Audit Committee reviews annually the continued effectiveness of the Group's risk management and internal control systems dealing with risk and financial accounting and reporting, the effectiveness and efficiency of operations, compliance with laws and regulations, and risk management functions.

This assessment considers:

- the scope and quality of management's ongoing monitoring of risks and of the risk management and internal control systems, the work and effectiveness of Internal Audit and the assurances provided by the Group Director Finance
- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment
- the extent and frequency with which the results of monitoring are communicated, enabling the Committee to build up a cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance
- areas of risk identified by management
- significant risks reported by Internal Audit
- work programmes proposed by both Internal Audit and the external auditors
- significant issues arising from internal and external audit reports
- the results of management's control self assessment exercise.

As a result of the above review, the Board confirms, and management has also confirmed to the Board, that the Group's risk management and internal control systems are effective and adequate and have complied with the CG Code provisions on risk management and internal control throughout the year and up to the date of this annual report.

Company Secretary

The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. The Company Secretary undertakes at least 15 hours of relevant professional training annually to update his skills and knowledge.

Internal Audit Department

The Swire group has had an Internal Audit Department ("IA") in place for 22 years. IA plays a critical role in monitoring the governance of the Group. The department is staffed by 25 audit professionals and conducts audits of the Group and of other companies in the Swire group. The 25 professionals include a team based in Mainland China which reports to IA in Hong Kong.

IA reports directly to the Chairman of the Board and, without the need to consult with management, to the Chairman of the Audit Committee and via him to the Board. IA has unrestricted access to all areas of the Group's business units, assets, records and personnel in the course of conducting its work.

The annual IA work plan and resources are reviewed and agreed with the Audit Committee.

Scope of Work

Business unit audits are designed to provide assurance that the risk management and internal control systems of the Company are implemented properly and operating effectively, and that the risks associated with the achievement of business objectives are being properly identified, monitored and managed.

The frequency of each audit is determined by IA using its own risk assessment methodology, which is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework, considering such factors as recognised risks, organisational change, overall materiality of each unit, previous IA results, external auditors' comments, output from the work of the Swire Pacific Group Risk Management Committee and management's views. Each business unit is typically audited at least once every three years. Acquired businesses would normally be audited within 12 months. Seven assignments were conducted for the Group in 2017.

IA specifically assists the Audit Committee in carrying out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems through its review of the process by which management has completed the annual Control Self Assessment, and the results of this assessment.

IA conducts ad-hoc projects and investigative work as may be required by management or the Audit Committee.

Audit Conclusion and Response

Copies of IA reports are sent to the Chairman of the Board, the Chief Executive Officer, the Group Director Finance and the external auditors. The results of each review are also presented to the Audit Committee.

Management is called upon to present action plans in response to IA's recommendations, including those aimed at resolving material internal control defects. These are agreed by IA, included in its reports and followed up with a view to ensuring that they are satisfactorily undertaken.

External Auditors

The Audit Committee acts as a point of contact, independent from management, with the external auditors (the "auditors"). The auditors have direct access to the Chairman of the Audit Committee, who meets with them periodically without management present.

The Audit Committee's duties in relation to the auditors include:

- recommending to the Board, for approval by shareholders, the auditors' appointment
- approval of the auditors' terms of engagement
- consideration of the letters of representation to be provided to the auditors in respect of the interim and annual financial statements
- review of reports and other ad-hoc papers from the auditors
- annual appraisal of the quality and effectiveness of the auditors
- assessment of the auditors' independence and objectivity, including the monitoring of non-audit services provided, with a view to ensuring that their independence and objectivity are not, and are not seen to be, compromised
- approval of audit and non-audit fees.

Auditors' Independence

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of Section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work and the nature of the non-audit work) at a meeting of the Audit Committee.

Provision of Non-audit Services

In deciding whether the auditors should provide non-audit services the following key principles are considered:

- the auditors should not audit their own firm's work
- the auditors should not make management decisions
- the auditors' independence should not be impaired
- quality of service.

In addition, any services which may be considered to be in conflict with the role of the auditors must be submitted to the Audit Committee for approval prior to engagement, regardless of the amounts involved.

The fees in respect of audit (and audit-related) and non-audit services provided to the Group by the external auditors for 2017 amounted to approximately HK$7.2 million and HK$1.8 million respectively. The non-audit services mainly consist of tax advisory services.

Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission
- has included in its Corporate Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information
- ensures, through its own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information.

Shareholders

Communication with Shareholders and Investors

The Board and senior management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. Communication with shareholders and accountability to shareholders is a high priority of the Company.

The methods used to communicate with shareholders include the following:

- the Group Director Finance makes herself available for meetings with major shareholders, investors and analysts over two-month periods immediately after the announcement of the interim and annual results and at certain other times during the year. In addition, the Group Director Finance attended regular meetings with analysts and investors in Hong Kong and analyst briefings during the year.
- through the Company's website. This includes electronic copies of financial reports, audio webcasts of analyst presentations given at the time of the interim and annual results announcements, slides of presentations given at investor conferences, latest news, public announcements and general information about the Group's businesses
- through publication of interim and annual reports
- through the Annual General Meeting as discussed below.

Shareholders may send their enquiries and concerns to the Board by post or email at ir@haeco.com. The relevant contact details are set out in the Financial Calendar and Information for Investors section of this Annual Report.

The Annual General Meeting

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 12th May 2017. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 36.

At the Annual General Meeting, separate resolutions were proposed for each issue and were voted on by poll. The procedures for conducting a poll were explained at the meeting prior to the polls being taken. The agenda items were:

- receiving the report of the Directors and the audited financial statements for the year ended 31st December 2016
- re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share buy-backs
- a general mandate authorising the Directors to allot and issue shares up to 20% of the number of shares then in issue, provided that the aggregate number of the shares so allotted wholly for cash would not exceed 5% of the number of the shares then in issue.

Minutes of the meeting together with voting results are available on the Company's website.

Shareholder Engagement

Pursuant to Article 95 of the Company's Articles of Association, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination at the registered office of the Company within the 7-day period commencing on and including the day after the despatch of the notice of the meeting. The procedures for nominating candidates to stand for election as Directors at general meetings are set out in the Corporate Governance Section of the Company's website.

If they wish to propose a resolution relating to other matters to be considered at a general meeting, shareholders are requested to follow the requirements and procedures set out in the Corporate Governance Section of the Company's website.

Shareholder(s) representing at least 5% of the total voting rights of all members may request the Board to convene a general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office. Detailed requirements and procedures are set out in the Corporate Governance Section of the Company's website.

Other Information for Shareholders

Key shareholder dates for 2018 are set out in the section of this annual report headed Financial Calendar and Information for Investors on page 123 and in the Financial Calendar on the Company's website.

No amendment has been made to the Company's Articles of Association during the year.

Executive Directors

SLOSAR, John Robert, aged 61, has been Chairman and a Director of the Company since March 2014. He was Managing Director of the Company from January 1996 to June 1998. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Cathay Pacific Airways Limited and a Director of Air China Limited, The Hongkong and Shanghai Banking Corporation Limited and PureCircle Limited. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.

TANG, Kin Wing Augustus, aged 59, has been a Director and Chief Executive Officer of the Company since October 2008 and November 2008 respectively. He joined the Swire group in 1982 and has worked with Cathay Pacific Airways Limited in Hong Kong, Malaysia and Japan. He is also a Director of John Swire & Sons (H.K.) Limited.

BARRINGTON, William Edward James, aged 58, has been a Director and Group Director Airframe Services of the Company since September 2015. He was previously Director Corporate Development of Cathay Pacific Airways Limited. He joined the Swire group in 1982 and has previously worked with Cathay Pacific Airways Limited in Hong Kong, Malaysia and Canada.

GIBBS, Christopher Patrick, aged 56, has been a Director and Group Director Components & Engine Services of the Company since January 2007 and June 2017 respectively. He was previously Engineering Director of Cathay Pacific Airways Limited.

SHARPE, Rebecca Jane, aged 46, has been a Director and Group Director Finance of the Company since October 2017. She was previously Finance Director of The China Navigation Company Pte. Limited, a wholly owned subsidiary of the Swire group. She joined the Swire group in 2008 and has worked with the group in Hong Kong, Mainland China and Singapore.

Non-Executive Directors

HUGHES, Gregory Thomas Forrest, aged 56, has been a Director of the Company since September 2015. He is a Director and Chief Operations and Service Delivery Officer of Cathay Pacific Airways Limited. He joined the Swire group in 1987 and has worked with the group in Hong Kong, Korea, Indonesia, Japan and Australia.

SWIRE, Merlin Bingham, aged 44, has been a Director of the Company since January 2009. He was Director and Chief Executive Officer of Taikoo (Xiamen) Aircraft Engineering Company Limited, a subsidiary of the Company, from May 2006 to June 2008. He is also Deputy Chairman and Chief Executive and a shareholder of John Swire & Sons Limited and a Director of Swire Pacific Limited, Swire Properties Limited and Cathay Pacific Airways Limited. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London.

Independent Non-Executive Directors

CHA, Yiu Chung Benjamin, aged 44, has been a Director of the Company since September 2015. He is Chief Executive of Grosvenor Asia Pacific Limited.

LEUNG, Yu Keung, aged 64, has been a Director of the Company since August 2016. He was Deputy Director-General of Civil Aviation of the Hong Kong Civil Aviation Department and an Alternate Director of the Airport Authority Hong Kong from 2004 to 2013.

LEWIS, James Lindsay, aged 43, has been a Director of the Company since May 2016. He is also a Non-Executive Director of The Hongkong and Shanghai Hotels, Limited, a Director of Sir Elly Kadoorie & Sons Limited and an Alternate Director of CLP Power Hong Kong Limited.

TSE, Pak Wing Peter, aged 66, has been a Director of the Company since December 2012. He was previously an Executive Director of CLP Holdings Limited and is an Independent Non-Executive Director of HSBC Bank (China) Company Limited and Link Asset Management Limited.

Company Secretary

FU, Yat Hung David, aged 54, has been Company Secretary since January 2006. He joined the Swire group in 1988. He is a member of the Takeovers and Mergers Panel and the Takeovers Appeal Committee of the Securities and Futures Commission of Hong Kong. He is also a member of the Standing Committee on Company Law Reform and President of The Hong Kong Institute of Chartered Secretaries.

Notes:

1. *The Audit Committee comprises P.P.W. Tse (committee chairman), B.Y.C. Cha and G.T.F. Hughes.*
2. *The Remuneration Committee comprises J.L. Lewis (committee chairman), Y.K. Leung and P.P.W. Tse.*
3. *W.E.J. Barrington, G.T.F. Hughes, R.J. Sharpe, J.R. Slosar, M.B. Swire and A.K.W. Tang are employees of the John Swire & Sons Limited group.*

The Directors submit their report and the audited financial statements for the year ended 31st December 2017, which are set out on pages 64 to 119. Details of the following items are set out in the financial statements as follows:

Consolidated Financial Statements

The consolidated Financial Statements incorporate the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") together with the Group's interests in joint venture companies. Details of the joint venture companies are provided under note 15 to the financial statements.

Ten-year Financial Summary

A ten-year financial summary of the results and of the assets and liabilities of the Group is shown on pages 120 and 121.

Dividends

The Directors have declared a second interim dividend of HK$0.50 per share for the year ended 31st December 2017. Together with the first interim dividend of HK$0.53 per share paid on 19th September 2017, this results in total dividends for the year of HK$1.03 per share and represents a total distribution of HK$171 million. The second interim dividend will be paid on 24th April 2018 to shareholders registered at the close of business on the record date, being Thursday, 29th March 2018. Shares of the Company will be traded ex-dividend as from Tuesday, 27th March 2018.

Closure of Register of Members

The register of members will be closed on Thursday, 29th March 2018 during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 28th March 2018.

To facilitate the processing of proxy voting for the annual general meeting to be held on Friday, 4th May 2018, the register of members will be closed from Wednesday, 2nd May 2018 to Friday, 4th May 2018, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 30th April 2018.

Business Review and Performance

A fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of the likely future development of the Group's business (including, in each case to the extent necessary for an understanding of the development, performance or position of the Group's business, key performance indicators) are provided in the sections of this annual report headed Chairman's Letter on pages 8 and 9, Review of Operations on pages 10 to 23, Financial Review and Financing on pages 24 to 30 and in the notes to the financial statements on pages 69 to 119. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the sections of this annual report headed Review of Operations on pages 10 to 23 and Sustainable Development on pages 55 to 58. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's compliance with the relevant laws and regulations that have a significant impact on the Group is provided in the sections of this annual report headed Review of Operations on pages 10 to 23, Corporate Governance Report on pages 31 to 46 and Directors' Report on pages 49 to 54.

Environmental, Social and Governance

The Company has complied or will comply with all the applicable provisions set out in the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules for the year covered by the annual report.

Donations

During the year the Company and its subsidiary companies made donations for charitable and community purposes totalling HK$3.6 million.

Agreement for Services

The Company has an agreement for services with John Swire & Sons (H.K.) Limited ("JSSHK"), the particulars of which are set out in note 36 to the financial statements (the note on related party and continuing connected transactions).

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, W.E.J. Barrington, G.T.F. Hughes, R.J. Sharpe, J.R. Slosar, M.B. Swire and A.K.W. Tang are interested in the JSSHK Services Agreement (as defined below). Before she ceased to be a director of the Company, F.N.Y. Lung was so interested as an employee of the Swire group. M.B. Swire is so interested as a shareholder of Swire.

Particulars of the fees paid and expenses reimbursed for the year ended 31st December 2017 are set out in note 36 to the financial statements.

Major Customers and Suppliers (Significant Contracts)

68.7% of sales and 50.8% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 32.9% of sales were made to the Group's largest customer, GE Aviation Group. 42.8% of purchases were from the largest supplier, GE Aviation Group. The Cathay Pacific group, being Cathay Pacific Airways Limited ("Cathay Pacific") and its subsidiaries (including Cathay Dragon and AHK Air Hong Kong Limited), was among the Group's five largest customers.

In respect of the Company's transactions with the Cathay Pacific group:

1. Swire Pacific Limited is interested as a controlling shareholder by holding a 45% equity interest in Cathay Pacific;

2. C.P. Gibbs is interested as an employee of Cathay Pacific; and

3. G.T.F. Hughes, J.R. Slosar and M.B. Swire are interested as directors of Cathay Pacific.

Save as disclosed above, no Director, any of their close associates or any shareholder who, to the knowledge of the Directors, owns more than 5% of the number of issued shares of the Company has an interest in the customers or suppliers disclosed above.

Continuing Connected Transactions

HAECO, Cathay Pacific and HAECO ITM entered into a framework agreement on 13th November 2013 ("Framework Agreement"), under which services (being maintenance and related services in respect of aircraft, aircraft engines and aircraft parts and components and including inventory technical management services and the secondment of personnel) are provided by the Group to Cathay Pacific group and vice versa and by HAECO ITM to the Group and vice versa. Payment is made in cash within 30 days of receipt of invoices. The term of the Framework Agreement is for 10 years ending on 31st December 2022.

Cathay Pacific is an associate of the Company's holding company Swire Pacific Limited and therefore a connected person of the Company under the Listing Rules. As Cathay Pacific, a connected person of HAECO at the listed company level, owns more than 10% of the voting rights in HAECO ITM, HAECO ITM is also a connected person of HAECO. The transactions under the Framework Agreement are continuing connected transactions in respect of which an announcement dated 13th November 2013 was published, a circular dated 10th December 2013 was sent to shareholders and an extraordinary general meeting of the Company was held on 31st December 2013.

The Independent Non-Executive Directors, who are not interested in any connected transactions with the Group, have reviewed and confirmed that the continuing connected transactions as set out in note 36 have been entered into by the Group:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have also reviewed these transactions and confirmed to the Board that nothing has come to their attention that causes them to believe that they have not been approved by the Board of the Company; that they were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; that they were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and that the relevant annual caps have been exceeded.

Directors

The Directors of the Company at the date of this report are listed in the section of this annual report headed Directors and Officers on pages 47 and 48. R.E. Adams retired as a Director with effect from the conclusion of the 2017 Annual General Meeting held on 12th May 2017. F.N.Y. Lung resigned as a Director with effect from 1st October 2017. R.J. Sharpe was appointed as a Director with effect from 1st October 2017. All the other Directors at the date of this report served throughout the calendar year 2017.

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third Annual General Meeting following their election by ordinary resolution. In accordance therewith, M.B. Swire and A.K.W. Tang retire this year and, being eligible, offer themselves for re-election.

R.J. Sharpe, having been appointed as a Director of the Company under Article 91 since the last Annual General Meeting, also retires and, being eligible, offers herself for election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election or re-election. No Director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Fees totalling HK$2.0 million were paid to the Independent Non-Executive Directors during the year; they received no other emoluments from the Company or any of its subsidiary companies.

