



INTERIM REPORT 2016

Hong Kong Aircraft
Engineering Company Limited

Stock Code: 00044



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Financial Highlights

		Six months ended 30th June		
		2016	2015	Change
Results				
Revenue	HK\$ Million	7,103	5,734	+23.9%
Net operating profit	HK\$ Million	274	224	+22.3%
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 investments)	HK\$ Million	119	104	+14.4%
– Gain on disposal of Singapore Aero Engine Services Pte. Limited	HK\$ Million	805	–	N/A
– Other joint venture companies	HK\$ Million	27	26	+3.8%
Profit attributable to the Company's shareholders	HK\$ Million	1,111	254	+337.4%
Earnings per share attributable to the Company's shareholders (basic and diluted)	HK\$	6.68	1.53	+337.4%
First interim dividend per share	HK\$	0.63	0.60	+5.0%
Special interim dividend per share	HK\$	2.35	–	N/A
		30th June 2016	31st December 2015	Change
Financial Position				
Net borrowings	HK\$ Million	2,201	2,710	-18.8%
Gearing ratio	%	27.1	37.7	-10.6%pt
Total equity	HK\$ Million	8,123	7,186	+13.0%
Equity attributable to the Company's shareholders per share	HK\$	40.76	35.36	+15.3%
		Six months ended 30th June		Change
		2016	2015	Change
Cash Flows				
Net cash generated from operating activities	HK\$ Million	411	426	-3.5%
Net cash inflow before financing activities	HK\$ Million	728	219	+232.4%

Notes:

The weighted average number of shares in issue is 166,324,850 in 2016 (2015: 166,324,850).

Additional financial information of the Group's joint venture companies is presented on pages 26 to 27.

Chairman's Letter

The HAECO Group reported an attributable profit of HK\$1,111 million for the first six months of 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"). This compares with a profit of HK\$254 million for the equivalent period in 2015. Earnings per share increased by 337.4% to HK\$6.68. Revenue increased by 23.9% to HK\$7,103 million.

The Directors have declared a first interim dividend of HK\$0.63 per share (2015: HK\$0.60 per share) and a special interim dividend of HK\$2.35 per share (2015: nil) for the year ending 31st December 2016, which together represent an increase of 396.7% from the first interim dividend paid in 2015. The first interim dividend, which totals HK\$105 million (2015: HK\$100 million), and the special interim dividend, which totals HK\$391 million (2015: nil), will be paid on 20th September 2016 to shareholders registered at the close of business on the record date, being Friday, 2nd September 2016. Shares of the Company will be traded ex-dividend as from Wednesday, 31st August 2016.

Demand for airframe services provided by HAECO in Hong Kong ("HAECO Hong Kong") was less in the first half of 2016 than in the first half of 2015. Line services benefited from increased aircraft movements and more work being done per movement. More component maintenance manhours were sold in Hong Kong. The operating profit of HAECO ITM Limited ("HAECO ITM") increased as services were provided for more aircraft, but increased finance charges resulted in reduced attributable profits. The profits of HAESL increased. More engines were overhauled and more work was done per engine.

The agreements for the restructuring of shareholdings in HAESL and SAESL were completed on 30th June 2016. The gain to HAESL arising from selling its 20% shareholding in SAESL was US\$229 million. 45% of the gain to HAESL, equivalent to approximately HK\$805 million, has been included in the profit of the Group for the first half of the year. Under the restructuring, HAECO increased its shareholding in HAESL from 45% to 50% and HAESL no longer has any shareholding in SAESL.

HAECO USA Holdings, Inc. ("HAECO Americas") made a loss in the first half of 2016 similar to that in the first half of 2015. The airframe services performance was better, but fewer seats were sold.

The pre-tax profit of Taikoo (Xiamen) Aircraft Engineering Company Limited ("HAECO Xiamen") decreased in the first half of 2016 compared with the first half of 2015. Demand for its airframe services was weak. Its post-tax profit improved as a result of a lower tax rate. Taikoo Engine Services (Xiamen) Company Limited ("TEXL") performed well, with more engines having been overhauled and more component repair work. Taikoo (Xiamen) Landing Gear Services Company Limited ("HAECO Landing Gear Services") incurred a loss comparable to the first half of 2015. The overall contribution from the Group's other activities in Mainland China improved.

The Group continued to invest in expanding its facilities and technical capabilities and to improve and widen the range of services it can offer to customers. Total capital expenditure during the first half of 2016 was HK\$328 million. Capital expenditure committed at 30th June 2016 was HK\$1,514 million.

Demand for HAECO Hong Kong's airframe and component maintenance services is expected to be roughly stable in the second half of 2016. Demand for its line services is expected to be firm. Demand for HAECO Americas' airframe services is expected to increase compared with the second half of 2015 but seasonal factors mean that less work will be done than in the first half of 2016. The seat business will continue to be adversely affected by reduction in demand for our older model seats. Forward bookings for cabin integration work are weak but there will be more Panasonic Global Communication Suite work. Demand for HAECO Xiamen's airframe services is expected to be weak in the second half of 2016. HAESL's results in the second half of the year are expected to be adversely affected by reduced demand for its engine overhaul services although results for the whole of 2016 are likely to be better than those of 2015. TEXL's engine output is expected to remain stable. The results of HAECO Landing Gear Services will continue to be adversely affected by strong competition.

The municipal government of Xiamen has announced that the proposed new airport at Xiang'an will commence operations in 2020. This is subject to the National Development and Reform Commission's 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.

John Slosar

Chairman

Hong Kong, 16th August 2016

Review of Operations

The profit attributable to the Company's shareholders comprises:

	Six months ended 30th June		
	2016 HK\$M	2015 HK\$M	Change
HAECO Hong Kong	82	99	-17.2%
HAECO Americas	(59)	(59)	+0.0%
HAECO Xiamen	47	46	+2.2%
TEXL	103	52	+98.1%
Share of:			
HAESL and SAESL	924	104	+788.5%
Other subsidiary and joint venture companies	14	12	+16.7%
Profit attributable to the Company's shareholders	1,111	254	+337.4%

The following table shows the attributable profit adjusted so as to exclude the net gain on disposal of SAESL.