Directors' Interests

At 31st December 2017, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of Hong Kong Aircraft Engineering Company Limited and its associated corporation (within the meaning of Part XV of the SFO), John Swire & Sons Limited:

	Capacity				
	Beneficial interest				
	Personal	Family	Trust interest	Total no. of shares	Percentage of voting shares (%)
Hong Kong Aircraft Engineering Company Limited					
Ordinary Shares					
Nil	–	–	–	–	–

	Capacity: Beneficial interest – Personal	Capacity: Beneficial interest – Family	Capacity: Trust interest	Total no. of shares	Percentage of issued share capital (comprised in the class) (%)
John Swire & Sons Limited					
Ordinary Shares of £1					
M.B. Swire	2,075,023	130,000	17,546,068	19,751,091	19.75
8% Cum. Preference Shares of £1					
M.B. Swire	2,769,489	–	12,175,623	14,945,112	16.61

Note:

M.B. Swire is a trustee and/or a potential beneficiary of trusts which held 6,222,732 ordinary shares and 1,963,221 preference shares in John Swire & Sons Limited included under "Trust interest" and does not have any beneficial interest in those shares.

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

Neither during nor prior to the year under review has any right been granted to, or exercised by, any Director of the Company, or to or by the spouse or minor child of any Director, to subscribe for shares, warrants or debentures of the Company.

Other than as stated in this report, no transaction, arrangement or contract of significance to which the Group was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year.

At no time during the year was the Company, or any of its associated corporations, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Interests in Competing Businesses

None of the Directors or their respective close associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Directors of Subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31st December 2017 or during the period from 1st January 2018 to the date of this Report are available on the Company's website **www.haeco.com**.

Permitted Indemnity

Subject to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), every Director is entitled under the Company's Articles of Association to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he or she may sustain or incur in or about the execution or discharge of his or her duties and/or the exercise of his or her powers and/or otherwise in relation to or in connection with his or her duties, powers or office. To the extent permitted by such Ordinance, the Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of companies in the Group.

Substantial Shareholders' and Other Interests

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 31st December 2017 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

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

Notes:

At 31st December 2017:

1. *Swire Pacific Limited was interested in 124,723,637 shares of the Company as beneficial owner.*
2. *John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 124,723,637 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group being interested in 55.06% of the equity of Swire Pacific Limited and controlling 63.88% of the voting rights attached to shares in Swire Pacific Limited.*

Public Float

From information that is publicly available to the Company and within the knowledge of its Directors at the date of this report, at least 25% of the Company's total number of issued shares are held by the public.

Auditors

A resolution for the re-appointment of PricewaterhouseCoopers as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

John Slosar
Chairman
Hong Kong, 13th March 2018

The Group believes that the creation of long-term value for its shareholders depends on the sustainable development of its businesses and its involvement with the communities in which it operates. The Group's sustainable development policy recognises this and informs the management of environmental, health and safety, employment, community and supplier matters. The Group cooperates with others with a view to promoting sustainable development within the aviation industry.

The Group issues an annual sustainable development report, which is available on its website.

Environment

Approximately

1.28M kWh

Renewable Energy Generated

The Group recognises the need to reduce the impact of its operations on the environment. This is done by using alternative sources of energy (which reduce carbon emissions), by investing in energy efficient equipment and systems, by reducing waste and by cooperating with others.

Despite a growth in the business volume, the Group's carbon intensity in 2017 was maintained at roughly the same level as 2016, the equivalent of around 106,500 tonnes of carbon dioxide was emitted. Our lighting is becoming more efficient and air-conditioning chillers are being used more effectively. The installed solar panels in HAECO Xiamen's premises generated approximately 1.28 million kWh of electricity in 2017 – 62.0% more than the electricity generated in 2016 – resuming its efficiency to the same level seen before the damage incurred from the typhoon of the previous year.

The principal companies within the Group are required to carry out energy audits every five years to manage their impact on the environment and to look for opportunities to save energy. HAECO Hong Kong engaged a consultant with a view to improving the management of its building services and will install a "phase change material based" air conditioning system. Other companies have also modified the efficiency of their main energy consuming equipment. TEXL have installed a "frequency inverter" within their Air Handling Unit ("AHU") and HAECO Spirit AeroSystems have installed automotive controls on their air compressor system. The Group is also using more LED lights and motion sensors to further reduce energy consumption.

Group companies are encouraged to manage their waste properly and consume water responsibly. HAECO Hong Kong and HAESL have increased their recyclable to total waste disposal ratios by reducing the volume of wood being sent to landfill. HAECO Hong Kong has implemented electronic information and communications technology to, not only increase working efficiency in their line services business, but also reduce the need for over one million A4 size pieces of paper per year. HAECO Xiamen made modifications to their sanitary water systems resulting in a reduction of 21.6% in its water consumption.

HAECO Hong Kong received CLP Green Plus Award.

The Group has arranged various environmental awareness programmes including beach cleanups, cross company site visits and best practice sharing events for its staff to experience and promote HAECO's green culture.

HAECO Hong Kong has received various environmental related awards. These include the Hong Kong Awards for Environment Excellence and the CLP Green Plus Award. HAECO Hong Kong was also named as the "5 Years+ EcoPioneer Company" in the BOCHK Corporate Environmental Leadership Awards (Manufacturing Sector). HAECO Hong Kong also received an information and communications technology award for the implementation of their mobile apps at The Hong Kong ICT Awards.

Health and Safety

13.7%

Lost Time Injury Rate

The Group aims to conduct its business in a manner that protects the health and safety of its employees, customers, business associates, contractors and members of the public. Targets are set and performance is continually monitored. Safety training is carried out and regular safety audits are also conducted.

The Group aims to instill a world-class safety management system by focusing on four main elements.

- All round safety management. The Group wants to improve investigations, identify and learn from the root causes of incidents and to review systematic management of health and safety.
- Comprehensive hazard reporting. The Group wants to identify safety hazards, analyse them and reduce or eliminate associated risks. To do this, we encourage the reporting of hazards and the measurement of leading safety indicators.
- Development of a safety culture. The Group wants to nurture a positive safety culture and continue the transition from being reactive to proactive, improve safety training, communications and safety leadership.
- Proactive risk management. The Group wants to be able to clearly identify, review and mitigate safety risks. We prepare, test and coordinate safety and risk management plans and crisis management protocols.

The Group encourages companies to implement their safety management systems in line with the OHSAS 18001 guidelines. HAECO Hong Kong, HAESL and all principal Group companies in Xiamen have acquired formal OHSAS 18001 certification. HAECO Americas have also adopted the OHSAS 18001 system framework.

HAECO Xiamen launched a new programme to raise staff safety awareness.

The Group promotes proactive reporting. HAECO Hong Kong has implemented a mobile safety hazard reporting system. HAESL continues to encourage staff to identify hazards and solve safety problems through their "iCare, iReport" programme. HAECO Xiamen has implemented a safety reporting scheme. HAECO Americas introduced a new safety point programme to reward employees who report hazards, participate in safety and show leadership within the company. In addition, Group companies regularly carry out senior management safety walks.

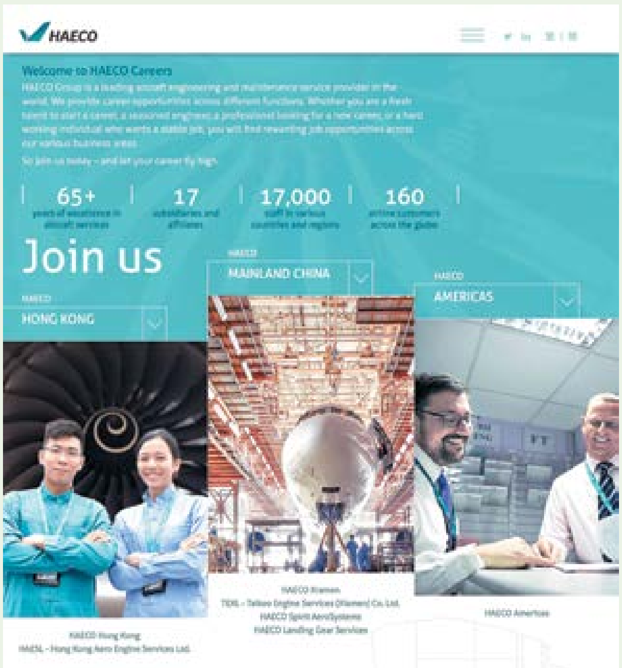
The Group aims to continually raise its staff safety awareness through a wide range of safety related training, communications and promotional campaigns. HAECO Hong Kong has introduced a safety culture management plan. It has also engaged a company who specialises in reducing manual handling injuries to coach staff in using the correct handling techniques. HAECO Xiamen launched a pledge campaign to raise staff awareness.

The Group's lost time injury ("LTI") rate (the number of LTI's per 200,000 attended hours) reduced by 13.7% in 2017 compared to the previous year.

Employees

Over 740,000
Training Hours

The Group recognises that the development of its employees is critical to the sustainable development of its business. It engages in job fairs, forums, recruitment events and exhibitions, with a view to enabling potential recruits to understand the Group and the employment opportunities within its businesses. HAECO has rebranded its career website to facilitate potential candidates to find the career stories of our people and information about the career opportunities offered by the Group companies.



Brand New HAECO Career Website.

The Group regularly reviews its remuneration packages, career development plans and management culture. HAECO Hong Kong seeks to strengthen its communication with its employees and has launched the HAECOvoice TV channel. HAECO Americas has rolled out The Brand Champion Programme to improve communication throughout their facilities. HAECO Hong Kong and HAESL arrange Health Management Programmes and health talks with the goal of improving the care and management of our employees overall health. HAECO Hong Kong also reviews the management of its transportation services to ensure safe, reliable and cost efficient services are available to our staff community.

The Group intends to provide all training necessary for employees to have the opportunity to develop to their full potential, including all relevant training required by the Aviation and Safety regulations. HAECO Hong Kong has revamped its Maintenance Authorisation Allowance Policy to help staff obtain aircraft maintenance licenses. The Group operates training schemes designed to equip new recruits with the knowledge and experience they need to become skilled professionals within the aircraft maintenance industry. Graduate trainees are also given opportunities to rotate in different roles across the Group's businesses.

The Group, including its subsidiary and joint venture companies, employed 16,641 staff at the end of 2017. The staff numbers at the end of 2017 and 2016 are shown below.

	2017	2016	Change
HAECO Hong Kong	**6,057**	6,155	-1.6%
HAECO Americas	**2,331**	2,708	-13.9%
HAECO Xiamen	**4,450**	4,479	-0.6%
HAESL	**932**	861	+8.2%
TEXL	**373**	344	+8.4%
Other subsidiary and joint venture companies in which the Group owns more than 20%	**2,498**	2,404	+3.9%
	16,641	16,951	-1.8%

The Community

HKD3.6Million

in Donations

The Group is committed to maintaining strong relationships with the communities in which it operates; improve the opportunities and lifestyles available to members of these communities and to respect different cultures and heritage.

In 2017, the Group supported the Hong Kong 24-Hour Charity Pedal Kart Grand Prix.

HAECO Hong Kong supports the Hong Kong Government's Life Buddies programme which promotes mentoring and upward social mobility for disadvantaged young people. HAESL continues to support the Evangel children's home. HAECO Americas continues to support Military veterans and promotes the Girls in Aviation initiative which inspires teenage girls to learn more about aviation and the available career opportunities within aerospace.

HAECO Xiamen collaborated with the University of Xiamen to organise a mangrove exploration summer camp for its employee's children to increase their understanding of the continuing need for mangrove conservation.

In 2017, the Group made donations of HK$3.6 million. HAECO Hong Kong and HAESL received the "Caring Company" awards from the Hong Kong Council of Social Service.

HAECO pedallers participated in Hong Kong 24-Hour Charity Pedal Kart Grand Prix and raised funds for charity.

Suppliers

The Group prefers to work with suppliers who share its sustainability ambitions and standards. To this end, suppliers are invited, through the Group's supplier code of conduct, to demonstrate their commitment to legal compliance, safe operations, environmental protection and the wellbeing of their staff.

Key suppliers are invited to conduct annual self-assessment questionnaires regarding sustainability matters.

The Group participates in the Swire Pacific supply chain sustainability working group, which promotes sustainable procurement practices among Swire group companies.

To support the new SwireTHRIVE Strategy, the Group has committed to source more sustainable materials and engage key suppliers on sustainability. We will set out clear targets and policies for sustainable sourcing of key materials and ensure compliance to the related policies.

To the Shareholders of Hong Kong Aircraft Engineering Company Limited

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Hong Kong Aircraft Engineering Company Limited ("the Group financial statements") and its subsidiaries ("the Group") set out on pages 64 to 119, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Group Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Group financial statements as at and for the year ended 31 December 2017. These matters were addressed in the context of our audit of the Group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of a put option over a non-controlling interest in a subsidiary company *Refer to notes 2 and 3 in the Group financial statements.* The Group has a liability related to an option that grants a non-controlling shareholder of a subsidiary company the ability to require the Group to acquire this shareholding at any point after 31 December 2015. Management has estimated the fair value of this option to be HK$106 million. The fair value is based on several key assumptions that require significant management judgement including the terminal growth rate of the subsidiary and the discount rate.	Our procedures on the option valuation included: • Assessing the valuation methodology; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; • Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets; and • Assessing the appropriateness of disclosures of significant inputs in the financial statements. We found the fair value assessment and the disclosures of the significant inputs made by management to be reasonable based on available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of property, plant and equipment at Gaoqi Airport, Xiamen *Refer to note 12 in the Group financial statements.* The Xiamen Municipal Government has proposed to relocate Gaoqi Airport to a new airport in the Xiang'an district. Taikoo (Xiamen) Aircraft Engineering Co. Limited ("HAECO Xiamen") has assets of HK$1,412 million located at Gaoqi Airport, some of which will be subject to relocation. The proposal is subject to central government approval. If the proposal is implemented, the Group expects to receive compensation. If the present value of the compensation together with the present value of future cash flows from the operations located at the existing airport were assessed to be less than the carrying value of the relevant assets, impairment would arise. Management consider that there is no impairment in respect of the proposed airport relocation. This required significant management judgement and was based on the current status of the approval process, regular communications with the local authorities and preliminary compensation assessments performed by management with the assistance of an external consultant.	Our procedures in relation to management's assessment of the carrying value of the assets included: • Assessing the terms of the existing land use rights at Gaoqi Airport; • Evaluating management's preliminary compensation assessment; • Discussing the status of the airport relocation with the Group's New Airport Planning and Development Department; and • Assessing correspondence between the Group and the Xiamen Municipal Government. We consider management's assessment to be reasonable based on the available information.

Key Audit Matter	How our audit addressed the Key Audit Matter

HAECO Americas – assessment of impairment and deferred taxation

Refer to notes 12, 13 and 18 in the Group financial statements.

Impairment assessment

The Group recognised goodwill relating to HAECO USA Holdings, Inc.'s ("HAECO Americas") acquisition of TIMCO Aviation Services, Inc. in 2014. The goodwill is allocated between the airframe services and the cabin solutions cash generating units. The Group tests at least annually whether goodwill and other assets that have indefinite useful lives are impaired.

In 2017, the carrying amount of the airframe services cash generating unit has been reduced by HK$625 million to its recoverable amount following a reduction in expected profitability of the airframe services business. This impairment charge has been recorded against goodwill. Following the impairment charge recorded in 2016, no additional impairment has been identified for the cabin solutions cash generating unit.

These conclusions were based on a value in use model that required significant management judgement on key assumptions with respect to the discount rate and the underlying cash flows, including future revenue growth and improvements to business performance.

Our procedures in relation to management's impairment assessment included:

- Assessing the valuation methodology;
- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry;
- Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets;
- Assessing the basis and calculation of the impairment charge recorded in 2017; and
- Assessing the appropriateness of disclosures of significant inputs in the financial statements.

We found management's assessment in relation to the value in use calculations and the disclosures of significant inputs to be reasonable based on available evidence.

Deferred taxation

The deferred taxation charge in 2017 includes a reduction in deferred taxation asset balances relating to HAECO Americas of HK$249 million following a review of the ability to set past tax losses in the US against future profits in the US. Assessing the timing of taxable profit requires significant management judgement.

Our procedures on deferred taxation included:

- Analysing management's deferred tax assessment and basis on the timing of taxable profit;
- Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets;
- Assessing the planned utilisation of tax losses in the US and the reconciliation between the approved budgets and expected taxable profits; and
- Assessing the appropriateness of disclosures in the financial statements.

We found the deferred taxation assessment and the disclosures made by management to be reasonable based on available evidence.

Other Information in the Annual Report

The directors of the Company are responsible for the Other Information. The Other Information comprises all the information in the Group's 2017 annual report other than the Group financial statements and our auditor's report thereon ("Other Information").