	Six months ended 30th June		
	2016 HK\$M	2015 HK\$M	Change
Profit attributable to the Company's shareholders	1,111	254	+337.4%
Adjusting item			
Gain on disposal of SAESL, net of associated expenses	(783)	–	N/A
Adjusted profit	328	254	+29.1%
The adjusted profit by company is analysed below:			
HAECO Hong Kong	104	99	+5.1%
HAECO Americas	(59)	(59)	+0.0%
HAECO Xiamen	47	46	+2.2%
TEXL	103	52	+98.1%
Share of:			
HAESL and SAESL	119	104	+14.4%
Other subsidiary and joint venture companies	14	12	+16.7%
	328	254	+29.1%

The key operating highlights are as follows:

	Six months ended 30th June		Change
	2016	2015	
Airframe services sold manhours (in millions)			
HAECO Hong Kong	1.38	1.40	-1.4%
HAECO Americas	1.74	1.55	+12.3%
HAECO Xiamen	1.65	1.92	-14.1%
	4.77	4.87	-2.1%
Line services aircraft movements (per day)			
HAECO Hong Kong	306	299	+2.3%
HAECO Xiamen	48	45	+6.7%
HAECO Shanghai	46	40	+15.0%
Engine output			
TEXL – performance restorations	23	13	+76.9%
TEXL – quick turn repairs	25	25	+0.0%
HAESL	60	53	+13.2%

HAECO HONG KONG

HAECO Hong Kong's business comprises airframe services, line services at the passenger and cargo terminals at Hong Kong International Airport, component services, materials management and fleet technical management. It recorded a 5.1% increase in adjusted profit in the first half of 2016 compared to the equivalent period in 2015.

1.38 million airframe services manhours were sold by HAECO Hong Kong in the first half of 2016, 1.4% less than in the first half of 2015. The reduction reflected reduced demand and changes in customers' maintenance schedules. 82.1% of the work was for airlines based outside Hong Kong.

HAECO Hong Kong handled approximately 55,600 aircraft movements (representing an average of 306 per day) in the first half of 2016, an increase of 2.3% compared with the first half of 2015. More work was done per movement. Line services manhours increased accordingly.

Component maintenance manhours sold, together with those sold by HAECO Component Overhaul (Xiamen) Limited ("HAECO Component Overhaul (Xiamen)"), were 0.11 million in the first half of 2016, an increase of 10% compared to the first half of 2015. The increase reflected additional component maintenance capabilities.

Demand for HAECO Hong Kong's airframe and component maintenance services is expected to be roughly stable in the second half of 2016. Demand for line services is expected to be firm. Line services capacity is increasing, with more staff being hired.

HAECO AMERICAS (OWNED 100% BY HAECO)

HAECO Americas' business comprises airframe maintenance, repair and overhaul services, line services, engine repair services, the manufacture of seats and other aircraft cabin work. It recorded a loss of HK\$59 million in the first half of 2016, the same as that in the same period last year. The airframe services performance was better, but fewer seats were sold.

1.74 million airframe services manhours were sold, 12.3% more than the first half of 2015. More airframes were overhauled. Work was done on a significant aircraft modification programme which started in the second half of 2015. The beneficial effect on profits was partly offset by expenditure to improve efficiency and work flow.

In the cabin and seat business, more Panasonic kit work was done. Fewer seats were sold (approximately 1,800 compared with 2,800 in the first half of 2015). Demand for our older model seats declined and the new ones did not start to be sold until the second quarter.

Demand for HAECO Americas' airframe services is expected to increase compared with the second half of 2015 but seasonal factors mean that less work will be done than in the first half of 2016. The seat business will continue to be adversely affected by reduction in demand for our older model seats. Forward bookings for cabin integration work are weak but there will be more Panasonic Global Communication Suite work.

HAECO XIAMEN (OWNED 58.55% BY HAECO)

HAECO Xiamen's business comprises airframe services, line services, private jet work, parts manufacturing and technical training.

HAECO Xiamen recorded a 2.2% increase in attributable profit in the first half of 2016, to HK\$47 million, due to a lower tax rate. Its pre-tax profit decreased because demand for airframe services in the first half of 2016 was weak. Less work was performed for a major North American customer. 1.65 million manhours were sold, 14.1% lower than the same period in 2015.

HAECO Xiamen handled an average of 48 aircraft movements per day in the first half of 2016, 6.7% more than in the first half of 2015. The profit from line services increased accordingly.

The first half year's private jet results were worse than those of the first half of 2015. We started to modify a private jet cabin. The work is expected to be finished in early 2017. HAECO Xiamen became an approved Airbus corporate jet service centre in April.

Parts manufacturing revenue increased by 13.6% in the first half of 2016 compared to the same period in 2015.

Revenue from technical training increased by 35.3% in the first half of 2016 compared with the corresponding period in 2015, mainly due to demand for training related to Boeing 787 aircraft.

Demand for HAECO Xiamen's airframe services is expected to be weak in the second half of 2016. Less work will be done for a major North American customer.

The adverse effect of this will be offset in part by doing more work for customers from outside North America and by narrow body passenger-to-freighter conversion work.

The municipal government of Xiamen has announced that the proposed new airport at Xiang'an will commence operations in 2020. This is subject to the National Development and Reform Commission's approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

TEXL (OWNED 67.58% BY HAECO AND 9.01% BY HAECO XIAMEN)

TEXL has an engine overhaul facility in Xiamen. It has a service agreement with General Electric under which it provides maintenance, repair and overhaul services on GE90-110B and GE90-115B engines. In the first half of 2016, TEXL completed 25 quick turn repairs and 23 performance restorations on GE90 engines, 10 more performance restorations than in the first half of 2015. With more engines overhauled and more component repair work, TEXL recorded a significantly higher profit in the first half of 2016 than in the first half of 2015.

As the engine types overhauled by TEXL get older, they need more maintenance. TEXL's engine output is expected to be stable in the second half of 2016.

HAESL (45% OWNED BY HAECO UNTIL 30TH JUNE 2016, 50% OWNED BY HAECO THEREAFTER)

HAESL repairs and overhauls Rolls-Royce engines and engine components at Tseung Kwan O in Hong Kong. Excluding the profit on disposal of its interest in SAESL, it recorded a 32.1% increase in profit in the first half of 2016 compared to the first half of 2015. More engines (60 compared with 53 in the first half of 2015) were overhauled and more work was done per engine.