Our opinion on the Group financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Group Financial Statements

The directors of the Company are responsible for the preparation of the Group financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of Group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Group Financial Statements

Our objectives are to obtain reasonable assurance about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Group financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Group financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group financial statements, including the disclosures, and whether the Group financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Group financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is James Noel Crockford.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13 March 2018

Consolidated Statement of Profit or Loss

for the year ended 31st December 2017

	Note	2017	2016
		HK$M	HK$M
Revenue	4	**14,546**	13,760
Operating expenses:			
Staff remuneration and benefits	5	**(5,110)**	(5,059)
Cost of direct material and job expenses		**(7,335)**	(6,679)
Depreciation, amortisation and impairment	12, 13	**(1,270)**	(966)
Insurance and utilities		**(177)**	(188)
Operating lease rentals – land and buildings		**(283)**	(279)
Repairs and maintenance		**(202)**	(189)
Other		**(256)**	(303)
		(14,633)	(13,663)
Other net (losses)/gains	7	**(2)**	30
Operating (loss)/profit		**(89)**	127
Finance income	8	**11**	9
Finance charges	8	**(131)**	(98)
Net operating (loss)/profit		**(209)**	38
Share of after-tax results of:			
Joint venture companies before gain on disposal of investments		**314**	267
Joint venture company's gain on disposal of investments		**–**	805
	15	**314**	1,072
Profit before taxation		**105**	1,110
Taxation	9	**(451)**	(17)
(Loss)/profit for the year		**(346)**	1,093
(Loss)/profit attributable to:			
The Company's shareholders		**(541)**	975
Non-controlling interests		**195**	118
		(346)	1,093
Dividends			
First interim – paid		**88**	105
Second interim – declared/paid		**83**	153
Special interim – paid		**–**	391
	10	**171**	649
(Loss)/earnings per share for (loss)/profit attributable to the Company's shareholders (basic and diluted)	11	**(HK$3.25)**	HK$5.86

The notes on pages 69 to 119 form part of these financial statements.

Consolidated Statement of Other Comprehensive Income

for the year ended 31st December 2017

	2017	2016
	HK$M	HK$M
(Loss)/profit for the year	**(346)**	1,093
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Defined benefit retirement schemes		
– remeasurement gains recognised	**113**	104
– deferred tax	**(18)**	(17)
Share of other comprehensive income of joint venture companies	**8**	11
Items that can be reclassified subsequently to profit or loss		
Cash flow hedges		
– gains/(losses) recognised	**11**	(6)
– transferred to revenue	**2**	5
– transferred to finance charges	**2**	2
– deferred tax	**(3)**	–
Share of other comprehensive income of joint venture companies	**–**	6
Net translation differences on foreign operations	**234**	(181)
Other comprehensive income for the year, net of tax	**349**	(76)
Total comprehensive income for the year	**3**	1,017
Total comprehensive (loss)/income attributable to:		
The Company's shareholders	**(279)**	972
Non-controlling interests	**282**	45
	3	1,017

The notes on pages 69 to 119 form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2017

	Note	2017	2016
		HK$M	HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	**5,719**	5,264
Land and land use rights	12	**328**	322
Intangible assets	13	**1,466**	2,166
Joint venture companies	15	**1,727**	1,607
Derivative financial instruments	19	**6**	3
Deferred tax assets	18	**71**	311
Retirement benefit assets	17	**48**	39
Long-term prepayment		**17**	17
		9,382	9,729
Current assets			
Stocks	20	**801**	820
Work in progress	21	**1,165**	883
Trade and other receivables	22	**1,689**	1,595
Taxation recoverable		**–**	1
Derivative financial instruments	19	**7**	1
Cash and cash equivalents	31(b)	**971**	1,299
Short-term deposits	31(b)	**20**	22
		4,653	4,621
Current liabilities			
Trade and other payables	23	**2,576**	2,194
Advance from a related party	25	**292**	–
Taxation payable		**61**	54
Put option over a non-controlling interest in a subsidiary company	3(a)	**106**	77
Derivative financial instruments	19	**–**	6
Short-term loans	24	**106**	64
Long-term loans due within one year	24	**39**	136
Finance lease obligations due within one year	24	**3**	3
		3,183	2,534
Net current assets		**1,470**	2,087
Total assets less current liabilities		**10,852**	11,816
Non-current liabilities			
Long-term loans	24	**3,208**	3,478
Finance lease obligations	24	**4**	8
Receipt in advance	29	**–**	5
Deferred income		**18**	17
Advance from a related party	25	**–**	289
Deferred tax liabilities	18	**329**	282
Retirement benefit liabilities	17	**108**	218
		3,667	4,297
NET ASSETS		**7,185**	7,519
EQUITY			
Share capital	26	**185**	185
Reserves	27	**5,383**	5,989
Equity attributable to the Company's shareholders		**5,568**	6,174
Non-controlling interests	28	**1,617**	1,345
TOTAL EQUITY		**7,185**	7,519

The financial statements have been approved by the Board of Directors and signed on their behalf by:

John Slosar
Peter Tse
Directors

Hong Kong, 13th March 2018

The notes on pages 69 to 119 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2017

	Note	2017	2016
		HK$M	HK$M
Operating activities			
Cash generated from operations	*31(a)*	**1,096**	1,199
Interest paid		**(89)**	(83)
Interest received		**12**	10
Tax paid		**(178)**	(103)
Net cash generated from operating activities		**841**	1,023
Investing activities			
Purchase of property, plant and equipment		**(837)**	(717)
Purchase of intangible assets		**(6)**	(10)
Proceeds from disposals of property, plant and equipment		**82**	57
Dividends received from joint venture companies		**243**	1,169
Purchase of shares in a joint venture company		**–**	(452)
Decrease/(increase) in deposits maturing after more than three months		**3**	(8)
Net cash (used in)/generated from investing activities		**(515)**	39
Net cash inflow before financing activities		**326**	1,062
Financing activities			
Proceeds from loans	*31(c)*	**3,018**	1,576
Repayment of loans and finance leases	*31(c)*	**(3,380)**	(2,025)
Repayment to a related party		**–**	(6)
Dividends paid to the Company's shareholders		**(241)**	(679)
Dividends paid to non-controlling interests		**(101)**	(5)
Net cash used in financing activities		**(704)**	(1,139)
Decrease in cash and cash equivalents		**(378)**	(77)
Cash and cash equivalents at 1st January		**1,299**	1,413
Currency adjustment		**50**	(37)
Cash and cash equivalents at 31st December	*31(b)*	**971**	1,299

The notes on pages 69 to 119 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2017

	Note	Attributable to the Company's shareholders					
		Share capital	Revenue reserve	Other reserves	Total	Non-controlling interests	Total equity
		HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 1st January 2017		**185**	**6,013**	**(24)**	**6,174**	**1,345**	**7,519**
(Loss)/profit for the year		**–**	**(541)**	**–**	**(541)**	**195**	**(346)**
Other comprehensive income		**–**	**103**	**159**	**262**	**87**	**349**
Total comprehensive (loss)/ income for the year		**–**	**(438)**	**159**	**(279)**	**282**	**3**
Dividends paid		**–**	**(241)**	**–**	**(241)**	**(99)**	**(340)**
Change in composition of the Group	*28, 34*	**–**	**(86)**	**–**	**(86)**	**89**	**3**
At 31st December 2017		**185**	**5,248**	**135**	**5,568**	**1,617**	**7,185**

	Attributable to the Company's shareholders					
	Share capital	Revenue reserve	Other reserves	Total	Non-controlling interests	Total equity
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 1st January 2016	185	5,619	77	5,881	1,305	7,186
Profit for the year	–	975	–	975	118	1,093
Other comprehensive income	–	98	(101)	(3)	(73)	(76)
Total comprehensive income for the year	–	1,073	(101)	972	45	1,017
Dividends paid	–	(679)	–	(679)	(5)	(684)
At 31st December 2016	185	6,013	(24)	6,174	1,345	7,519

The notes on pages 69 to 119 form part of these financial statements.

1. General information

Hong Kong Aircraft Engineering Company Limited is a limited liability company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The Company and its subsidiary companies are principally engaged in commercial aircraft overhaul, modification and maintenance mainly in Hong Kong, Mainland China and the United States.

The principal activities of the Group's major subsidiary and joint venture companies are set out in note 37. Segment information is provided in note 4. Financial summaries of the joint venture companies are provided in note 15.

2. Financial risk management

(a) Financial risk factors

The Group's activities are exposed to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. It is the Group's policy not to enter into derivative transactions for speculative purposes. Derivatives are used solely for management of an underlying risk, principally foreign exchange and interest rate risks, and the Group minimises its exposure to market risk since gains and losses on derivatives offset the losses and gains on the transactions being hedged.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and Renminbi. Foreign exchange risk arises from the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations.

The Group Treasury's risk management policy is to hedge not more than 100% of the net notional value of highly probable transactions (largely represented by sales transactions, operating and capital expenditure) in each major foreign currency, for a period of up to 36 months, where their value of time to execution gives rise to a significant currency exposure, provided that the cost of the foreign exchange forward or derivative contract is not prohibitively expensive having regard to the underlying exposure.

Exposure to movements in exchange rates on transactions is minimised by using forward foreign exchange contracts where active markets for the relevant currencies exist. The hedging positions of individual subsidiary companies are monitored regularly to ensure the forward foreign exchange transactions are entered into in accordance with the Group's foreign exchange hedging policy. At 31st December 2017, the Group had hedged its significant foreign currency funding exposures, by fixing the foreign exchange rates with forward contracts.

At 31st December 2017, if the HK dollar had weakened/strengthened by 5% against the Renminbi with all other variables held constant, profit before tax for the year would have been HK$6 million lower/higher (2016: HK$18 million lower/higher), arising mainly from the net foreign exchange gains/losses caused by the monetary assets and liabilities; equity would have been HK$7 million (2016: HK$8 million) higher/lower arising from the fair value gains/losses of foreign exchange forward contracts recognised in other comprehensive income.

(ii) Interest rate risk

The Group's interest rate risk mainly arises from borrowings at floating rates. During 2016 and 2017, the majority of the Group's borrowings were at floating rates and were denominated in HK dollars and US dollars. The Group earns interest income on cash deposits.

The Group entered into interest rate swaps and forward rate agreements to manage a portion of its interest rate exposure. The Group's interest rate exposure is reviewed regularly to ensure hedging of interest rate risk is in compliance with the Group's interest rate hedging policy.

At 31st December 2017, if the market interest rates increased by 100 basis-points with all other variables held constant, profit before tax for the year would have been HK$20 million (2016: HK$24 million) lower arising mainly from the interest charges on borrowings; equity would have been HK$12 million (2016: HK$6 million) higher arising from the fair value gains of interest rate swaps recognised in other comprehensive income.

(iii) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables with customers, derivative financial instruments and cash and deposits with banks and financial institutions.

2. Financial risk management (continued)

(a) Financial risk factors (continued)

(iii) Credit risk (continued)

The Group has policies in place to evaluate credit risk when accepting new business and limit its credit exposure to any individual customer. The credit terms given to customers vary and are generally based on their individual financial strength. Credit evaluations of trade receivables are performed periodically to minimise credit risk associated with receivables.

When depositing surplus funds or entering into derivative contracts, the Group mitigates its exposure to non-performance by counterparties by dealing with investment grade counterparties, setting approved counterparty limits and applying monitoring procedures. Counterparty credit exposure limits for financial institutions are monitored regularly to ensure each individual subsidiary company and joint venture company complies with the approved counterparty limits.

(iv) Liquidity risk

The Group takes liquidity risk into consideration when deciding its sources of funds and their tenors, so as to avoid over-reliance on funds from any one source and to prevent substantial refinancing in any one period. The Group maintains significant undrawn committed revolving credit facilities and cash deposits in order to reduce liquidity risk further and to allow for flexibility in meeting funding requirements.

The Group aims to maintain immediate access to committed funds to meet its capital commitments and refinancing for the following 12 months on a rolling basis.

The tables below analyse the contractual undiscounted cash flows of the Group's non-derivative financial liabilities and net-settled derivative financial liabilities by relevant maturity groupings based on the remaining period from the year-end date to the contractual maturity date:

	Total contractual undiscounted cash flow	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**
At 31st December 2017					
Bank loans (including interest obligations)	**3,550**	**226**	**1,956**	**1,368**	**–**
Trade and other payables	**873**	**873**	**–**	**–**	**–**
Finance lease obligations	**11**	**4**	**1**	**2**	**4**
Advance from a related party (including interest obligations)	**297**	**297**	**–**	**–**	**–**
Put option over a non-controlling interest in a subsidiary company	**106**	**106**	**–**	**–**	**–**
	4,837	**1,506**	**1,957**	**1,370**	**4**

	Total contractual undiscounted cash flow	Within 1 year or on demand	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
	HK$M	HK$M	HK$M	HK$M	HK$M
At 31st December 2016					
Bank loans (including interest obligations)	3,917	268	615	3,034	–
Trade and other payables	742	742	–	–	–
Finance lease obligations	15	4	4	2	5
Derivative financial instruments	6	6	–	–	–
Advance from a related party (including interest obligations)	300	7	293	–	–
Put option over a non-controlling interest in a subsidiary company	77	77	–	–	–
	5,057	1,104	912	3,036	5

2. Financial risk management (continued)

(b) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to operate as a going concern and to secure access to finance at a reasonable cost. Capital comprises total equity, as shown in the consolidated statement of financial position.

The Group considers a number of factors in monitoring its capital structure, which principally include the gearing ratio and the return cycle of its various investments. The gearing ratio is calculated as net borrowings divided by total equity, as defined in the Glossary on page 122. The gearing ratio at 31st December 2017 was 33.0% (2016: 31.5%). The increase in the gearing ratio during 2017 principally reflects the impairment charges which are non-cash items but still reduce the total equity of the Group.

The Group has entered into financial covenants in respect of the maintenance of minimum consolidated net worth in order to secure funding. To date, none of the covenants have been breached.

(c) Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Unobservable inputs for the asset or liability (level 3).

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

	Level 2	Level 3	Total carrying amount
	HK$M	**HK$M**	**HK$M**
Assets			
At 31st December 2017			
Derivatives used for hedging	**12**	**–**	**12**
Derivatives not qualifying as hedges	**1**	**–**	**1**
Total	**13**	**–**	**13**
At 31st December 2016			
Derivatives used for hedging	3	–	3
Derivatives not qualifying as hedges	1	–	1
Total	4	–	4

	Level 2	Level 3	Total carrying amount
	HK$M	**HK$M**	**HK$M**
Liabilities			
At 31st December 2017			
Put option over a non-controlling interest in a subsidiary company	**–**	**106**	**106**
Total	**–**	**106**	**106**
At 31st December 2016			
Derivatives used for hedging	6	–	6
Put option over a non-controlling interest in a subsidiary company	–	77	77
Total	6	77	83

2. Financial risk management (continued)

(c) Fair value estimation (continued)

There were no transfers into or out of Level 3 fair value hierarchy classifications.

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

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

The following table presents the changes in Level 3 financial instrument:

	Total HK$M
Financial liabilities at fair value through profit or loss	
At 1st January 2016	74
Change in fair value recognised in profit or loss during the year	2
Translation differences	1
At 31st December 2016	77
Change in fair value recognised in profit or loss during the year	28
Translation differences	1
At 31st December 2017	**106**
Total loss for the year included in profit or loss in respect of financial instruments held at 31st December 2017	**28**
Total loss for the year included in profit or loss in respect of financial instruments held at 31st December 2016	2
Change in unrealised loss for the year included in profit or loss in respect of financial instruments held at 31st December 2017	**28**
Change in unrealised loss for the year included in profit or loss in respect of financial instruments held at 31st December 2016	2

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

Information about fair value measurements using significant unobservable inputs (Level 3) in 2017 is as follows:

Description	Unobservable inputs	Unobservable inputs (%)	Relationship of unobservable inputs to fair value	Possible reasonable change	**Impact on valuation HK$M**
Put option over a non-controlling interest in a subsidiary company	Terminal growth rate into perpetuity	1.5%	The higher the terminal growth rate, the higher the fair value	+/-1%	**40/(29)**
	Discount rate	7.5%	The higher the discount rate, the lower the fair value	+/-1%	**(55)/75**

2. Financial risk management (continued)

(c) Fair value estimation (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) in 2016 is as follows:

Description	Unobservable inputs	Unobservable inputs (%)	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation HK$M
Put option over a non-controlling interest in a subsidiary company	Terminal growth rate into perpetuity	1.5%	The higher the terminal growth rate, the higher the fair value	+/-1%	44/(31)
	Discount rate	7.5%	The higher the discount rate, the lower the fair value	+/-1%	(53)/74

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

3. Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, inevitably, seldom be equal to the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below and in the relevant notes as follows:

(a) Estimate of fair value of put option over a non-controlling interest in a subsidiary company

The fair value of the put option over a non-controlling interest in a subsidiary company is determined by using valuation techniques. The Group uses its judgement and makes assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for calculating the fair value of the put option in respect of non-controlling interest in a subsidiary company. The details of the key assumptions used and the applicable sensitivities are disclosed in note 2(c).

(b) Taxation (Note 9)

(c) Impairment of assets (Notes 12 and 13)

(d) Retirement benefits (Note 17)

4. Segment information

Accounting Policy

Operating segments are reported in a manner consistent with the Group's internal financial 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 the Executive Directors of the Board.