SAESL, in which HAESL had a 20% interest until 30th June 2016, recorded a 47.8% decrease in profit in the first half of 2016 compared to the first half of 2015. Fewer engines were overhauled and less work was done per engine.

The agreements entered into in November 2015 for the restructuring of shareholdings in HAESL and SAESL were completed on 30th June 2016. The gain to HAESL arising from selling its 20% shareholding in SAESL under the restructuring was US\$229 million. 45% of the gain to HAESL, equivalent to approximately HK\$805 million, has been included in the profit of the Group for the first half of 2016. Under the restructuring, HAECO increased its shareholding in HAESL from 45% to 50%. HAESL is now owned as to 50% by HAECO and 50% by Rolls-Royce. HAESL no longer has any shareholding in SAESL.

HAESL's results in the second half of the year are expected to be adversely affected by reduced demand for its engine overhaul services although results for the whole of 2016 are likely to be better than those of 2015. HAESL expects to start generating revenue from overhauling Trent XWB engines (which power Airbus A350 aircraft) in 2017.

OTHER PRINCIPAL SUBSIDIARY AND JOINT VENTURE COMPANIES

HAECO ITM (owned 70% by HAECO) provides inventory technical management services to Cathay Pacific and other airlines. HAECO ITM provided inventory technical management services for 270 aircraft in the first half of 2016, an increase of 5.5% over the equivalent period in 2015. Operating profit increased, but increased finance charges resulted in reduced attributable profits.

HAECO Landing Gear Services (owned 63.80% by HAECO and 10% by HAECO Xiamen) overhauls landing gear in Xiamen. It recorded a loss in the first half of 2016 which was comparable to that in the corresponding period last year. Its results were adversely affected by strong competition.

HAECO Component Overhaul (Xiamen) (100% owned) made a smaller loss in the first half of 2016 than in the equivalent period in 2015. It did more work.

Shanghai Taikoo Aircraft Engineering Services Company Limited ("HAECO Shanghai") (owned 60% by HAECO and 15% by HAECO Xiamen) provides line services in Shanghai and Nanjing. The average number of aircraft movements handled per day was 46 in the first half of 2016, 15% more than that of 2015. Its profit increased accordingly.

Singapore HAECO Pte. Limited ("HAECO Line Services (Singapore)") (100% owned) provides lines services in Singapore. It recorded a small profit in the first half of 2016.

Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited ("HAECO Spirit AeroSystems") (owned 41.8% by HAECO and 10.76% by HAECO Xiamen) repairs and overhauls composite structures at Jinjiang in Fujian Province in Mainland China. It did more work and made more profit before tax in the first half of 2016 than in the first half of 2015. Profit after tax fell, as it no longer had tax losses to utilise.

STAFF

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

	30th June 2016	31st December 2015	Change
HAECO Hong Kong	5,989	5,857	+2.3%
HAECO Americas	2,745	2,597	+5.7%
HAECO Xiamen	4,630	4,736	-2.2%
HAESL	830	843	-1.5%
Other subsidiary and joint venture companies in which HAECO and HAECO Xiamen own more than 20%	2,698	2,670	+1.0%
	16,892	16,703	+1.1%

Financial Review

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Six months ended 30th June		Change HK\$M	Reference
	2016 HK\$M	2015 HK\$M		
Revenue				
– HAECO Hong Kong The increase reflects more line services work.	1,902	1,777	125	
– HAECO Americas The increase reflects more airframe and Panasonic Global Communication Suite work.	1,586	1,256	330	
– HAECO Xiamen The decrease reflects less airframe work.	835	938	(103)	
– TEXL The increase reflects more engines having been overhauled and more component repair work.	2,515	1,538	977	
– Others The increase reflects more business at HAECO ITM.	265	225	40	
– Total	7,103	5,734	1,369	Note 4
Staff remuneration and benefits The increase reflects higher staff costs at HAECO Hong Kong and HAECO Americas.	(2,517)	(2,405)	(112)	
Cost of direct material and job expenses The increase reflects more performance restoration engine repair work at TEXL and more cabin work at HAECO Americas.	(3,472)	(2,387)	(1,085)	
Depreciation, amortisation and impairment The reduction is due to the figure in the first half of 2015 including an impairment charge for plant, machinery and tools.	(307)	(320)	13	Note 9
Other operating expenses The increase reflects a reversal of rental expenses accrued at HAECO Hong Kong in the first half of 2015 and non-recurring consultancy fee at HAECO Americas.	(492)	(374)	(118)	
Other net gains The movement reflects smaller foreign exchange gains and fewer government subsidies.	8	15	(7)	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

	Six months ended 30th June		Change HK\$M	Reference
	2016 HK\$M	2015 HK\$M		
Operating profit The growth in operating profit reflects an increased profit at TEXL, partially offset by a lower profit at HAECO Xiamen.	323	263	60	
Net finance charges The increase reflects an increase in the average cost of debt during the period.	(49)	(39)	(10)	Note 5
Share of after-tax results of joint venture companies The increase predominantly reflects the gain on disposal of SAESL.	951	130	821	Note 11
Taxation The decrease reflects a lower HAECO Xiamen's profit and reduced tax rates at HAECO Xiamen and TEXL, partially offset by an increased profit at TEXL.	(46)	(58)	12	
Non-controlling interests The increase reflects higher profits at TEXL.	(68)	(42)	(26)	
Profit attributable to the Company's shareholders	1,111	254	857	

ASSETS

Total assets at 30th June 2016 were HK\$15,333 million. During the period, additions to fixed assets were HK\$306 million. Included in this amount was HK\$76 million spent on plant, machinery and tools and HK\$128 million spent on rotatable and repairable spare parts for inventory technical management.

Financing

NET BORROWINGS AND GEARING

At 30th June 2016, the Group's net borrowings were HK\$2,201 million representing a reduction of HK\$509 million from those at 31st December 2015. The reduction principally reflects receipt of the net proceeds from the restructuring of shareholdings in HAESL and SAESL. The gearing ratio was 27.1%, compared with 37.7% at the end of 2015. The Group's net borrowings by company are analysed below:

	Group	
	30th June 2016 HK\$M	31st December 2015 HK\$M
HAECO Hong Kong	(444)	(741)
HAECO Americas	(2,347)	(2,349)
HAECO Xiamen	500	450
TEXL	81	(121)
Other subsidiary companies	9	51
	(2,201)	(2,710)

SOURCES OF FINANCING

At 30th June 2016, net borrowings consisted of short-term loans of HK\$5 million, long-term loans of HK\$3,899 million and finance lease obligations of HK\$11 million, net of bank balances and short-term deposits of HK\$1,714 million. Committed facilities were HK\$5,034 million at 30th June 2016, of which HK\$1,077 million were undrawn. There were uncommitted facilities of HK\$1,840 million, of which HK\$1,835 million were undrawn. Sources of funds at 30th June 2016 comprised:

	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring beyond one year HK\$M
Committed facilities				
– Loans and finance leases	5,034	3,957	117	960
Uncommitted facilities				
– Loans and overdrafts	1,840	5	1,835	–
Total	6,874	3,962	1,952	960

MATURITY PROFILE

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

The maturity of long-term loans at 30th June 2016 was as follows:

	Group	
	30th June 2016 HK\$M	31st December 2015 HK\$M
Bank loans:		
Repayable within one year	513	178
Repayable between one and two years	97	554
Repayable between two and five years	3,289	3,391
	3,899	4,123

FINANCE CHARGES

The Group's weighted average cost of debt at 30th June 2016 was 2.33% (30th June 2015: 2.03%; 31st December 2015: 2.06%). The exposure of the Group's loans to interest rate changes (after interest rate swaps) can be illustrated as follows:

	Floating interest rate HK\$M	Fixed interest rate maturing in:			Total HK\$M
		1 year or less HK\$M	1 to 5 years HK\$M	Over 5 years HK\$M	
At 30th June 2016	3,213	-	744	5	3,962
At 31st December 2015	2,823	1,001	357	4	4,185

CURRENCY PROFILE

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

Currency	30th June 2016		31st December 2015	
	HK\$M		HK\$M	
Hong Kong dollars	1,790	45.2%	1,850	44.2%
United States dollars	2,172	54.8%	2,335	55.8%
Total	3,962	100.0%	4,185	100.0%

CURRENCY HEDGING

HAECO Xiamen tries to mitigate its exposure to increases in the value of the Renminbi by retaining surplus funds in Renminbi and by selling US dollars forward. At 30th June 2016, HAECO Xiamen had sold forward a total of US\$21 million to fund part of its Renminbi requirements for 2016 and 2017. The weighted average exchange rate applicable to these forward sales was RMB6.64 to US\$1. Because of a decrease in the value of the Renminbi, losses of HK\$1 million were incurred on forward foreign exchange contracts in the first half of 2016.

Report on Review of Condensed Interim Financial Statements

TO THE BOARD OF DIRECTORS OF HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed interim financial statements set out on pages 13 to 31, which comprise the consolidated statement of financial position of Hong Kong Aircraft Engineering Company Limited (the "Company") and its subsidiaries (together the "Group") as at 30th June 2016 and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on condensed interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these interim financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review

of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 16th August 2016

Consolidated Statement of Profit or Loss

for the six months ended 30th June 2016

		(Unaudited) Six months ended 30th June	(Audited) Year ended 31st December
	Note	2016 HK\$M	2015 HK\$M
Revenue	4	7,103	12,095
Operating expenses:			
Staff remuneration and benefits		(2,517)	(4,813)
Cost of direct material and job expenses		(3,472)	(5,460)
Depreciation, amortisation and impairment		(307)	(620)
Insurance and utilities		(90)	(187)
Operating lease rentals – land and buildings		(136)	(214)
Repairs and maintenance		(85)	(163)
Other		(181)	(237)
		(6,788)	(11,694)
Other net gains		8	14
Operating profit	4	323	415
Finance income	5	4	20
Finance charges	5	(53)	(96)
Net operating profit		274	339
Share of after-tax results of:			
Joint venture companies before gain on disposal of investments		146	246
Joint venture company's gain on disposal of investments		805	–
	11	951	246
Profit before taxation		1,225	585
Taxation	6	(46)	(33)
Profit for the period		1,179	552
Profit attributable to:			
The Company's shareholders		1,111	464
Non-controlling interests		68	88
		1,179	552
Dividends			
First interim – declared/paid		105	100
Second interim – paid		–	183
Special interim – declared		391	–
		496	283
Earnings per share from profit attributable to the Company's shareholders (basic and diluted)	8	HK\$6.68	HK\$2.79

The notes on pages 18 to 31 form part of these financial statements.

Consolidated Statement of Other Comprehensive Income

for the six months ended 30th June 2016

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December	
	2016 HK\$M	2015 HK\$M	2015 HK\$M	2015 HK\$M
Profit for the period	1,179	296		552
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Defined benefit retirement schemes				
– remeasurement losses recognised during the period	–	–		(253)
– deferred tax	–	–		43
Share of other comprehensive income of joint venture companies	–	–		(19)
Items that may be reclassified subsequently to profit or loss				
Cash flow hedges				
– losses recognised during the period	(5)	(3)		(8)
– transferred to revenue	3	4		10
– transferred to finance charges	1	2		4
– deferred tax	–	(1)		(2)
Share of other comprehensive income of joint venture companies	6	1		(2)
Net translation differences on foreign operations	(58)	(3)		(136)
Other comprehensive income for the period, net of tax	(53)	–		(363)
Total comprehensive income for the period	1,126	296		189
Total comprehensive income attributable to:				
The Company's shareholders	1,082	253		153
Non-controlling interests	44	43		36
	1,126	296		189

The notes on pages 18 to 31 form part of these financial statements.