Revenue represents the aggregate 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 completed contracts is equal to the aggregated amounts invoiced for the contract. Sales of goods are recognised when the goods are delivered to the customer and the customer has accepted the related risk and rewards of ownership.

4. Segment information (continued)

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

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

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

					HAESL					
					At 100%					
Year ended 31st December 2016	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	Excluding disposal of interests in SAESL	Disposal of interests in SAESL	Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
External revenue	3,879	2,836	1,640	4,808	8,423	–	(8,423)	597	–	13,760
Inter-segment revenue	108	1	24	1	23	–	(23)	26	(160)	–
Total revenue	3,987	2,837	1,664	4,809	8,446	–	(8,446)	623	(160)	13,760
Operating profit/(loss)	223	(608)	178	336	522	1,789	(2,311)	(2)	–	127
Finance income	16	–	21	1	3	–	(3)	1	(30)	9
Finance charges	(31)	(48)	–	(6)	(6)	–	6	(41)	28	(98)
Share of after-tax results of joint venture companies	–	–	–	–	27	–	996	–	49	1,072
Profit/(loss) before taxation	208	(656)	199	331	546	1,789	(1,312)	(42)	47	1,110
Taxation (charge)/credit	(36)	133	(30)	(49)	(83)	–	83	(18)	(17)	(17)
Profit/(loss) for the year	172	(523)	169	282	463	1,789	(1,229)	(60)	30	1,093
Depreciation	172	62	124	38	96	–	(96)	124	–	520
Amortisation	1	57	14	31	5	–	(5)	1	–	104
Provision for impairment of stock and property, plant and equipment	4	14	15	2	7	–	(7)	57	–	92
Provision for impairment of goodwill	–	285	–	–	–	–	–	–	–	285
Auditors' remuneration – statutory audit fees	3	2	1	–	–	–	–	1	–	7

4. Segment information (continued)

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

At 31st December 2016	HAECO Hong Kong	HAECO Americas	HAECO Xiamen	TEXL	HAESL At 100%	HAESL Adjustments to reflect the Group's equity share	Other segments – subsidiary companies	Inter-segment elimination/ unallocated adjustments	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Total segment assets	3,816	3,337	2,797	2,141	2,932	(2,932)	1,914	(1,262)	12,743
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	158	169	57	40	188	(188)	286	–	710
Total segment liabilities	2,250	2,730	414	783	1,143	(1,143)	1,891	(1,237)	6,831

The goodwill which arose on the acquisitions of TEXL and TIMCO Aviation Services, Inc. in previous accounting periods has been accounted for under TEXL and HAECO Americas respectively.

	2017	2016
	HK$M	HK$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	**12,308**	12,743
Unallocated: investment in joint venture companies	**1,727**	1,607
Total assets	**14,035**	14,350

The Group's principal joint venture companies, except for SAESL which was disposed of on 30th June 2016, are held by HAECO and HAECO Xiamen.

Reportable segments' liabilities are equal to total liabilities.

Transactions between segments are carried out on normal commercial terms. The revenue from external parties reported to the Executive Directors of the Board is measured in a manner consistent with that in the consolidated statement of profit or loss.

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

4. Segment information (continued)

	2017	2016
	HK$M	HK$M
The Group's revenue derived from external customers:		
In Hong Kong	**2,939**	2,914
In the United States	**8,203**	8,019
In other countries	**3,404**	2,827
	14,546	13,760
Total non-current assets other than joint venture companies, financial instruments, deferred tax assets and retirement benefit assets:		
In Hong Kong	**2,873**	2,913
In the United States	**1,962**	2,222
In other countries (mainly in Mainland China)	**2,695**	2,634
	7,530	7,769
Single external customers amounting to 10% or more of the Group's revenue:		
Revenue in HAECO Hong Kong, HAECO Americas, HAECO Xiamen and other segments derived from customer A	**2,774**	2,795
Revenue in HAECO Hong Kong, HAECO Americas, HAECO Xiamen and TEXL derived from customer B	**4,783**	4,475
Revenue in HAECO Hong Kong, HAECO Americas, HAECO Xiamen and other segments derived from customer C	**1,549**	1,443
	9,106	8,713

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 2017 amounted to HK$5,110 million (2016: HK$5,059 million).

The five individuals whose emoluments were the highest in the Group for the years ended 31st December 2017 and 2016 are as follows:

	2017	2016
Number of individuals:		
Executive directors	**3**	3
Management officers	**2**	2
	5	5

Details of the emoluments paid to these directors were included in the disclosure as set out in note 6.

5. Staff remuneration and benefits (continued)

Details of emoluments paid to the above management officers are as follows:

	2017	2016
	HK$000	HK$000
Cash:		
Basic salary	**4,608**	4,764
Bonus	**2,226**	1,263
Allowances and benefits	**1,395**	8,511
Non cash:		
Retirement scheme contributions	**657**	528
Bonus paid into retirement schemes	**886**	–
Housing and other benefits	**6,211**	2,514
	15,983	17,580

The bonuses disclosed above are not yet approved for 2017. The amounts disclosed above are related to services as management officers for 2016 but paid and charged to the Group in 2017.

The number of the above management officers whose emoluments fell within the following bands:

	2017	2016
HK$10,000,001 – HK$10,500,000	**–**	1
HK$8,500,001 – HK$9,000,000	**1**	–
HK$7,500,001 – HK$8,000,000	**–**	1
HK$7,000,001 - HK$7,500,000	**1**	–
	2	2

6. Directors' emoluments

The total number of Directors who served during the year was 13 (2016: 13). The total emoluments of Directors disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and the Companies (Disclosure of Information about Benefits of Directors) Regulations are as follows:

	Group							
	Cash			Non Cash				
	Basic salary/ Directors' fees (note a)	Bonus (note b)	Allowances and benefits	Retirement schemes contributions	Bonus paid into retirement schemes	Housing benefits	**2017 Total**	2016 Total
	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	**HK$000**	HK$000
Executive Directors:								
John Slosar	585	–	9	172	–	476	**1,242**	845
Augustus Tang	3,693	4,326	2,044	1,087	–	–	**11,150**	12,155
James Barrington	2,272	1,542	2,406	668	965	–	**7,853**	6,400
Christopher Gibbs (from 1st June 2017)	1,478	–	840	221	–	–	**2,539**	–
Gregory Hughes (until 31st May 2017)	957	1,549	471	282	937	1,262	**5,458**	7,768
Fanny Lung (until 30th September 2017)	2,066	1,286	99	717	–	–	**4,168**	4,577
Rebecca Sharpe (from 1st October 2017)	375	–	458	113	–	–	**946**	–
	11,426	8,703	6,327	3,260	1,902	1,738	**33,356**	31,745

6. Directors' emoluments (continued)

	Group							
	Cash			Non Cash				
	Basic salary/ Directors' fees (note a)	Bonus (note b)	Allowances and benefits	Retirement schemes contributions	Bonus paid into retirement schemes	Housing benefits	**2017 Total**	2016 Total
	HK$000	HK$000	HK$000	HK$000	HK$000	HK$000	**HK$000**	HK$000
Non-Executive Directors:								
Christopher Gibbs (until 31st May 2017)	–	–	–	–	–	–	**–**	–
Gregory Hughes (from 1st June 2017)	–	–	–	–	–	–	**–**	–
Merlin Swire	–	–	–	–	–	–	**–**	–
	–	–	–	–	–	–	**–**	–
Independent Non-Executive Directors:								
Robert Adams (until 12th May 2017)	188	–	–	–	–	–	**188**	520
Benjamin Cha	470	–	–	–	–	–	**470**	470
Yu Keung Leung (from 17th August 2016)	402	–	–	–	–	–	**402**	142
James Lewis (from 6th May 2016)	425	–	–	–	–	–	**425**	272
Peter Tse	555	–	–	–	–	–	**555**	555
David Tong (until 6th May 2016)	–	–	–	–	–	–	**–**	144
	2,040	–	–	–	–	–	**2,040**	2,103
2017 total	**13,466**	**8,703**	**6,327**	**3,260**	**1,902**	**1,738**	**35,396**	
2016 total	13,123	8,186	5,690	2,905	774	3,170		33,848

Notes:

a. Annual Directors' fees are determined by the Board and for 2017 comprised Director's fee of HK$380,000 (2016: HK$380,000), fee for members serving on Audit Committee of HK$90,000 (2016: HK$90,000) and fee for members serving on Remuneration Committee of HK$35,000 (2016: HK$35,000) respectively. The fee for the Chairman of Audit Committee is HK$140,000 (2016: HK$140,000) and the fee for the Chairman of Remuneration Committee is HK$50,000 (2016: HK$50,000).

b. Bonuses are not yet approved for 2017. The amounts disclosed above are related to services as Executive Directors for 2016 but paid and charged to the Group in 2017.

7. Other net (losses)/gains

	2017	2016
	HK$M	HK$M
Net foreign exchange (losses)/gains	**(31)**	17
Loss on disposal of property, plant and equipment	**(14)**	(6)
Receipt of government subsidies	**39**	16
Others	**4**	3
	(2)	30

8. Finance income and finance charges

Accounting Policy

Finance income is recognised on a time-proportion basis using the effective interest method.

Finance costs incurred are charged to the statement of profit or loss except for those finance charges attributable to the acquisition, construction or production of qualifying assets (i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale) which are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

	2017	2016
	HK$M	HK$M
Finance income:		
Short-term deposits and bank balances	**11**	9
Finance charges:		
Bank loans	**(97)**	(89)
Advance from a related party	**(8)**	(6)
Finance lease obligations	**(1)**	(1)
Fair value losses on derivative instruments:		
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	**(2)**	(2)
Fair value loss on a put option over a non-controlling interest in a subsidiary company	**(28)**	(2)
Capitalised on property, plant and equipment	**5**	2
Total finance charges	**(131)**	(98)
Net finance charges	**(120)**	(89)

The capitalised interest rates on loans borrowed and used for the construction of property, plant and equipment were between 1.92% and 2.99% (2016: between 1.61% and 2.05%) per annum.

9. Taxation

Accounting Policy

The tax charge comprises current and deferred tax. The tax charge is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Critical Accounting Estimates and Judgements

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations relating to the Group's ordinary business activities for which the ultimate tax determination is uncertain. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the year in which the outcome becomes known.

9. Taxation (continued)

	2017	2016
	HK$M	HK$M
Current taxation:		
Hong Kong profits tax	**57**	37
Overseas taxation	**123**	91
Under/(over)-provisions in prior years	**3**	(7)
	183	121
Deferred taxation (note 18):		
Decrease/(increase) in deferred tax assets	**368**	(119)
(Decrease)/increase in deferred tax liabilities	**(100)**	15
	451	17

Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

The Group's share of joint venture companies' tax charge of HK$61 million (2016: HK$56 million) is included in the share of after-tax results of joint venture companies shown in the consolidated statement of profit or loss.

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

	2017	2016
	HK$M	HK$M
Profit before taxation	**105**	1,110
Calculated at a tax rate of 16.5% (2016: 16.5%)	**17**	183
Share of after-tax results of joint venture companies	**(52)**	(177)
Effect of different tax rates in other countries	**(273)**	(158)
Income not subject to tax	**(1)**	(3)
Expenses not deductible for tax purposes	**253**	119
Unused tax losses not recognised	**141**	24
Utilisation of previously unrecognised tax losses	**–**	(1)
Under/(over)-provisions in prior years	**3**	(7)
Deferred tax assets written off	**249**	2
Temporary differences not recognised	**86**	14
Withholding tax	**24**	18
Others	**4**	3
Tax charge	**451**	17

10. Dividends

Accounting Policy

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or Board of Directors, where appropriate.

	Company	
	2017	2016
	HK$M	HK$M
First interim dividend paid on 19th September 2017 of HK$0.53 per share (2016: HK$0.63 per share)	**88**	105
Second interim dividend declared on 13th March 2018 of HK$0.50 per share (2016: HK$0.92 per share)	**83**	153
Special interim dividend paid on 20th September 2016 of HK$2.35 per share	**–**	391
	171	649

The Directors have declared a second interim dividend of HK$0.50 per share for the year ended 31st December 2017. Together with the first interim dividend of HK$0.53 per share and paid on 19th September 2017, this results in total dividends for the year of HK$1.03 per share and represents a total distribution of HK$171 million. The second interim dividend will be paid on 24th April 2018 to shareholders registered at the close of business on the record date, being Thursday, 29th March 2018. Shares of the Company will be traded ex-dividend as from Tuesday, 27th March 2018.

The register of members will be closed on Thursday, 29th March 2018 during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 28th March 2018.

The second interim dividend is not accounted for in 2017 because it had not been declared and approved at the year end date. The actual amount payable in respect of 2017 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2018.

11. (Loss)/earnings per share (basic and diluted)

(Loss)/earnings per share is calculated by dividing the loss attributable to the Company's shareholders of HK$541 million (2016: a profit of HK$975 million) by the weighted average number of 166,324,850 ordinary shares in issue during the year (2016: 166,324,850).

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

Accounting Policy

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated statement of profit or loss during the financial period in which they are incurred.

With the exception of freehold land, all property, plant and equipment and leasehold land and land use rights are depreciated at rates sufficient to write-off their original costs to estimated residual values using the straight-line method over their anticipated useful lives in the following manner:

Buildings and building facilities	2% to 10% per annum
Equipment, plant, machinery and tools	5% to 33% per annum
Motor vehicles	20% to 25% per annum
Rotable spares	5% to 14% per annum
Assets under construction	Nil
Leasehold land and land use rights	Over the lease term

The assets' anticipated useful lives and residual values are regularly reviewed and adjusted, if appropriate, at each period-end date to take into account operational experience and changing circumstances.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other net (losses)/gains" in the statement of profit or loss.

Critical Accounting Estimates and Judgements

At each period-end date or whenever a change in circumstances occurs, both internal and external sources of information are considered to assess whether there is an indication that assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated using the higher of its fair value less costs to sell or value-in-use as appropriate. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the statement of profit or loss.

During the year, the carrying amounts of certain plant, machinery and tools have been written down by HK$7 million (2016: HK$57 million) to their recoverable amount.

The relocation proposed by the Xiamen municipal government of the Gaoqi airport to a new airport in the Xiang'an district remains subject to central government approval. The total net book value of HAECO Xiamen's property, plant and equipment and land use rights at the end of 31st December 2017 was HK$1,412 million (2016: HK1,321 million), some of which will be subject to relocation. Management engaged an independent consultant to perform preliminary compensation assessments in order to evaluate the recoverable amounts of property, plant and equipment and land use rights at the existing Xiamen airport that might be affected by the proposal to develop a new airport and has concluded that the carrying value remains appropriate at 31st December 2017. Managementmaintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

12. Property, plant and equipment and land and land use rights (continued)

	Property, plant and equipment						
	Buildings and building facilities	Plant, machinery and tools	Vehicles, equipment and furniture	Rotable spares	Assets under construction	Total	Land and land use rights
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Cost							
At 1st January 2016	5,854	2,455	235	1,261	161	9,966	470
Translation differences	(135)	(77)	(4)	1	(1)	(216)	(22)
Additions and transfers	146	224	25	250	42	687	11
Disposals	(5)	(64)	(17)	(63)	–	(149)	–
At 31st December 2016	5,860	2,538	239	1,449	202	10,288	459
Translation differences	155	96	4	11	1	267	25
Additions and transfers	129	219	73	195	361	977	–
Disposals	(3)	(57)	(14)	(109)	–	(183)	–
At 31st December 2017	**6,141**	**2,796**	**302**	**1,546**	**564**	**11,349**	**484**
Accumulated depreciation, amortisation and impairment							
At 1st January 2016	2,653	1,510	162	322	–	4,647	133
Translation differences	(66)	(48)	(3)	–	–	(117)	(7)
Depreciation and amortisation charge for the year	239	164	26	91	–	520	11
Impairment charge for the year	–	57	–	–	–	57	–
Disposals	(3)	(55)	(16)	(9)	–	(83)	–
At 31st December 2016	2,823	1,628	169	404	–	5,024	137
Translation differences	76	64	4	3	–	147	8
Depreciation and amortisation charge for the year	237	162	38	96	–	533	11
Impairment charge for the year	3	4	–	–	–	7	–
Disposals	(1)	(55)	(13)	(12)	–	(81)	–
At 31st December 2017	**3,138**	**1,803**	**198**	**491**	**–**	**5,630**	**156**
Net book value							
At 31st December 2017	**3,003**	**993**	**104**	**1,055**	**564**	**5,719**	**328**
At 31st December 2016	3,037	910	70	1,045	202	5,264	322

At 31st December 2017 and 2016, none of the Group's property, plant and equipment was pledged as security for the Group's loans.

Assets under construction mainly relate to buildings, plant and machinery not yet ready for use.