Consolidated Statement of Financial Position

at 30th June 2016

	Note	(Unaudited) 30th June 2016 HK\$M	(Audited) 31st December 2015 HK\$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	9	5,305	5,319
Leasehold land and land use rights	9	326	337
Intangible assets	10	2,490	2,531
Joint venture companies	11	1,589	1,262
Deferred tax assets	16	209	182
Retirement benefit assets	12	36	36
Long-term prepayment		17	17
		9,972	9,684
Current assets			
Stocks		819	775
Work in progress		805	878
Trade and other receivables	14	2,021	1,902
Taxation recoverable		1	6
Derivative financial instruments	13	1	–
Cash and cash equivalents		1,709	1,413
Short-term deposits		5	14
		5,361	4,988
Current liabilities			
Trade and other payables	15	2,271	2,377
Taxation payable		89	42
Put option over a non-controlling interest in a subsidiary company		75	74
Derivative financial instruments	13	2	3
Short-term loans		5	–
Long-term loans due within one year		513	178
Finance lease obligations due within one year		3	3
		2,958	2,677
Net current assets		2,403	2,311
Total assets less current liabilities		12,375	11,995
Non-current liabilities			
Long-term loans		3,386	3,945
Finance lease obligations		8	11
Receipt in advance		11	16
Deferred income		18	20
Advance from a related party		288	295
Deferred tax liabilities	16	246	239
Derivative financial instruments	13	3	–
Retirement benefit liabilities	12	286	275
Other payables		6	8
		4,252	4,809
NET ASSETS		8,123	7,186
EQUITY			
Share capital	17	185	185
Reserves	18	6,595	5,696
Equity attributable to the Company's shareholders		6,780	5,881
Non-controlling interests		1,343	1,305
TOTAL EQUITY		8,123	7,186

The notes on pages 18 to 31 form part of these financial statements.

Consolidated Statement of Cash Flows

for the six months ended 30th June 2016

	(Unaudited) Six months ended 30th June	2015 HK\$M	(Audited) Year ended 31st December
	2016 HK\$M		2015 HK\$M
Operating activities			
Cash generated from operations	467	529	868
Interest paid	(45)	(41)	(81)
Interest received	4	14	23
Tax paid	(15)	(76)	(114)
Net cash generated from operating activities	411	426	696
Investing activities			
Purchase of property, plant and equipment	(325)	(346)	(702)
Purchase of intangible assets	(3)	(3)	(14)
Proceeds from disposals of property, plant and equipment	21	31	109
Dividends received from joint venture companies	1,068	106	185
Purchase of shares in a joint venture company	(452)	–	–
Decrease in deposits maturing after more than three months	8	5	7
Net cash generated from/(used in) investing activities	317	(207)	(415)
Net cash inflow before financing activities	728	219	281
Financing activities			
Proceeds from loans	865	329	1,430
Repayment of loans and finance leases	(1,090)	(854)	(2,258)
(Repayment to)/advance from a related party	(7)	77	77
Dividends paid to the Company's shareholders	(183)	(241)	(341)
Dividends paid to non-controlling interests	(6)	(50)	(49)
Net cash used in financing activities	(421)	(739)	(1,141)
Increase/(decrease) in cash and cash equivalents	307	(520)	(860)
Cash and cash equivalents at 1st January	1,413	2,310	2,310
Currency adjustment	(11)	(8)	(37)
Cash and cash equivalents at end of the period	1,709	1,782	1,413

The notes on pages 18 to 31 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2016

	Attributable to the Company's shareholders			Non-controlling interests HK\$M	Total equity HK\$M
	Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M		
At 1st January 2016	185	5,619	77	1,305	7,186
Profit for the period	–	1,111	–	68	1,179
Other comprehensive income	–	–	(29)	(24)	(53)
Total comprehensive income for the period	–	1,111	(29)	44	1,126
Dividends paid	–	(183)	–	(6)	(189)
At 30th June 2016 (unaudited)	185	6,547	48	1,343	8,123

	Attributable to the Company's shareholders			Non-controlling interests HK\$M	Total equity HK\$M
	Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M		
At 1st January 2015	185	5,725	159	1,318	7,387
Profit for the period	–	254	–	42	296
Other comprehensive income	–	–	(1)	1	–
Total comprehensive income for the period	–	254	(1)	43	296
Dividends paid	–	(241)	–	(50)	(291)
At 30th June 2015 (unaudited)	185	5,738	158	1,311	7,392

The notes on pages 18 to 31 form part of these financial statements.

Notes to the Interim Financial Statements

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The financial information relating to the year ended 31st December 2015 that is included in the Interim Report 2016 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance") in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2015 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor's report has been prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial statements are consistent with those described in the 2015 annual financial statements except for those noted in 1(b) below.

- (b) The following amendments were required to be adopted by the Group effective from 1st January 2016:

HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKFRSs (Amendment)	Annual Improvements to HKFRSs 2012-2014 Cycle
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations

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

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the interim financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Those areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the Group's consolidated financial statements are detailed in the 2015 annual financial statements.

3. FINANCIAL RISK MANAGEMENT

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

The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2015 annual financial statements. There have been no changes in the Group's financial risk management structure, policies and procedures since the year end.

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

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

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

	Level 2 HK\$M	Level 3 HK\$M	Total carrying amount HK\$M
Assets as per consolidated statement of financial position			
At 30th June 2016			
Derivatives not qualifying as hedges	1	–	1
Total	1	–	1
Liabilities as per consolidated statement of financial position			
At 30th June 2016			
Derivatives used for hedging	5	–	5
Put option over a non-controlling interest in a subsidiary company	–	75	75
Total	5	75	80
At 31st December 2015			
Derivatives used for hedging	3	–	3
Put option over a non-controlling interest in a subsidiary company	–	74	74
Total	3	74	77

3. FINANCIAL RISK MANAGEMENT (continued)

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

	Put option over a non-controlling interest in a subsidiary company HK\$M
At 1st January 2016	74
Change in fair value recognised in profit or loss during the period	1
At 30th June 2016	75
Total loss for the period included in profit or loss in respect of financial instrument held at 30th June 2016	1
Change in unrealised loss for the period included in profit or loss in respect of financial instrument held at 30th June 2016	1

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

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

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

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

Description	Unobservable inputs	Unobservable inputs (%)	Relationship of unobservable inputs to fair value	Possible reasonable change	Impact on valuation (HK\$M)
Put option over a non-controlling interest in a subsidiary company	Terminal growth rate into perpetuity	2%	The higher the terminal growth rate, the higher the fair value	+/-1%	51/(35)
	Discount rate	7.5%	The higher the discount rate, the lower the fair value	+/-1%	(58)/83

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

4. SEGMENT INFORMATION

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

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

Six months ended 30th June 2016	HAESL									
	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	At 100%		Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					Excluding disposal of interests in SAESL HK\$M	Disposal of interests in SAESL HK\$M				
External revenue	1,902	1,586	835	2,515	4,098	–	(4,098)	265	–	7,103
Inter-segment revenue	72	1	10	–	9	–	(9)	15	(98)	–
Total revenue	1,974	1,587	845	2,515	4,107	–	(4,107)	280	(98)	7,103
Operating profit/(loss)	109	(64)	89	177	288	1,789	(2,077)	12	–	323
Finance income	8	–	10	1	–	–	–	–	(15)	4
Finance charges	(18)	(25)	–	(4)	(3)	–	3	(20)	14	(53)
Share of after-tax results of joint venture companies	–	–	–	–	27	–	897	–	27	951
Profit/(loss) before taxation	99	(89)	99	174	312	1,789	(1,177)	(8)	26	1,225
Taxation (charge)/credit	(17)	30	(14)	(26)	(47)	–	47	(10)	(9)	(46)
Profit/(loss) for the period	82	(59)	85	148	265	1,789	(1,130)	(18)	17	1,179
Depreciation	83	30	64	19	47	–	(47)	59	–	255
Amortisation	1	29	7	15	2	–	(2)	–	–	52
Provision for impairment of stock	1	4	–	1	–	–	–	–	–	6

4. SEGMENT INFORMATION (continued)

Six months ended 30th June 2015	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL		Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
External revenue	1,777	1,256	938	1,538	3,653	(3,653)	225	–	5,734
Inter-segment revenue	32	–	7	–	2	(2)	21	(60)	–
Total revenue	1,809	1,256	945	1,538	3,655	(3,655)	246	(60)	5,734
Operating profit/(loss)	127	(68)	108	102	220	(220)	(6)	–	263
Finance income	4	–	12	1	–	–	–	(5)	12
Finance charges	(12)	(23)	(2)	(7)	(4)	4	(12)	5	(51)
Share of after-tax results of joint venture companies	–	–	–	–	50	54	–	26	130
Profit/(loss) before taxation	119	(91)	118	96	266	(162)	(18)	26	354
Taxation (charge)/credit	(20)	32	(35)	(25)	(36)	36	(7)	(3)	(58)
Profit/(loss) for the period	99	(59)	83	71	230	(126)	(25)	23	296
Depreciation	82	31	71	19	44	(44)	48	–	251
Amortisation	1	28	6	15	2	(2)	–	–	50
Provision for impairment of stock and property, plant and equipment	13	10	6	–	–	–	19	–	48

Year ended 31st December 2015	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL		Other segments – subsidiary companies HK\$M	Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M			
External revenue	3,628	2,554	1,712	3,719	7,761	(7,761)	482	–	12,095
Inter-segment revenue	84	2	34	–	20	(20)	37	(157)	–
Total revenue	3,712	2,556	1,746	3,719	7,781	(7,781)	519	(157)	12,095
Operating profit/(loss)	216	(217)	144	254	391	(391)	18	–	415
Finance income	11	–	25	2	1	(1)	1	(19)	20
Finance charges	(25)	(47)	(4)	(12)	(9)	9	(25)	17	(96)
Share of after-tax results of joint venture companies	–	–	–	–	112	82	–	52	246
Profit/(loss) before taxation	202	(264)	165	244	495	(301)	(6)	50	585
Taxation (charge)/credit	(35)	106	(43)	(39)	(63)	63	(18)	(4)	(33)
Profit/(loss) for the year	167	(158)	122	205	432	(238)	(24)	46	552
Depreciation	167	62	139	38	88	(88)	92	–	498
Amortisation	1	57	14	30	5	(5)	1	–	103
Provision for impairment of stock and property, plant and equipment	28	15	8	3	–	–	19	–	73

4. SEGMENT INFORMATION (continued)

At 30th June 2016	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
Total segment assets	4,464	3,541	2,768	2,144	3,141	(3,141)	2,075	(1,248)	13,744
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	83	46	30	19	85	(85)	128	–	306
Total segment liabilities	2,251	2,886	371	919	1,402	(1,402)	2,016	(1,233)	7,210

At 31st December 2015	HAECO Hong Kong HK\$M	HAECO Americas HK\$M	HAECO Xiamen HK\$M	TEXL HK\$M	HAESL			Inter- segment elimination/ unallocated adjustments HK\$M	Total HK\$M
					At 100% HK\$M	Adjustments to reflect the Group's equity share HK\$M	Other segments – subsidiary companies HK\$M		
Total segment assets	4,058	3,543	2,790	2,194	2,928	(2,928)	2,026	(1,201)	13,410
Total segment assets include:									
Additions to non-current assets (other than financial instruments, retirement benefit assets and deferred tax assets)	116	103	79	32	96	(96)	407	–	737
Total segment liabilities	2,315	2,889	415	1,118	1,198	(1,198)	1,941	(1,192)	7,486

	30th June 2016 HK\$M	31st December 2015 HK\$M
Reportable segments' assets are reconciled to total assets as follows:		
Total segment assets	13,744	13,410
Unallocated: investment in joint venture companies	1,589	1,262
Total assets	15,333	14,672

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.

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.

5. FINANCE INCOME AND FINANCE CHARGES

	Six months ended 30th June		Year ended 31st December
	2016 HK\$M	2015 HK\$M	2015 HK\$M
Finance income:			
Short-term deposits and bank balances	4	12	20
Finance charges:			
Bank loans	(48)	(45)	(88)
Advance from a related party	(3)	(1)	(4)
Finance lease obligations	–	–	(1)
Fair value losses on derivative instruments:			
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	(1)	(2)	(4)
Fair value loss on a put option over a non-controlling interest in a subsidiary company	(1)	(3)	(2)
Capitalised on property, plant and equipment	–	–	3
Total finance charges	(53)	(51)	(96)
Net finance charges	(49)	(39)	(76)

6. TAXATION

	Six months ended 30th June		Year ended 31st December
	2016 HK\$M	2015 HK\$M	2015 HK\$M
Current taxation:			
Hong Kong profits tax	21	23	40
Overseas taxation	49	62	80
(Over)/under-provisions in prior years	(3)	2	(6)
	67	87	114
Deferred taxation:			
(Increase)/decrease in deferred tax assets	(15)	(33)	7
(Decrease)/increase in deferred tax liabilities	(6)	4	(88)
	46	58	33

Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

The Group's share of joint venture companies' tax charges for the six months ended 30th June 2016 of HK\$31 million (30th June 2015: HK\$20 million; year ended 31st December 2015: HK\$35 million) is included in the share of after-tax results of joint venture companies shown in the consolidated statement of profit or loss.