Of the land and land use rights of HK$328 million (2016: HK$322 million), HK$13 million (2016: HK$13 million) relates to the net book value of leasehold land held in Hong Kong by the Company, HK$304 million (2016: HK$298 million) relates to the net book value of land use rights held in Mainland China by HAECO Xiamen, HAECO Landing Gear Services and TEXL, and the leasehold land held in the United States by HAECO Americas and HK$11 million (2016: HK$11 million) relates to the net book value of freehold land held in the United States by HAECO Americas. Both leasehold land and land use rights are held on medium-term leases.

13. Intangible assets

Accounting Policy

(a) Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary company on consolidation at the date of acquisition. Goodwill is treated as an asset of the entity acquired and where attributable to a foreign entity will be translated at the closing exchange rates. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing, which is performed at least annually, or more often if an impairment indicator exists. Impairment losses recognised on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the acquisition and development of identifiable and unique software products controlled by the Group, and that will generate probable future economic benefits exceeding costs beyond one year, are recognised as intangible assets. Computer software costs are amortised over their estimated useful lives (three to ten years).

(c) 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 subsequently 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.

(d) Development costs

Costs that are directly associated with development of an identifiable model controlled by the Group, and that will generate probable future economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the development staff costs and cost of raw materials consumed. Development costs are amortised over their estimated useful life of ten years.

(e) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation. They are amortised over their estimated useful life of fifteen years.

Assets that have an indefinite useful life are not subject to amortisation. These assets 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 (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

13. Intangible assets (continued)

	Goodwill	Technical licences	Customer relationships	Others	Total
	HK$M	HK$M	HK$M	HK$M	HK$M
Cost					
At 1st January 2016	1,418	535	739	126	2,818
Translation differences	1	–	–	(3)	(2)
Additions and transfers	–	–	–	12	12
At 31st December 2016	1,419	535	739	135	2,828
Translation differences	11	4	6	3	24
Additions and transfers	–	–	–	6	6
Disposals	–	–	–	(5)	(5)
At 31st December 2017	**1,430**	**539**	**745**	**139**	**2,853**
Accumulated amortisation and impairment					
At 1st January 2016	–	150	95	42	287
Translation differences	(2)	–	–	(1)	(3)
Amortisation charge for the year	–	27	49	17	93
Impairment charge for the year	285	–	–	–	285
At 31st December 2016	283	177	144	58	662
Translation differences	4	1	–	1	6
Amortisation charge for the year	–	27	50	17	94
Impairment charge for the year	625	–	–	–	625
At 31st December 2017	**912**	**205**	**194**	**76**	**1,387**
Net book value					
At 31st December 2017	**518**	**334**	**551**	**63**	**1,466**
At 31st December 2016	1,136	358	595	77	2,166

Impairment test of goodwill

Critical Accounting Estimates and Judgements

The 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 is determined using the higher of fair value less costs to sell or value-in-use as appropriate. These calculations require the use of estimates.

The following is a summary of goodwill, after impairment, allocated to each cash generating unit.

	2017	2016
	HK$M	HK$M
HAECO Americas – airframe services	**283**	902
HAECO Americas – cabin solutions	**204**	203
TEXL	**31**	31
	518	1,136

13. Intangible assets (continued)

Impairment test of goodwill (continued)

Although management considers the business primarily from an entity perspective, for the purposes of impairment reviews, goodwill is monitored at the lowest cash generating unit ("CGU"). This is the entity level for TEXL, whereas for HAECO Americas, this is split into two CGUs of airframe services and cabin solutions.

The recoverable amount of HAECO Americas' CGUs has been determined on a value-in-use basis. The key assumptions for the recoverable value of the CGUs are the underlying cash flow forecasts, revenue growth rate and discount rate used. The valuation uses cash flow forecasts based on detailed financial budgets prepared by management covering a five-year (2016: five-year) period for the airframe services CGU and an eight-year (2016: nine-year) period until 2025 for the cabin solutions CGU. An eight-year forecast (until 2025) is considered appropriate for cabin solutions to take into account the significant growth plans for the business which includes the ongoing development of new product models over the next three to five years whose market success the model is highly dependent upon. Revenue growth is based on past performance, current industry trends and management's expectations of market development. Assumptions of no growth in cash flows after year five of the airframe services CGU and year eight of the cabin solutions CGU are made respectively. The discount rate is based on the Group's weighted average cost of capital, adjusted for country specific risk relating to the CGUs. The calculation of the value-in-use of the airframe services CGU also assumes a growth in the profitability arising from an improved efficiency and work flow which is based on management's expectations of the outcome achieved by the improvement plans in place.

The key assumptions used in calculating the recoverable amount are as follows:

	Airframe services		Cabin solutions	
	2017	2016	**2017**	2016
Discount rate	**8.5%**	8.5%	**8.5%**	8.5%
Revenue growth – cumulative average growth rate per annum	**7.7%**	3.4%	**13.1%**	16.9%

In 2017, the carrying amount of the airframe services CGU has been reduced to its recoverable amount of HK$1,460 million through recognition of an impairment charge of HK$625 million against goodwill following a reduction in the expected profitability of the airframe services business (which took into account the prospects for the aircraft maintenance business). This loss has been included in "depreciation, amortisation and impairment" in the statement of profit or loss.

In 2016, the carrying amount of the cabin solutions CGU was reduced to its recoverable amount of HK$619 million through recognition of an impairment charge of HK$285 million against goodwill following a reduction in the expected profitability of the seats business and a weak cabin integration order book. This loss has been included in "depreciation, amortisation and impairment" in the statement of profit or loss.

The cabin solutions CGU recoverable amount exceeded its carrying value by HK$27 million (2016: nil).

14. Subsidiary companies

Accounting Policy

Subsidiary companies are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The principal subsidiary companies of Hong Kong Aircraft Engineering Company Limited are shown on page 115.

15. Joint venture companies

Accounting Policy

Joint venture companies are those companies held for the long-term, over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements, and where the Group has rights to the net assets of those companies.

In the Group's consolidated statement of financial position, its investments in joint venture companies are accounted for using the equity method of accounting and are initially recognised at cost. The excess of the cost of investment in joint venture companies over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition represents goodwill. The Group's investments in joint venture companies include goodwill identified on acquisitions, net of any accumulated impairment losses.

The Group's share of its joint venture companies' post-acquisition profits or losses is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are included in the carrying amount of the investment. When the Group's interest, including any other unsecured receivables in a joint venture company is reduced to nil, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture company.

The Group recognises the disposal of an interest in a joint venture company when it ceases to have joint control and the risks and rewards of ownership have passed to the acquirer.

The Group assesses at the end of each reporting period whether there is any objective evidence that its interests in joint venture companies are impaired. Such objective evidence includes whether there has been any significant adverse changes in the technological, market, economic or legal environment in which the joint venture companies operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in a joint venture company is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is lower than the higher of the investment's fair value less costs to sell or value-in-use. Any reversal of such impairment loss in subsequent periods is reversed through profit or loss.

	HAESL		Others		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**1,259**	914	**348**	348	**1,607**	1,262
Translation differences	**7**	1	**31**	(25)	**38**	(24)
Acquisition of shares	**–**	452	**–**	–	**–**	452
Share of profit	**244**	1,023	**70**	49	**314**	1,072
Share of other comprehensive income	**8**	17	**–**	–	**8**	17
Dividends received from joint venture companies	**(220)**	(1,148)	**(20)**	(24)	**(240)**	(1,172)
At 31st December	**1,298**	1,259	**429**	348	**1,727**	1,607

15. Joint venture companies (continued)

Summarised statement of comprehensive income

	2017	2016
	HK$M	HK$M
Revenue	**9,594**	8,446
Depreciation and amortisation	**(111)**	(101)
Other operating expenses	**(8,888)**	(7,823)
Gain on disposal of interest in a joint venture company	**–**	1,789
Operating profit	**595**	2,311
Finance income	**4**	3
Finance charges	**(17)**	(6)
Share of after-tax results of a joint venture company	**–**	27
Profit before taxation	**582**	2,335
Taxation	**(95)**	(83)
Profit for the year	**487**	2,252
Other comprehensive income	**17**	36
Total comprehensive income	**504**	2,288
Dividends received from the joint venture company	**220**	1,148

Summarised statement of financial position

	At 31st December	
	2017	2016
	HK$M	HK$M
Non-current assets	**1,281**	1,089
Current assets		
Cash and cash equivalents	**90**	112
Other current assets	**2,033**	1,731
Total current assets	**2,123**	1,843
Current liabilities		
Financial liabilities (excluding trade payables)	**293**	69
Other current liabilities (including trade payables)	**530**	252
Total current liabilities	**823**	321
Non-current liabilities		
Financial liabilities	**586**	679
Other non-current liabilities	**129**	143
Total non-current liabilities	**715**	822
Net assets	**1,866**	1,789

15. Joint venture companies (continued)

Reconciliation of the summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture company.

	2017	2016
	HK$M	HK$M
Net assets		
At 1st January	**1,789**	2,034
Translation differences	**14**	1
Profit for the year	**487**	2,252
Other comprehensive income	**17**	36
Dividends paid	**(441)**	(2,534)
At 31st December	**1,866**	1,789
Carrying value of 50% interest in the joint venture company	**933**	894
Goodwill	**365**	365
	1,298	1,259

16. Financial instruments by category

Accounting Policy

Classification

The Group classifies its financial instruments in the following categories: at fair value through profit or loss, derivatives used for hedging, available-for-sale, loans and receivables and amortised cost. The classification depends on the purpose of the financial instrument. The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

(a) At fair value through profit or loss
A financial instrument is classified within this category if the intention is to settle it in the short-term or if it is designated as at fair value through profit or loss by management. Derivatives are included within this category unless they are designated as hedges. Put options over non-controlling interests in subsidiary companies are measured at fair value through profit or loss. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the period-end date.

(b) Derivatives used for hedging
Derivative instruments are classified within this category if they qualify for hedge accounting.

(c) Available-for-sale
Available-for-sale assets are non-derivative investments and other assets that are either designated in this category or not classified in any of the other categories. Available-for-sale assets are included in non-current assets unless management intends to dispose of the asset within 12 months of the period-end date.

(d) 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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the period-end date where these are classified as non-current assets.

(e) Amortised cost
The amortised cost category comprises instruments that are non-derivative financial liabilities with fixed or determinable payments and fixed maturities. They are included in non-current liabilities, except for maturities less than 12 months after the period-end date where these are classified as current liabilities.

16. Financial instruments by category (continued)

Accounting Policy (continued)

Recognition and measurement

Purchases and sales of financial instruments are recognised on their trade-date, which is the date when the Group contracts with the purchaser or seller. Financial instruments are initially recognised at fair value. Transaction costs are included for all financial instruments not carried at fair value through profit or loss. Financial instruments are derecognised when the rights to receive or obligations to pay cash have expired or have been transferred and the Group has transferred substantially all risks and rewards.

Financial instruments classified as at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value are included in the statement of profit or loss in the period in which they arise. Derivatives used for hedging are subsequently carried at fair value. The accounting for realised and unrealised gains and losses arising from changes in the fair value of derivatives are set out in Note 19.

Financial assets classified as available-for-sale are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income. When available-for-sale assets are sold or impaired, the accumulated fair value adjustments are included in the statement of profit or loss as gains and losses from investments.

Financial instruments classified as loans and receivables and amortised cost are subsequently measured using the effective interest method.

The Group assesses at each period-end date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably measured.

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

	Loans and receivables	At fair value through profit or loss	Derivatives used for hedging	Total
	HK$M	**HK$M**	**HK$M**	**HK$M**
At 31st December 2017				
Assets				
Derivative financial instruments	**–**	**1**	**12**	**13**
Trade and other receivables	**1,689**	**–**	**–**	**1,689**
Bank balances and short-term deposits	**991**	**–**	**–**	**991**
Total	**2,680**	**1**	**12**	**2,693**

16. Financial instruments by category (continued)

	Amortised cost	At fair value through profit or loss	Derivatives used for hedging	Total
	HK$M	**HK$M**	**HK$M**	**HK$M**
At 31st December 2017				
Liabilities				
Trade and other payables	**873**	**–**	**–**	**873**
Advance from a related party	**292**	**–**	**–**	**292**
Put option over a non-controlling interest in a subsidiary company	**–**	**106**	**–**	**106**
Borrowings	**3,360**	**–**	**–**	**3,360**
Total	**4,525**	**106**	**–**	**4,631**

	Loans and receivables	At fair value through profit or loss	Derivatives used for hedging	Total
	HK$M	HK$M	HK$M	HK$M
At 31st December 2016				
Assets				
Derivative financial instruments	–	1	3	4
Trade and other receivables	1,595	–	–	1,595
Bank balances and short-term deposits	1,321	–	–	1,321
Total	2,916	1	3	2,920

	Amortised cost	At fair value through profit or loss	Derivatives used for hedging	Total
	HK$M	HK$M	HK$M	HK$M
At 31st December 2016				
Liabilities				
Derivative financial instruments	–	–	6	6
Trade and other payables	742	–	–	742
Advance from a related party	289	–	–	289
Put option over a non-controlling interest in a subsidiary company	–	77	–	77
Borrowings	3,689	–	–	3,689
Total	4,720	77	6	4,803

17. Retirement benefits

Accounting Policy

For defined benefit schemes, retirement benefit costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the statement of profit or loss so as to spread the regular cost over the service lives of employees.

The asset or liability recognised on the statement of financial position is the present value of the cost of providing these benefits (the defined benefit obligation) less the fair value of the plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries and is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds. The plan assets are valued on a bid price basis.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in the statement of profit or loss. Any differences between the implicit and actual return on assets are charged as remeasurements to other comprehensive income.

For defined contribution schemes, the Group's contributions are charged to the statement of profit or loss in the periods to which the contributions relate.

Critical Accounting Estimates and Judgements

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net retirement benefit expense/income include the discount rate and the expected rate of future salary increases. The Group reviewed the discount rate and the expected rate of future salary increases at the end of each year. Any changes in these assumptions will impact the carrying amount of defined benefit obligations.

(a) Overall

Staff employed by the Company before 1st December 2000 were offered a one-off choice between Hong Kong's Mandatory Provident Fund ("MPF") and the defined benefits retirement schemes upon the launch of MPF. Since 1st December 2000, all new staff employed, unless specially approved by the Company, have been enrolled in the MPF scheme. Staff are required to contribute 5% of the employees' relevant income (contribution capped at HK$1,500 per month). Staff may elect to contribute more than the minimum as a voluntary contribution. The Company is required to contribute between 5% and 10% of the employees' relevant income with the monthly contribution capped at HK$5,000 per staff member.

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

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

17. Retirement benefits (continued)

(a) Overall (continued)

HAECO Americas provides eligible employees with a qualified defined contribution plan. This qualified plan provides that employees may contribute up to 92% of pre-tax earnings as allowed by the U.S. tax code (capped at US$18,000 for 2017 (2016: US$18,000)) and the company may elect, at its discretion, to make contributions to the plan in any year. For the year ended 31st December 2017, HAECO Americas elected to make discretionary contributions to the plan, matching 50% (2016: 50%) of employees' contributions up to a maximum employer contribution of 4% (2016: 4%) of employees' salaries. HAECO Americas provides eligible employees with a non-qualified deferred compensation plan, in addition to the qualified plan. Plan participants may elect to defer base salary, bonus, and/or return of excess contributions from the company's qualified defined contribution plan up to the maximum percentages for each deferral election as described in the plan. The plan does not currently incorporate provisions for company matching or discretionary contributions.

The subsidiary companies operating in Mainland China pay contributions to the required statutory retirement scheme for their local employees. The scheme is operated by the Mainland China government. In addition, HAECO Xiamen 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.

Local staff employed by HAECO Line Services (Singapore) are covered by the Central Provident Fund in Singapore.

Contributions to the defined benefit retirement schemes are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past service liabilities, on an on-going basis, as computed by reference to actuarial valuations. Both the Local Scheme and the Expatriate Scheme are valued using the projected unit credit method in accordance with Hong Kong Accounting Standard ("HKAS") 19. The principal schemes are valued by qualified actuaries for funding purposes under the provisions of Hong Kong's Occupational Retirement Schemes Ordinance.

The latest actuarial valuations indicate that the funding level was 97% (2016: 114%) of the accrued liabilities on an ongoing basis. The Group expects to make contributions of HK$77 million to Local Scheme and nil to Expatriate Scheme in 2018.

For the year ended 31st December 2017 and 31st December 2016, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015, which were updated to reflect the position at 31st December 2017 and 31st December 2016 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes.

The net retirement benefit expense recognised in the statement of profit or loss was as follows:

	2017	2016
	HK$M	HK$M
Local Scheme	**101**	103
MPF, statutory and other defined contribution schemes	**208**	202
	309	305

17. Retirement benefits (continued)

(b) Defined benefits retirement schemes

Net expenses recognised in the statement of profit or loss are as follows:

	Local Scheme		Expatriate Scheme		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Current service cost	**92**	95	**1**	1	**93**	96
Net interest expense/(income)	**9**	8	**(1)**	(1)	**8**	7
Total	**101**	103	**–**	–	**101**	103

The above net expenses are included in staff remuneration and benefits in the consolidated statement of profit or loss.

The actual returns on plan assets are as follows:

	Local Scheme		Expatriate Scheme		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Actual return on plan assets – gain	**312**	102	**13**	5	**325**	107

The amounts recognised in the statement of financial position are as follows:

	Local Scheme		Expatriate Scheme		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 31st December:						
Fair value of plan assets	**2,495**	2,285	**106**	115	**2,601**	2,400
Present value of obligations	**(2,603)**	(2,503)	**(58)**	(76)	**(2,661)**	(2,579)
Net retirement benefit (liabilities)/assets	**(108)**	(218)	**48**	39	**(60)**	(179)

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

	Local Scheme		Expatriate Scheme		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
(Liabilities)/assets at 1st January	**(218)**	(275)	**39**	36	**(179)**	(239)
Movement due to:						
Total expense – as shown above	**(101)**	(103)	**–**	–	**(101)**	(103)
Actuarial gains recognised in other comprehensive income	**104**	101	**9**	3	**113**	104
Contributions paid	**107**	59	**–**	–	**107**	59
(Liabilities)/assets at 31st December	**(108)**	(218)	**48**	39	**(60)**	(179)

The significant actuarial assumptions used are as follows:

	Local Scheme		Expatriate Scheme	
	2017	2016	**2017**	2016
Discount rate	**2.84%**	3.64%	**2.84%**	3.64%
Expected rate of future salary increases	**4.00%**	4.00%	**4.00%**	4.00%

17. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

The sensitivity of the defined benefit obligations to changes in actuarial assumptions is:

	Impact on defined benefit obligation					
	Change in assumption		Increase in assumption		Decrease in assumption	
	2017	2016	**2017**	2016	**2017**	2016
			HK$M	HK$M	**HK$M**	HK$M
Discount rate	**0.5%**	0.5%	**(73)**	(94)	**103**	98
Expected rate of future salary increases	**0.5%**	0.5%	**101**	97	**(73)**	(95)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions, the same method has been applied as when calculating the retirement benefit liability recognised within the statement of financial position.

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

	Local Scheme		Expatriate Scheme		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,285**	2,294	**115**	129	**2,400**	2,423
Transfer of members	**1**	1	**–**	–	**1**	1
Employer contributions	**107**	59	**–**	–	**107**	59
Employee contributions	**–**	–	**1**	1	**1**	1
Interest income	**78**	73	**4**	4	**82**	77
Return on plan assets, excluding interest income	**234**	29	**9**	1	**243**	30
Benefits paid	**(210)**	(171)	**(23)**	(20)	**(233)**	(191)
At 31st December	**2,495**	2,285	**106**	115	**2,601**	2,400

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

	Local Scheme		Expatriate Scheme		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**2,503**	2,569	**76**	93	**2,579**	2,662
Transfer of members	**1**	1	**–**	–	**1**	1
Employee contributions	**–**	–	**1**	1	**1**	1
Current service cost	**92**	95	**1**	1	**93**	96
Interest expense	**87**	81	**3**	3	**90**	84
Benefits paid	**(210)**	(171)	**(23)**	(20)	**(233)**	(191)
Experience (gains)/losses	**(7)**	9	**(2)**	(1)	**(9)**	8
Actuarial losses/(gains) from changes in: financial assumptions	**137**	(81)	**2**	(1)	**139**	(82)
At 31st December	**2,603**	2,503	**58**	76	**2,661**	2,579

The weighted average duration of the defined benefit obligations is 6.3 years (2016: 7.2 years).

There were no plan amendments, curtailments and settlements during the year.

17. Retirement benefits (continued)

(b) Defined benefits retirement schemes (continued)

The plan assets are invested in the Swire Group Unitised Trust ("the Trust"). The Trust has three sub-funds in which the assets may be invested in accordance with separate and distinct investment policies and objectives. The Trust and sub-funds are overseen by an investment committee, which meets four times a year.

The make-up of the Trust is the result of the asset allocation of each plan. The asset allocation of each plan targets a mix of equities and bonds.

The management of the assets within the sub-funds is delegated by the investment committee to a number of reputable investment managers. The plan assets comprise:

	Local Scheme		Expatriate Scheme		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Equities						
Asia Pacific	**293**	236	**11**	9	**304**	245
Europe	**152**	132	**5**	5	**157**	137
North America	**290**	274	**10**	11	**300**	285
Emerging markets	**299**	277	**11**	11	**310**	288
Bonds						
Global	**1,427**	1,224	**76**	70	**1,503**	1,294
Emerging markets	**74**	54	**4**	3	**78**	57
Cash/others	**(40)**	88	**(11)**	6	**(51)**	94
	2,495	2,285	**106**	115	**2,601**	2,400

At 31st December 2017, the prices of 96% of equities and 54% of bonds were quoted on active markets (31st December 2016: 96% and 45% respectively). The remainder of the prices were not quoted on active markets.

The most significant risk facing the defined benefit schemes of the Group is market risk. This risk embodies the potential for losses and gains and includes price risk, interest rate risk and currency risk as well as factors specific to an individual investment or its issuer or risk specific to a certain market. Market risk is managed principally through diversification of investments by the appointed investment managers. Investment managers enter into agreements that stipulate the performance objective of the investments, which is referenced to a recognised benchmark. The investment committee monitors the overall market risk position on a quarterly basis.

18. Deferred taxation

Accounting Policy

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 tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the recognition, has no impact on taxable nor accounting profit or loss, it is not recognised. Tax rates enacted or substantially enacted by the period-end date 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 joint venture companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

18. Deferred taxation (continued)

The movement on deferred income tax assets and liabilities (prior to offsetting balances within the same tax jurisdiction) during the year is as follows:

	Provisions	Retirement benefit liabilities	Tax losses	Others	Total
	HK$M	HK$M	HK$M	HK$M	HK$M
Deferred tax assets					
At 1st January 2016	250	46	346	11	653
Translation differences	(5)	–	–	–	(5)
Credited/(charged) to statement of profit or loss	19	7	94	(1)	119
Charged to other comprehensive income	–	(17)	–	–	(17)
At 31st December 2016	264	36	440	10	750
Translation differences	6	–	3	1	10
(Charged)/credited to statement of profit or loss	(65)	2	(301)	(4)	(368)
Charged to other comprehensive income	–	(16)	–	(2)	(18)
At 31st December 2017	**205**	**22**	**142**	**5**	**374**

The above deferred taxation charge in 2017 includes the write-off of HAECO Americas' deferred tax assets of HK$249 million following a reduction in the US rates of corporate tax and a review of the ability to set past tax losses in the US off against future profits in the US in light of timing certainty required by applicable accounting standards.

	Accelerated tax depreciation	Retirement benefit assets	Fair value adjustments arising from business combination	Others	Total
	HK$M	HK$M	HK$M	HK$M	HK$M
Deferred tax liabilities					
At 1st January 2016	332	6	317	55	710
Translation differences	–	–	–	(4)	(4)
Charged/(credited) to statement of profit or loss	23	–	(25)	17	15
At 31st December 2016	355	6	292	68	721
Translation differences	1	–	2	5	8
Charged/(credited) to statement of profit or loss	8	–	(123)	15	(100)
Charged to other comprehensive income	–	2	–	1	3
At 31st December 2017	**364**	**8**	**171**	**89**	**632**

The above deferred taxation credit arising from the deferred tax liabilities in 2017 partly represents the reduction in HAECO Americas' deferred tax liabilities resulting from a reduction in the US rates of corporate tax.

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% (2016: 16.5%). Overseas deferred tax is calculated using tax rates prevailing in the respective jurisdictions.

18. Deferred taxation (continued)

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$1,515 million (2016: HK$382 million) to carry forward against future taxable income. These amounts are analysed as follows:

	2017	2016
	HK$M	HK$M
No expiry date	**41**	39
Expiring in 2017	**–**	21
Expiring in 2018	**55**	60
Expiring in 2019	**59**	53
Expiring in 2020	**92**	96
Expiring in 2021 or after	**1,268**	113
	1,515	382

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position.

	2017	2016
	HK$M	HK$M
Deferred tax assets:		
To be recovered after more than 12 months	**56**	269
To be recovered within 12 months	**15**	42
	71	311

	2017	2016
	HK$M	HK$M
Deferred tax liabilities:		
To be settled after more than 12 months	**336**	290
To be settled within 12 months	**(7)**	(8)
	329	282

19. Derivative financial instruments

Accounting Policy

Derivatives are initially recognised at fair value on the date a 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 Group designates certain derivatives as either: (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); (b) hedges of highly probable forecast transactions (cash flow hedges); or (c) hedges of net investments in foreign operations.

The 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 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.

19. Derivative financial instruments (continued)

Accounting Policy (continued)

(a) Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised through the statement of profit or loss over the period to maturity.

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

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods when the hedged item will affect the profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to interest rate swaps hedging variable rate borrowings, whether effective or ineffective, is recognised in the statement of profit or loss within finance charges. The gain or loss relating to the effective portion of forward foreign exchange contracts is recognised in the statement of profit or loss within revenue. The gain or loss relating to the ineffective portion of forward foreign exchange contracts is recognised in the statement of profit or loss within other net gains/(losses). 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 non-financial 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 statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

(c) 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 statement of profit or loss.

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

(d) 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 statement of profit or loss.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the period-end date.

19. Derivative financial instruments (continued)

	Assets		Liabilities	
	2017	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M
Forward foreign exchange contracts				
– cash flow hedges	**6**	–	**–**	6
– not qualifying as hedges	**1**	1	**–**	–
Interest rate swaps				
– cash flow hedges	**6**	3	**–**	–
Total	**13**	4	**–**	6
Less non-current portion				
Forward foreign exchange contracts				
– cash flow hedges	**1**	–	**–**	–
Interest rate swaps				
– cash flow hedges	**5**	3	**–**	–
	6	3	**–**	–
Current portion	**7**	1	**–**	6

The fair value of a derivative is classified as a non-current asset or liability if the remaining maturity of the derivative is more than 12 months and, as a current asset or liability, if the maturity of the derivative is not more than 12 months. These values are level 2 valuations in relation to the fair value hierarchy as explained in Note 2(c).

Forward foreign exchange contracts

The total notional principal amount of the outstanding forward foreign exchange contracts at 31st December 2017 was HK$147 million (2016: HK$180 million).

Interest rate swaps

The total notional principal amount of the outstanding interest rate swap contracts at 31st December 2017 was HK$828 million (2016: HK$504 million).

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

20. Stocks

Accounting Policy

Stocks are stated at the lower of cost and net realisable value. Cost represents weighted average unit cost and net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. The costs of manufactured goods comprise direct material and labour costs and an appropriate proportion of production overhead expenses.

	2017	2016
	HK$M	HK$M
Carrying amounts at net realisable value:		
Materials	**425**	517
Manufactured goods	**99**	103
	524	620

The remaining balances are carried at cost.

21. Work in progress

Accounting Policy

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 and other receivables".

	2017	2016
	HK$M	HK$M
The aggregate costs incurred and recognised profits to date	**1,384**	983
Less: Progress billings	**219**	100
	1,165	883

22. Trade and other receivables

Accounting Policy

Trade and other 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 and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Trade and other receivables in the statement of financial position are stated net of such provisions.

Objective evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 statement of profit or loss. When a trade and other receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in the statement of profit or loss.

22. Trade and other receivables (continued)

	2017 HK$M	2016 HK$M
Trade receivables – in HK dollars	**56**	32
– in US dollars	**906**	726
– in Renminbi	**74**	45
– in other currencies	**2**	2
	1,038	805
Less: Provision for impairment of receivables	**(46)**	(35)
	992	770
Amounts due from joint venture companies	**8**	14
Amounts due from related parties	**349**	423
Other receivables and prepayments	**340**	388
	1,689	1,595

The fair values of trade and other receivables are not materially different from their book values. The amounts due from joint venture companies and related parties are unsecured. The balances are interest-free and on normal trade credit terms.

The analysis of the age of trade receivables at year-end (based on the invoice date) is as follows:

	2017 HK$M	2016 HK$M
Under three months	**921**	700
Between three and six months	**70**	47
Over six months	**47**	58
	1,038	805

At 31st December 2017, the Group had trade debtors of HK$357 million (2016: HK$338 million) which were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The period of time since the due date of these trade debtors is as follows:

	2017 HK$M	2016 HK$M
Under three months	**324**	299
Between three and six months	**28**	19
Over six months	**5**	20
	357	338

At 31st December 2017, trade receivables of the Group of HK$46 million (2016: HK$35 million) were 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:

	2017 HK$M	2016 HK$M
Up to three months overdue	**5**	–
Three to six months overdue	**2**	3
Over six months overdue	**39**	32
	46	35

22. Trade and other receivables (continued)

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

	2017 HK$M	2016 HK$M
At 1st January	**35**	91
Provision for impairment of receivables	**18**	7
Receivables written off as uncollectible	**(3)**	(61)
Unused amounts reversed	**(4)**	(2)
At 31st December	**46**	35

The creation and release of the provision for impaired receivables has been included in cost of direct material and job expenses in the statement of profit or loss. 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 carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

23. Trade and other payables

Accounting Policy

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

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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.

	2017 HK$M	2016 HK$M
Trade payables	**623**	542
Amounts due to joint venture companies	**7**	6
Amounts due to related parties	**23**	26
Accrued capital expenditure	**178**	41
Accruals	**1,038**	1,008
Deferred income	**487**	397
Other payables	**220**	174
	2,576	2,194

The analysis of the age of trade payables at year-end is as follows:

	2017 HK$M	2016 HK$M
Under three months	**612**	535
Between three and six months	**3**	3
Over six months	**8**	4
	623	542

23. Trade and other payables (continued)

The fair values of trade payables and other payables are not materially different from their book values. The amounts due to joint venture companies and related parties are unsecured. The balances are interest-free and on normal trade credit terms.

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

24. Borrowings

Accounting Policy

Borrowings are recognised initially at fair value. Transaction costs are incremental costs that are directly attributable to the initiation of the borrowings, 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, with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the period-end date.

	2017	2016
	HK$M	HK$M
Short–term loans – in HK dollars	**54**	29
– in US dollars	**52**	35
	106	64
Long–term loans at cost		
– in HK dollars	**1,326**	1,547
– in US dollars	**1,921**	2,067
	3,247	3,614
Less: amounts due within one year included under current liabilities		
– in HK dollars	**–**	82
– in US dollars	**39**	54
	3,208	3,478

All the loans are unsecured. The carrying amounts approximate their fair values because the loans are either on a floating rate basis or on a fixed rate basis having a contract interest rate comparable to the prevailing market rate at 31st December 2017.

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

	2017	2016
	HK$M	HK$M
Bank loans:		
Repayable within one year	**39**	136
Repayable between one and two years	**1,882**	548
Repayable between two and five years	**1,326**	2,930
	3,247	3,614

24. Borrowings (continued)

The exposure of the Group's loans to interest rate changes (after interest rate swaps) and the contractual repricing dates at 31st December is as follows:

	2017 HK$M	2016 HK$M
6 months or less	**2,175**	2,834

The Group's weighted average cost of debt in 2017 is 2.58% (2016: 2.36%).

Accounting Policy

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

The Group has commitments under finance lease agreements in respect of buildings and building facilities and plant and machinery and tools. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	2017 HK$M	2016 HK$M
Gross finance lease liabilities (denominated in US dollars)		
No later than one year	**4**	4
Later than one year and no later than five years	**2**	6
Later than five years	**4**	5
	10	15
Future finance charges on finance leases	**(3)**	(4)
Present value of finance lease liabilities	**7**	11

The present value of finance lease liabilities at 31st December is repayable as follows:

	2017 HK$M	2016 HK$M
Repayable within one year	**3**	3
Repayable between one and five years	**1**	4
Repayable after five years	**3**	4
	7	11

25. Advance from a related party

Advance from a related party is at an interest rate of 2.99% (2016: 2.30%) per annum and unsecured. It is repayable in 2018 (2016: in 2018). The carrying amounts approximate their fair values because the advance is on a floating rate basis at 31st December 2017.