7. DIVIDENDS

	Six months ended 30th June		Year ended 31st December
	2016 HK\$M	2015 HK\$M	2015 HK\$M
First interim dividend declared on 16th August 2016 of HK\$0.63 per share (2015 first interim dividend paid: HK\$0.60 per share)	105	100	100
Second interim dividend paid on 26th April 2016 of HK\$1.10 per share	–	–	183
Special interim dividend declared on 16th August 2016 of HK\$2.35 per share (2015: nil)	391	–	–
	496	100	283

The Directors have declared a first interim dividend of HK\$0.63 per share (2015: HK\$0.60 per share) and a special interim dividend of HK\$2.35 per share (2015: nil) for the year ending 31st December 2016. The first interim dividend, which totals HK\$105 million (2015: HK\$100 million), and the special interim dividend, which totals HK\$391 million (2015: nil), will be paid on 20th September 2016 to shareholders registered at the close of business on the record date, being Friday, 2nd September 2016. Shares of the Company will be traded ex-dividend as from Wednesday, 31st August 2016.

The register of members will be closed on Friday, 2nd September 2016, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim dividend and the special interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 1st September 2016.

8. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders for the period ended 30th June 2016 of HK\$1,111 million (30th June 2015: HK\$254 million; 31st December 2015: HK\$464 million) by the weighted average number of 166,324,850 ordinary shares in issue during the period (30th June 2015: 166,324,850; 31st December 2015: 166,324,850).

9. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS

	Property, plant and equipment HK\$M	Leasehold land and land use rights HK\$M
Net book value:		
At 1st January 2016	5,319	337
Translation differences	(33)	(5)
Additions	302	–
Disposals	(28)	–
Depreciation and amortisation	(255)	(6)
At 30th June 2016	5,305	326

Property, plant and equipment and leasehold land and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Directors do not consider there to be any additional impairment provision required at 30th June 2016.

9. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS (continued)

The municipal government of Xiamen has announced that the proposed new airport at Xiang'an will commence operations in 2020. This is subject to the National Development and Reform Commission's approval. Management has engaged an independent consultant to perform preliminary compensation assessments in order to evaluate the recoverable amounts of the Group's property, plant and equipment and land use rights at the existing Xiamen airport (with net book value totalling HK\$1,421 million at the end of 30th June 2016) which might be affected by the proposal to develop a new airport and has concluded that there was no impairment loss on those assets at 30th June 2016. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO Group in Xiamen.

10. INTANGIBLE ASSETS

	Goodwill HK\$M	Technical licences HK\$M	Customer relationships HK\$M	Others HK\$M	Total HK\$M
Net book value:					
At 1st January 2016	1,418	385	644	84	2,531
Translation differences	1	–	1	(1)	1
Additions	–	–	–	4	4
Amortisation	–	(13)	(25)	(8)	(46)
At 30th June 2016	1,419	372	620	79	2,490

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Directors do not consider there to be any impairment provision required at 30th June 2016.

11. JOINT VENTURE COMPANIES

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

	HAESL			Others			Total		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2016 HK\$M	2015 HK\$M	2015 HK\$M	2016 HK\$M	2015 HK\$M	2015 HK\$M	2016 HK\$M	2015 HK\$M	2015 HK\$M
At 1st January	914	901	901	348	339	339	1,262	1,240	1,240
Translation differences	2	(1)	–	(9)	–	(18)	(7)	(1)	(18)
Acquisition of shares	452	–	–	–	–	–	452	–	–
Share of profit	924	104	194	27	26	52	951	130	246
Share of other comprehensive income	6	1	(21)	–	–	–	6	1	(21)
Dividends received from joint venture companies	(1,064)	(89)	(160)	(11)	(17)	(25)	(1,075)	(106)	(185)
At period end	1,234	916	914	355	348	348	1,589	1,264	1,262

11. JOINT VENTURE COMPANIES (continued)*Disposal of shares in SAESL*

On 30th June 2016, HAESL completed the disposal of its 20% shareholding in SAESL for a cash consideration of HK\$2,106 million. The gain to HAESL arising from the disposal was HK\$1,789 million. The Group's 45% share of the gain, equivalent to HK\$805 million, is included in the share of after-tax results of joint venture companies shown in the consolidated statement of profit or loss.

Acquisition of an additional 5% shares in HAESL

On 30th June 2016, the Company completed the acquisition of an additional 5% shareholding in HAESL for a cash consideration of HK\$452 million.

Details of net assets acquired and goodwill are as follows:

	HK\$M
Purchase consideration	452
Share of fair value of net assets acquired	87
Goodwill	365

The goodwill is attributable to HAESL's highly skilled assembled workforce, management expertise and other factors that do not meet the criteria for recognition as a separately identifiable intangible asset.

12. RETIREMENT BENEFITS

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

	Assets	Liabilities
	Expatriate Scheme HK\$M	Local Scheme HK\$M
At 1st January 2016	36	275
Movement due to:		
Net expenses charged to statement of profit or loss	-	51
Contributions paid	-	(40)
At 30th June 2016	36	286

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Assets		Liabilities	
	30th June 2016 HK\$M	31st December 2015 HK\$M	30th June 2016 HK\$M	31st December 2015 HK\$M
Forward foreign exchange contracts				
– cash flow hedges	–	–	3	2
– not qualifying as hedges	1	–	–	–
Interest rate swaps				
– cash flow hedges	–	–	2	1
Total	1	–	5	3
Analysed as:				
Current	1	–	2	3
Non-current	–	–	3	–
	1	–	5	3

14. TRADE AND OTHER RECEIVABLES

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

	30th June 2016 HK\$M	31st December 2015 HK\$M
Trade receivables	914	1,029
Less: provision for impairment of receivables	(54)	(91)
	860	938
Amounts due from joint venture companies	24	15
Amounts due from related parties	661	583
Other receivables and prepayments	476	366
	2,021	1,902
The analysis of the age of trade receivables (based on the invoice date) is as follows:		
Under three months	813	888
Between three and six months	28	44
Over six months	73	97
	914	1,029

15. TRADE AND OTHER PAYABLES

	30th June 2016 HK\$M	31st December 2015 HK\$M
Trade payables	655	601
Amounts due to joint venture companies	8	10
Amounts due to related parties	54	30
Accrued capital expenditure	39	62
Accruals	1,012	1,088
Deferred income	408	404
Other payables	95	182
	2,271	2,377
The analysis of the age of trade payables (based on the invoice date) is as follows:		
Under three months	637	586
Between three and six months	11	7
Over six months	7	8
	655	601

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

16. DEFERRED TAXATION

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

	HK\$M
At 1st January 2016	57
Translation differences	1
Charged to statement of profit or loss	(21)
At 30th June 2016	37
Represented by:	
Deferred tax assets	(209)
Deferred tax liabilities	246
	37

17. SHARE CAPITAL**Issued and fully paid:**

At 30th June 2016 and 31st December 2015

	Company	
	Number of shares	HK\$M
	166,324,850	185

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

18. RESERVES

	Revenue reserve HK\$M	Exchange translation reserve HK\$M	Cash flow hedge reserve HK\$M	Total HK\$M
At 1st January 2016	5,619	84	(7)	5,696
Total comprehensive income for the period	1,111	(34)	5	1,082
2015 second interim dividend	(183)	-	-	(183)
At 30th June 2016	6,547	50	(2)	6,595

The revenue reserve includes HK\$105 million representing the declared first interim dividend (31st December 2015: HK\$183 million representing the second interim dividend for 2015) and HK\$391 million representing the declared special interim dividend (31st December 2015: nil).

19. CAPITAL COMMITMENTS

	30th June 2016 HK\$M	31st December 2015 HK\$M
Outstanding capital commitments at the end of the period:		
Contracted for	202	657
Authorised by Directors but not contracted for	1,312	1,271
	1,514	1,928

20. RELATED PARTY TRANSACTIONS

The Group has a number of transactions with its related parties and connected persons. All trading transactions are conducted in the normal course of business at prices and on terms similar to those charged to/by and contracted with other third party customers/suppliers of the Group. The aggregate transactions which are material to the Group and which have not been disclosed elsewhere in the interim financial statements are summarised below:

Note	Joint venture companies			Immediate holding company			Other related parties			Total		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2016 HK\$M	2015 HK\$M	2015 HK\$M	2016 HK\$M	2015 HK\$M	2015 HK\$M	2016 HK\$M	2015 HK\$M	2015 HK\$M	2016 HK\$M	2015 HK\$M	2015 HK\$M
Revenue from rendering of services	27	25	46	-	-	-	1,367	1,269	2,548	1,394	1,294	2,594
	27	25	46	-	-	-	1,367	1,269	2,548	1,394	1,294	2,594
Purchases of:												
Services from John Swire & Sons (H.K.) Limited under services agreement												
– Service fees payable during the period	<i>b</i>	-	-	-	-	-	35	8	14	35	8	14
– Expenses reimbursed at cost	<i>b</i>	-	-	-	-	-	45	39	70	45	39	70
Subtotal	<i>b</i>	-	-	-	-	-	80	47	84	80	47	84
– Share of administrative services		-	-	-	-	-	1	1	5	1	1	5
Total		-	-	-	-	-	81	48	89	81	48	89
Property insurance placed through SPACIOM, a captive insurance company wholly owned by Swire Pacific Limited		-	-	-	-	-	2	4	7	2	4	7
Risk management service		-	-	-	1	-	-	-	-	-	1	-
Services from Cathay Pacific Airways Limited Group	<i>b</i>	-	-	-	-	-	26	11	18	26	11	18
Other services	<i>c</i>	12	9	22	-	-	13	14	22	25	23	44
		12	9	22	-	1	122	77	136	134	87	158

Notes:

- Revenue from joint venture companies mainly came from the provision to HAESL of engine component repairs on a commercial arm's length basis. Revenue from other related parties mainly came from the provision of aircraft maintenance service.
- These transactions fall under the definition of "continuing connected transactions" in Chapter 14A of the Listing Rules.
- Purchases from joint venture companies comprised mainly the provision of labour support charge by HAESL.
- Amounts due from and due to joint venture companies and other related parties at 30th June 2016 are disclosed in note 14 and note 15 to the interim financial statements.

Supplementary Information

CORPORATE GOVERNANCE

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

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

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

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

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

DIRECTORS' PARTICULARS

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

1. D.C.L. Tong retired as an Independent Non-Executive Director of the Company at the conclusion of the 2016 annual general meeting held on 6th May 2016 ("2016 AGM").
2. The Hon. Sir Michael Kadoorie ceased to be an Alternate Director of the Company when his appointor ceased to be a Director of the Company with effect from the conclusion of the 2016 AGM.
3. J.L. Lewis was appointed as an Independent Non-Executive Director of the Company with effect from the conclusion of the 2016 AGM.

DIRECTORS' INTERESTS

At 30th June 2016, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interests in the shares of John Swire & Sons Limited, an associated corporation of the Company (within the meaning of Part XV of the SFO):

	Capacity			Total no. of shares	Percentage of issued share capital (comprised in the class) (%)
	Beneficial interest		Trust interest		
	Personal	Family			
John Swire & Sons Limited					
Ordinary Shares of £1					
M.B. Swire	3,205,023	–	19,222,920	22,427,943	22.43
8% Cum. Preference Shares of £1					
M.B. Swire	846,476	–	5,655,441	6,501,917	21.67

Note:

M.B. Swire is a trustee of trusts which held 7,899,584 ordinary shares and 2,237,039 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).

SUBSTANTIAL SHAREHOLDERS' AND OTHER INTERESTS

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2016 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

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

Notes:

At 30th June 2016:

- Swire Pacific Limited was interested in 124,723,637 shares of the Company as beneficial owner.
- John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited were 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 54.67% of the equity of Swire Pacific Limited and controlling 63.16% of the voting rights attached to shares in Swire Pacific Limited.

Financial Calendar and Information for Investors

FINANCIAL CALENDAR 2016

Shares trade ex-dividend	31st August 2016
Interim Report available to shareholders	1st September 2016
Share register closed for first and special interim dividend entitlements	2nd September 2016
Payment of 2016 first and special interim dividends	20th September 2016
Annual results announcement	March 2017
Annual General Meeting	May 2017

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