26. Share capital

Accounting Policy

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

	Company			
	2017		2016	
	Number of shares	**HK$M**	Number of shares	HK$M
Ordinary shares				
Issued and fully paid:				
At 31st December	**166,324,850**	**185**	166,324,850	185

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

27. Reserves

	Revenue reserve		Exchange translation reserve		Cash flow hedge reserve		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**6,013**	5,619	**(24)**	84	**–**	(7)	**5,989**	5,696
(Loss)/profit for the year	**(541)**	975	**–**	–	**–**	–	**(541)**	975
Other comprehensive income								
Defined benefit retirement schemes								
– remeasurement gains recognised	**113**	104	**–**	–	**–**	–	**113**	104
– deferred tax	**(18)**	(17)	**–**	–	**–**	–	**(18)**	(17)
Cash flow hedges								
– recognised during the year	**–**	–	**–**	–	**7**	(3)	**7**	(3)
– transferred to revenue	**–**	–	**–**	–	**1**	2	**1**	2
– transferred to finance charges	**–**	–	**–**	–	**2**	2	**2**	2
– deferred tax	**–**	–	**–**	–	**(2)**	–	**(2)**	–
Share of other comprehensive income of joint venture companies	**8**	11	**–**	–	**–**	6	**8**	17
Net translation differences on foreign operations	**–**	–	**151**	(108)	**–**	–	**151**	(108)
Total comprehensive (loss)/income for the year	**(438)**	1,073	**151**	(108)	**8**	7	**(279)**	972
Previous year's second interim dividend paid (note 10)	**(153)**	(183)	**–**	–	**–**	–	**(153)**	(183)
Current year's first interim dividend paid (note 10)	**(88)**	(105)	**–**	–	**–**	–	**(88)**	(105)
Current year's special interim dividend paid (note 10)	**–**	(391)	**–**	–	**–**	–	**–**	(391)
Change in composition of the Group (note 34)	**(86)**	–	**–**	–	**–**	–	**(86)**	–
At 31st December	**5,248**	6,013	**127**	(24)	**8**	–	**5,383**	5,989

The Group revenue reserve includes HK$83 million (2016: HK$153 million) representing the second interim dividend declared for the year (note 10).

28. Non-controlling interests

	2017	2016
	HK$M	HK$M
At 1st January	**1,345**	1,305
Share of profit for the year	**195**	118
Share of cash flow hedge reserve		
– gain/(loss) recognised during the year	**4**	(3)
– transferred to revenue	**1**	3
– deferred tax	**(1)**	–
Share of net translation differences on foreign operations	**83**	(73)
Share of total comprehensive income	**282**	45
Dividends paid	**(99)**	(5)
Acquisition of non-controlling interests in a subsidiary company	**89**	–
At 31st December	**1,617**	1,345

The Group has two subsidiary companies having non-controlling interests that are material to the Group, being HAECO Xiamen and TEXL.

HAECO Xiamen is incorporated in Xiamen, Mainland China, and the Group has an equity interest of 58.55%. The remaining 41.45% is held by non-controlling interests.

TEXL is incorporated in Xiamen, Mainland China, and the Group has an equity interest of 72.86%. The remaining 27.14% is held by non-controlling interests.

Set out below are the summarised financial information for HAECO Xiamen and TEXL.

Summarised statement of comprehensive income

	HAECO Xiamen		TEXL	
	2017	2016	2017	2016
	HK$M	HK$M	HK$M	HK$M
Revenue	**2,064**	1,664	**5,163**	4,809
Profit before taxation	**296**	199	**355**	331
Taxation charge	**(53)**	(30)	**(53)**	(49)
Profit for the year	**243**	169	**302**	282
Other comprehensive income	**207**	(174)	**11**	(1)
Total comprehensive income	**450**	(5)	**313**	281
Total comprehensive income allocated to non-controlling interests	**187**	(2)	**85**	76
Dividends paid to non-controlling interests	**65**	4	**32**	–

28. Non-controlling interests (continued)

Summarised statement of financial position

	HAECO Xiamen		TEXL	
	At 31st December		At 31st December	
	2017	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M
Non-current assets	**1,666**	1,559	**981**	1,012
Current assets	**1,634**	1,389	**1,359**	1,129
Current liabilities	**(427)**	(397)	**(787)**	(651)
Non-current liabilities	**(18)**	(17)	**(17)**	(132)
Net assets	**2,855**	2,534	**1,536**	1,358
Accumulated non-controlling interests	**1,181**	1,048	**378**	329

Summarised cash flows

	HAECO Xiamen		TEXL	
	2017	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M
Net cash generated from operating activities	**483**	303	**150**	343
Net cash used in investing activities	**(560)**	(111)	**(35)**	(41)
Net cash used in financing activities	**(160)**	(10)	**(283)**	(241)
Net (decrease)/increase in cash and cash equivalents	**(237)**	182	**(168)**	61
Cash and cash equivalents at 1st January	**596**	450	**323**	264
Currency adjustment	**28**	(36)	**2**	(2)
Cash and cash equivalents at 31st December	**387**	596	**157**	323

The information above is the amount before inter-company eliminations.

29. Receipt in advance

An advanced payment was received from Cathay Pacific Airways Limited in 2005 for storage service charges up to June 2018. At 31st December 2017, the current portion included in trade and other payables under current liabilities is HK$5 million (2016: HK$11 million) while there is no non-current portion (2016: HK$5 million).

30. Company statement of financial position and reserves

(a) Statement of Financial Position at 31st December 2017

	Note	2017 HK$M	2016 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**1,807**	1,856
Leasehold land		**13**	13
Intangible assets		**–**	1
Subsidiary companies		**1,492**	1,133
Joint venture companies		**565**	565
Derivative financial instruments		**5**	3
Loans due from subsidiary companies		**2,165**	2,340
Retirement benefit assets		**48**	39
		6,095	5,950
Current assets			
Stocks of aircraft parts		**240**	287
Work in progress		**133**	92
Trade and other receivables		**577**	669
Loan due from a subsidiary company		**681**	–
Derivative financial instruments		**1**	–
Cash and cash equivalents		**192**	181
		1,824	1,229
Current liabilities			
Trade and other payables		**1,514**	619
Taxation payable		**38**	19
Short-term loans		**54**	29
Long-term loans due within one year		**–**	82
		1,606	749
Net current assets		**218**	480
Total assets less current liabilities		**6,313**	6,430
Non-current liabilities			
Long-term loans		**1,325**	1,465
Receipt in advance		**–**	5
Deferred tax liabilities		**172**	158
Retirement benefit liabilities		**108**	218
		1,605	1,846
NET ASSETS		**4,708**	4,584
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	*26*	**185**	185
Reserves	*30(b)*	**4,523**	4,399
TOTAL EQUITY		**4,708**	4,584

The financial statements have been approved by the Board of Directors and signed on their behalf by:

John Slosar
Peter Tse
Directors

Hong Kong, 13th March 2018

30. Company statement of financial position and reserves (continued)

(b) The movement of reserves during the year is as follows:

	Revenue reserve		Cash flow hedge reserve		Total	
	2017	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
At 1st January	**4,397**	3,850	**2**	(1)	**4,399**	3,849
Profit for the year	**267**	1,139	**–**	–	**267**	1,139
Other comprehensive income						
Defined benefit retirement schemes						
– remeasurement gains recognised	**113**	104	**–**	–	**113**	104
– deferred tax	**(18)**	(17)	**–**	–	**(18)**	(17)
Cash flow hedges						
– recognised during the year	**–**	–	**2**	2	**2**	2
– transferred to finance charges	**–**	–	**2**	2	**2**	2
– deferred tax	**–**	–	**(1)**	(1)	**(1)**	(1)
Total comprehensive income for the year	**362**	1,226	**3**	3	**365**	1,229
Previous year's second interim dividend paid (note 10)	**(153)**	(183)	**–**	–	**(153)**	(183)
Current year's first interim dividend paid (note 10)	**(88)**	(105)	**–**	–	**(88)**	(105)
Current year's special interim dividend paid (note 10)	**–**	(391)	**–**	–	**–**	(391)
At 31st December	**4,518**	4,397	**5**	2	**4,523**	4,399

Distributable reserves of the Company at 31st December 2017 amounted to HK$4,518 million (2016: HK$4,397 million).

The Company revenue reserve includes HK$83 million (2016: HK$153 million) representing the second interim dividend declared for the year (note 10).

31. Notes to the consolidated statement of cash flows

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

	2017	2016
	HK$M	HK$M
Operating (loss)/profit	**(89)**	127
Depreciation, amortisation and impairment	**1,270**	966
Other items	**15**	13
Operating profit before working capital changes	**1,196**	1,106
(Decrease)/increase in retirement benefit liabilities	**(6)**	44
Increase in stocks and work in progress	**(238)**	(64)
(Increase)/decrease in trade and other receivables in relation to operating activities	**(59)**	273
Increase/(decrease) in trade and other payables in relation to operating activities	**207**	(145)
Decrease in receipt in advance	**(5)**	(11)
Increase in derivative financial instruments	**–**	(1)
Increase/(decrease) in deferred income	**1**	(3)
Cash generated from operations	**1,096**	1,199

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

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

Accounting Policy

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

	2017	2016
	HK$M	HK$M
Cash and cash equivalents	**971**	1,299
Short-term deposits maturing after more than three months	**20**	22
	991	1,321

The Group's weighted average interest rate per annum on cash and cash equivalents and deposits in 2017 is 0.89% (2016: 0.67%). The deposits have an average maturity of 22 days (2016: 58 days) for the Group.

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2017 and 31st December 2016 is the carrying value of the bank balances and short-term deposits disclosed above.

(c) The analysis of changes in financing during the year is as follows:

	2017								2016
	Current liabilities				**Non-current liabilities**				
	Short-term loans	**Long-term loans due within one year**	**Advance from a related party**	**Finance lease obligations due within one year**	**Long-term loans**	**Advance from a related party**	**Finance lease obligations**	**Total**	Total
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**	HK$M
At 1st January	**64**	**136**	**–**	**3**	**3,478**	**289**	**8**	**3,978**	4,432
Translation differences	**2**	**–**	**3**	**–**	**16**	**–**	**(1)**	**20**	(18)
Drawn	**1,321**	**–**	**–**	**–**	**1,697**	**–**	**–**	**3,018**	1,576
Repayment	**(1,281)**	**(2,096)**	**–**	**(3)**	**–**	**–**	**–**	**(3,380)**	(2,031)
Reclassification	**–**	**1,999**	**289**	**3**	**(1,999)**	**(289)**	**(3)**	**–**	–
Other non-cash movements	**–**	**–**	**–**	**–**	**16**	**–**	**–**	**16**	19
At 31st December	**106**	**39**	**292**	**3**	**3,208**	**–**	**4**	**3,652**	3,978

32. Capital commitments

	2017	2016
	HK$M	HK$M
Contracted but not provided for in the financial statements	**176**	649
Authorised by Directors but not contracted for	**711**	747
	887	1,396
The Group's share of capital commitments of joint venture companies not included above:		
Contracted but not provided for in the financial statements	**28**	132
Authorised by Directors but not contracted for	**39**	61

Capital commitments mainly relate to the acquisition of rotable spares and other machinery and tools.

33. Lease commitments

Accounting Policy

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases are recognised as income or expenses in the statement of profit or loss on a straight-line basis over the period of the lease.

(a) Lessor

At 31st December 2017, the future aggregate minimum lease receipts under non-cancellable operating leases receivable by the Group were as follows:

	2017	2016
	HK$M	HK$M
Land and buildings		
Not later than 1 year	**13**	11
Later than 1 year but not later than 5 years	**16**	23
	29	34

(b) Lessee

At 31st December 2017, the future aggregate minimum lease payments under non-cancellable operating leases payable by the Group were as follows:

	2017	2016
	HK$M	HK$M
Land and buildings and plant and equipment		
Not later than 1 year	**219**	213
Later than 1 year but not later than 5 years	**724**	771
Later than 5 years	**2,257**	2,662
	3,200	3,646

34. Transactions with non-controlling interests

(a) Acquisition of additional interest in a subsidiary company

On 24th October 2017, the Group completed an additional share capital injection of HK$360 million to HAECO Landing Gear Services. After the capital injection, the Group's shareholding in HAECO Landing Gear Services increased from 69.66% to 86.53%.

The effect of changes in the ownership interest of HAECO Landing Gear Services on the equity attributable to the Company's shareholders is summarised as follows:

	2017	2016
	HK$M	HK$M
Consideration paid for additional shareholding	**94**	–
Less: carrying amount of non-controlling interests acquired	**8**	–
Excess of consideration paid recognised within equity	**86**	–

34. Transactions with non-controlling interests (continued)

(b) Effect of transactions with non-controlling interests on the equity attributable to the Company's shareholders at year end

	2017	2016
	HK$M	HK$M
Total comprehensive (loss)/income attributable to the Company's shareholders	**(279)**	972
Changes in equity attributable to the Company's shareholders arising from:		
Acquisition of additional interest in a subsidiary company	**(86)**	–
	(365)	972

35. Immediate and ultimate holding company

The immediate holding company is Swire Pacific Limited, a company incorporated in Hong Kong.

The ultimate holding company is John Swire & Sons Limited, a company incorporated in England and Wales.

36. Related party and continuing connected transactions

Accounting Policy

Related parties of the Group are individuals and companies, including subsidiary and joint venture companies and key management of the Group or parent of the Group (including close members of their families), where the individual, company or Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Group has a number of transactions with its related parties and connected persons. Remuneration of key management which includes executive and non-executive directors is disclosed 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 Group. The aggregate transactions and balances which are material to the Group and which have not been disclosed elsewhere in the annual report are summarised below:

		Joint venture companies		Other related parties		Total	
	Notes	**2017**	2016	**2017**	2016	**2017**	2016
		HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Revenue from rendering of services	*a*	**50**	60	**2,774**	2,795	**2,824**	2,855
		50	60	**2,774**	2,795	**2,824**	2,855
Purchases of:							
Services from John Swire & Sons (H.K.) Limited under services agreement							
– Service fees payable during the year		**–**	–	**17**	39	**17**	39
– Expenses reimbursed at cost		**–**	–	**78**	87	**78**	87
Subtotal		**–**	–	**95**	126	**95**	126
– Share of administrative services		**–**	–	**4**	5	**4**	5
Total		**–**	–	**99**	131	**99**	131

36. Related party and continuing connected transactions (continued)

	Notes	Joint venture companies 2017 HK$M	Joint venture companies 2016 HK$M	Other related parties 2017 HK$M	Other related parties 2016 HK$M	Total 2017 HK$M	Total 2016 HK$M
Purchases of: (continued)							
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		**–**	–	**7**	7	**7**	7
Services from Cathay Pacific group		**–**	–	**20**	41	**20**	41
Other services	b	**35**	28	**18**	28	**53**	56
		35	28	**144**	207	**179**	235

Notes:

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

b. *Purchases from joint venture companies comprised mainly aircraft component overhaul charges by HAESL.*

c. *Amounts due from and due to joint venture companies and other related parties at 31st December 2017 are disclosed in notes 22 and 23 to the financial statements.*

d. *Continuing connected transactions during 2017:*

The following transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

(a) Cathay Pacific and HAECO ITM

Pursuant to the Framework Agreement dated 13th November 2013 with Cathay Pacific and HAECO ITM, services (being maintenance and related services in respect of aircraft, aircraft engines and aircraft parts and components and including inventory technical management services and the secondment of personnel) are provided by the Group to the Cathay Pacific group and vice versa and by HAECO ITM to the Group and vice versa. Payment is made in cash within 30 days of receipt invoices. The term of the Framework Agreement is for 10 years ending on 31st December 2022.

Cathay Pacific is an associate of the Company's holding company Swire Pacific Limited and therefore a connected person of the Company under the Listing Rules. As Cathay Pacific, a connected person of HAECO at the listed company level, owns more than 10% of the voting rights in HAECO ITM, HAECO ITM is also a connected person of HAECO. The transactions under the Framework Agreement are continuing connected transactions in respect of which an announcement dated 13th November 2013 was published and a circular dated 10th December 2013 was sent to shareholders.

For the year ended 31st December 2017 and under the Framework Agreement, the amounts payable by the Cathay Pacific group to the Group totalled HK$3,367 million, the amounts payable by the Group to the Cathay Pacific group totalled HK$20 million, the amounts payable by the Group to HAECO ITM totalled HK$1 million and the amounts payable by HAECO ITM to the Group totalled HK$242 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 the Company and its subsidiaries. The services comprise full or part time services of members of the staff of the 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 John Swire & Sons Limited ("Swire") group including (but not limited to) assistance in negotiating with regulatory and other governmental or official bodies, and in procuring for the Company and its subsidiary, jointly controlled and associated companies the use of relevant trademarks of the Swire group. No fee is payable in consideration of such procuration obligation or such use.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of the Company's consolidated profit before taxation and non-controlling interests after certain adjustments. The fees for each year are payable in cash in arrear 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. The Company 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 2017 to 31st December 2019 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 74.99% of the issued capital of the Company, and JSSHK, a wholly owned subsidiary of Swire, is therefore a connected person of the Company 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, 1st October 2007, 1st October 2010, 14th November 2013 and 19th August 2016 were published.

For the year ended 31st December 2017, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$17 million and expenses of HK$78 million were reimbursed at cost.

37. Principal subsidiary and joint venture companies at 31st December 2017

	Place of incorporation and operation	Principal activities	Issued share capital	Owned directly	Owned by subsidiary and joint venture companies	Attributable to the Group
Subsidiary Companies:						
HAECO Component Overhaul (Xiamen) Limited ~	Xiamen	Aircraft component overhaul	Registered capital of US$18,600,000	100%	–	100%
HAECO ITM Limited	Hong Kong	Aircraft inventory technical management	100 shares	70%	–	100%
HAECO USA Holdings, Inc.	United States	Aircraft overhaul and maintenance, cabin modification and interior products manufacturing	2,700 shares of US$0.01 each	–	100%	100%
Shanghai Taikoo Aircraft Engineering Services Company Limited *#+	Shanghai	Line services	Registered capital of US$3,700,000	60%	15%	68.78%
Singapore HAECO Pte. Limited	Singapore	Line services	Registered capital of SGD1	100%	–	100%
Taikoo (Xiamen) Aircraft Engineering Company Limited *	Xiamen	Aircraft overhaul and maintenance	Registered capital of US$41,500,000	58.55%	–	58.55%
Taikoo (Xiamen) Landing Gear Services Company Limited *	Xiamen	Landing gear repair and overhaul	Registered capital of US$36,890,000	83.93%	4.44%	86.53%
Taikoo Engine Services (Xiamen) Company Limited *	Xiamen	Commercial aero engine overhaul services	Registered capital of US$113,000,000	67.58%	9.01%	72.86%
Joint Venture Companies:						
Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited *	Jinjiang	Tyre services for commercial aircraft	Registered capital of US$7,500,000	28%	9%	33.27%
Goodrich Asia-Pacific Limited	Hong Kong	Carbon brake machining and wheel hub overhaul	9,200,000 shares	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%	20.49%
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%	30.86%
Hong Kong Aero Engine Services Limited	Hong Kong	Commercial aero engine overhaul services	20 shares	50%	–	50%
Taikoo (Shandong) Aircraft Engineering Company Limited *#	Jinan	Airframe maintenance services for narrow-body aircraft	Registered capital of RMB200,000,000	30%	10%	35.86%
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%	48.10%

Principal subsidiary and joint venture companies are those which, in the opinion of the Directors, materially affect the results or assets of the Group.

* *Equity joint venture incorporated in Mainland China.*
~ *Wholly foreign owned enterprise incorporated in Mainland China.*
\# *Companies not audited by PricewaterhouseCoopers.*
^ *Company in which the Group does not have control despite holding more than 50% share capital.*
\+ *Translated name.*

Principal Accounting Policies

Apart from the accounting policies presented within the corresponding notes to the financial statements, the other principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants and have been prepared under the historical cost convention as modified in relation to the revaluation of financial assets and financial liabilities (including derivative instruments), each of which are carried at fair value through profit or loss.

(a) The following amendments to standards were required to be adopted by the Group effective from 1st January 2017:

HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of these amendments has had no significant impact on the Group's financial statements.

(b) The Group has not early adopted the following relevant new and revised standards and new interpretations that have been issued but are effective for annual periods beginning on or after 1st January 2018 and they have therefore not been applied in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
HKFRSs (Amendment)	Annual Improvements to HKFRSs 2014-2016 Cycle	1st January 2018
HKFRS 2 (Amendment)	Classification and Measurement of Share-Based Payment Transactions	1st January 2018
HKFRS 9	Financial Instruments	1st January 2018
HKFRS 15	Revenue from Contracts with Customers	1st January 2018
HKFRS 16	Leases	1st January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	Postponed indefinitely
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1st January 2018
HK(IFRIC) 23	Uncertainty over Income Tax Treatments	1st January 2019

1. Basis of preparation (continued)

(b) (continued)

The complete version of HKFRS 9 replaces the guidance in HKAS 39. HKFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The incurred loss impairment model used in HKAS 39 has been replaced by an expected credit loss model, with the result that a loss event will no longer need to occur before an impairment allowance is recognised. There are no changes to classification and measurement of financial liabilities except for the recognition of changes relating to an entity's own credit risk, which are recognised in other comprehensive income for liabilities designated at fair value through profit or loss. Hedge accounting under HKFRS 9 requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one used by an entity's management for risk management purposes. This replaces the hedge effectiveness test under the current standard. This new standard is not expected to have a significant effect on the Group's financial statements.

HKFRS 15 deals with revenue recognition and establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The new standard replaces HKAS 18 and HKAS 11 and related interpretations and provides a comprehensive revenue recognition model that can be applied to a wide range of transactions and industries. The model uses a five-step analysis of transactions to determine whether, how much and when revenue is recognised. The adoption of the new standard will have an effect on the timing of the Group's revenue recognition, particularly in relation to engine maintenance service contracts which are expected to change from being recognised at a point in time under the current standards to being recognised over time under HKFRS 15. A percentage of completion method will be used to calculate the revenue to be recognised on these contracts and as a result, some revenue on engine maintenance contracts which are in progress at period ends will be recognised earlier under HKFRS 15. In adopting HKFRS 15 at 1st January 2018, the expected net opening adjustment under the modified retrospective approach is to increase retained earnings by approximately HK$70 million. The adoption of HKFRS 15 will impact the revenue, cost of direct material and job expenses, share of after-tax results of joint venture companies and taxation line items in the consolidated statement of profit or loss and the work in progress, trade and other receivables, trade and other payables and taxation payable line items in the consolidated statement of financial position.

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

None of the remaining new and revised standards is expected to have a significant effect on the Group's financial statements.

2. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiary companies (together referred to as the "Group") and the Group's interests in joint venture companies.

The results of subsidiary companies are included in the consolidated statement of profit or loss and non-controlling interests therein are disclosed separately as a component of the consolidated profit after tax. Results attributable to subsidiary company interests acquired or disposed of during the year are included from the date on which control is transferred to the Group or to the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiary companies by the Group. The cost of an acquisition is measured as the fair value of the assets purchased, equity instruments issued and liabilities incurred or assumed at the date of exchange. The cost of an acquisition includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. 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 non-controlling interests. The excess of the cost of acquisition over the fair value of the 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 profit or loss.

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

Non-controlling interests in the consolidated statement of financial position comprise the proportion of the net assets of subsidiary companies attributable to shareholders external to the Group. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between the cost of consideration and the relevant share acquired of the carrying value of net assets of the subsidiary company is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate company, joint venture company or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Where the Group enters into a contract that contains an obligation (for example a written put option exercisable by the contract counterparty) to acquire shares in a partly-owned subsidiary company from the owner of the non-controlling interest, which is not part of a business combination, the Group records a financial liability in respect of the present value of the redemption amount with a corresponding charge directly to equity. Changes to the value of the financial liability are recognised in the statement of profit or loss within finance income or finance charges.

3. Subsidiary companies

Investments in subsidiary companies in the Company's statement of financial position are stated at cost less provision for any impairment losses. Income from subsidiary companies is accounted for on the basis of dividends received and receivable. Loans to subsidiary companies with no fixed term of repayments or the Group has demonstrated its intention to renew at maturity are accounted for as a capital contribution.

4. Joint venture companies

In the Company's statement of financial position in Note 30, its investments in joint venture companies are stated at cost less provision for any impairment losses. Income from joint venture companies is recognised by the Company on the basis of dividends received and receivable.

5. Foreign currency translation

Items included in the financial statements of each of the 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 the Group's presentation currency.

Foreign currency transactions are translated into the Group's functional currencies using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges. When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, any associated translation difference is also recognised directly in other comprehensive income. When a gain or loss on a non-monetary item is recognised in the statement of profit or loss, any associated translation difference is also recognised in the statement of profit or loss.

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) Income and expenses for each statement of profit or loss are translated at average exchange rates; and

(c) All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component in equity.

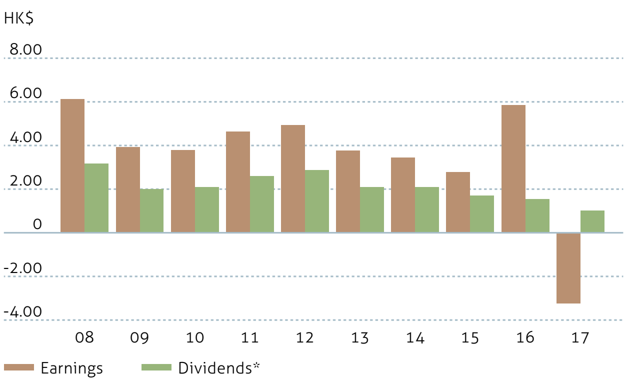
On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in other comprehensive income and accumulated in a separate component of equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statement of profit or loss 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.

Ten-Year Financial Summary

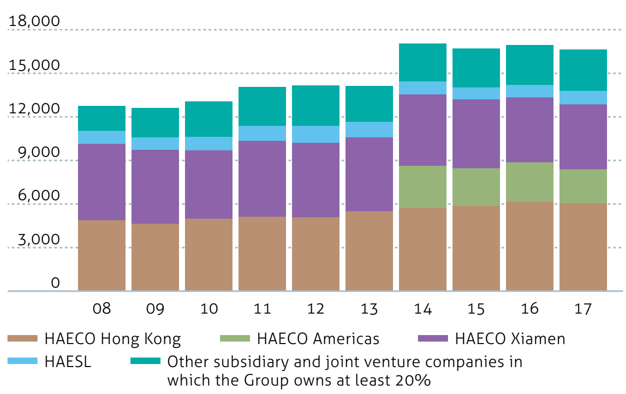
	2008	2009	2010
	HK$M	HK$M	HK$M
Revenue	4,901	4,045	4,266
Net operating profit/(loss)	892	341	310
Share of after-tax results of joint venture companies	453	417	402
Profit/(loss) attributable to the Company's shareholders	1,022	652	630
Interim and final dividends	529	332	349
Special dividend	–	–	–
Net assets employed			
Non-current assets	5,967	6,978	7,159
Net current (liabilities)/assets excluding deposits, loans and lease obligations	(162)	(115)	146
Cash surplus/(net borrowings)	215	(143)	(176)
Less: non-current liabilities excluding loans and lease obligations	(341)	(419)	(428)
	5,679	6,301	6,701
Financed by			
Equity attributable to the Company's shareholders	4,740	5,337	5,780
Non-controlling interests	939	964	921
	5,679	6,301	6,701
	HK$	HK$	HK$
Results per share			
Earnings/(loss) attributable to the Company's shareholders	6.14	3.92	3.79
Interim and final dividends	3.18	2.00	2.10
Special dividend	–	–	–
Equity attributable to the Company's shareholders	28.50	32.09	34.75
Number of staff			
HAECO Hong Kong	4,861	4,621	4,967
HAECO Americas	N/A	N/A	N/A
HAECO Xiamen	5,268	5,094	4,739
HAESL	908	892	901
Other subsidiary and joint venture companies in which the Group owns at least 20%	1,701	2,008	2,471
	12,738	12,615	13,078
Ratio			
Return on equity	21.2%	12.9%	11.3%
Profit margin	15.9%	7.6%	5.9%
Dividend cover – times	1.93	1.96	1.80
Dividend cover (adjusted) – times	1.93	2.03	1.80
Gearing ratio	–	2.3%	2.6%
Interest cover – times	N/A	74.00	39.75
	HK$	HK$	HK$
Share prices			
High	215.00	112.00	150.00
Low	44.60	64.00	79.00
Year-end	63.70	100.80	129.90
Market information			
Price/earnings – times	10.37	25.71	34.27
Market capitalisation (HK$Million)	10,595	16,766	21,606

Earnings and Dividends Per Share *



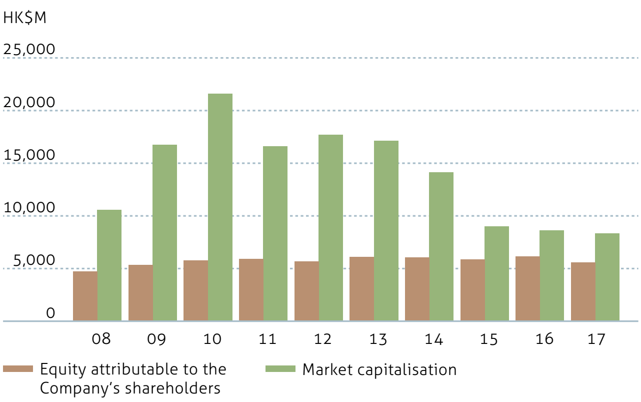
** Dividends represent the interim and final dividends.*

Number of Staff



2011	2012	2013	2014	2015	2016	**2017**
HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	**HK$M**
5,171	5,830	7,387	11,927	12,095	13,760	**14,546**
471	417	228	439	339	38	**(209)**
431	560	501	314	246	1,072	**314**
772	822	625	573	464	975	**(541)**
432	479	349	349	283	258	**171**
566	–	–	–	–	391	**–**
7,121	7,037	7,424	9,693	9,684	9,729	**9,382**
276	534	608	929	1,065	969	**627**
(106)	(261)	(193)	(2,610)	(2,710)	(2,368)	**(2,369)**
(365)	(503)	(513)	(625)	(853)	(811)	**(455)**
6,926	6,807	7,326	7,387	7,186	7,519	**7,185**
5,911	5,671	6,097	6,069	5,881	6,174	**5,568**
1,015	1,136	1,229	1,318	1,305	1,345	**1,617**
6,926	6,807	7,326	7,387	7,186	7,519	**7,185**
HK$	HK$	HK$	HK$	HK$	HK$	**HK$**
4.64	4.94	3.76	3.45	2.79	5.86	**(3.25)**
2.60	2.88	2.10	2.10	1.70	1.55	**1.03**
3.40	–	–	–	–	2.35	**–**
35.54	34.10	36.66	36.49	35.36	37.12	**33.48**
5,102	5,070	5,492	5,734	5,857	6,155	**6,057**
N/A	N/A	N/A	2,894	2,597	2,708	**2,331**
5,240	5,144	5,091	4,902	4,736	4,479	**4,450**
1,023	1,165	1,073	915	843	861	**932**
2,689	2,776	2,460	2,612	2,670	2,748	**2,871**
14,054	14,155	14,116	17,057	16,703	16,951	**16,641**
13.2%	14.2%	10.6%	9.4%	7.8%	16.2%	**-9.2%**
7.7%	5.1%	2.6%	2.9%	2.5%	0.2%	**-4.5%**
0.77	1.72	1.79	1.64	1.64	1.50	**(3.16)**
1.83	1.78	1.87	1.69	1.69	2.00	**1.99**
1.5%	3.8%	2.6%	35.3%	37.7%	31.5%	**33.0%**
70.86	28.29	8.11	7.61	5.86	5.69	**5.90**
HK$	HK$	HK$	HK$	HK$	HK$	**HK$**
130.70	113.48	114.03	101.77	88.32	62.29	**55.05**
92.00	94.33	101.50	84.60	53.80	44.75	**47.10**
100.00	106.40	103.00	84.90	54.20	51.80	**50.05**
21.55	21.54	27.39	24.61	19.43	8.84	**(15.40)**
16,632	17,697	17,131	14,121	9,015	8,616	**8,325**

Equity Attributable to the Company's Shareholders and Market Capitalisation



Glossary

Terms

EBITDA Total of operating profit (before depreciation, amortisation and impairment) and share of after-tax results of joint venture companies.

Net borrowings Total loans and finance lease obligations less bank deposits and bank balances.

Total equity Total of equity attributable to the Company's shareholders and non-controlling interests.

Ratios

Dividend cover $$= \frac{\text{Profit attributable to the Company's shareholders}}{\text{Interim, final and special dividends paid and proposed}}$$

Dividend cover (adjusted) $$= \frac{\text{Adjusted profit attributable to the Company's shareholders}}{\text{Interim and final dividends paid and proposed}}$$

Earnings per share $$= \frac{\text{Profit attributable to the Company's shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

EBITDA margin $$= \frac{\text{EBITDA}}{\text{Revenue}}$$

Gearing ratio $$= \frac{\text{Net borrowings}}{\text{Total equity}}$$

Interest cover $$= \frac{\text{Adjusted operating profit}}{\text{Net finance charges (disregarding the charge arising from the fair value on a put option over a non-controlling interest in a subsidiary company)}}$$

Market capitalisation $= \text{Year-end share price} \times \text{Number of shares in issue at year-end}$

Price/earnings $$= \frac{\text{Year-end share price}}{\text{Earnings per share}}$$

Profit margin $$= \frac{\text{Profit for the year excluding share of after-tax results of joint venture companies}}{\text{Revenue}}$$

Return on equity $$= \frac{\text{Profit attributable to the Company's shareholders}}{\text{Average equity during the year attributable to the Company's shareholders}}$$

Financial Calendar and Information for Investors

Financial Calendar 2018

Shares trade ex-dividend	27th March 2018
Share register closed for second interim dividend entitlement	29th March 2018
Annual Report available to shareholders	3rd April 2018
Payment of 2017 second interim dividend	24th April 2018
Share register closed for attending and voting at Annual General Meeting	2nd – 4th May 2018
Annual General Meeting	4th May 2018
Interim results announcement	August 2018
First interim dividend payable	September 2018

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88 Queensway
Hong Kong

Registrars

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17M Floor, Hopewell Centre
183 Queen's Road East
Hong Kong
Website: www.computershare.com

Stock Code

Hong Kong Stock Exchange: 00044

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Public Affairs

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