

Chairman's Statement

RESULTS

For the year in which your Company celebrated its 50th anniversary, profit attributable to shareholders was HK\$400 million, which included non-recurring profits of HK\$122 million. Recurring profits increased 84% compared to those in 1999.

The Company's operating profitability improved during 2000, reflecting the productivity gains realised following the restructuring exercises in 1998 and 1999. However, although the number of aircraft handled by line maintenance increased during the year in line with the increased number of flights into Hong Kong, revenue remained under competitive pressure. The airframe maintenance facilities were busy, but the world-wide oversupply of capacity continues to affect margins adversely.

The contribution from jointly controlled companies increased significantly during the year, with both Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO) and Hong Kong Aero Engine Services Limited (HAESL) having very successful years.

The non-recurring profits in 2000 related to the disposal of interests in certain of the jointly controlled entities and the sale of residential property surplus to requirements.

Your Directors have recommended a final dividend for 2000 of HK\$0.38 per share which, together with the interim dividend of HK\$0.23 per share paid on 25th September 2000, results in a total distribution for the year of HK\$0.61 per share, an increase of 39% over the total dividend declared for 1999.

OPERATIONS

At the end of 2000 the Company, either directly or through its jointly controlled company in Xiamen, TAECO, had comprehensive maintenance contracts covering twenty-six Boeing 747s, twelve B777s, fourteen Airbus Industrie A340s and twelve A330s for Cathay Pacific Airways, six A320s, three A321s and five A330s for Dragonair and three B747s for Air Hong Kong. These contracts cover the provision of line maintenance and hangar-based maintenance as well as the overhaul of certain components.

The Company maintains a strong position in technical and non-technical line maintenance at Hong Kong International Airport, where such services are performed for more than 40 international airlines. However, the market is extremely price-sensitive.

In addition to work carried out for Hong Kong based airlines, extensive hangar-based maintenance work packages were also carried out on aircraft for Air China, Air Macau, Lufthansa, Lauda Air, American Trans Air, Atlas Air Cargo, Evergreen International Airlines, Northwest Airlines, Polar Air Cargo, Saudi Arabian Airlines, Philippine Airlines, Air Freight Express and Transasia Airlines. Utilisation of the hangar facilities during the year was high.

Utilisation of the Company's component overhaul facilities during the year was reasonable.

FACILITIES

The Company is the sole provider of comprehensive aircraft maintenance at Hong Kong

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

JOINTLY CONTROLLED COMPANIES

TAECO operates two hangars, each of which is capable of fully enclosing two wide-bodied aircraft. A third hangar is currently under construction and is expected to be operational late in 2002. Capacity was well-utilised during 2000, with the completion of a number of comprehensive heavy maintenance packages on Cathay Pacific Airways aircraft, and in addition to routine maintenance for Japan Airlines, the successful conversion of a JAL Boeing 747-200 passenger aircraft for use as a cargo freighter. This is the first time such a conversion has been undertaken by a facility outside of Boeing USA. Substantial work has also been carried out for Singapore Airlines, Xiamen Airlines, All Nippon Airways, Air New Zealand, Air Hong Kong, South African Airways, Kuwait Airways, Air Freight Express and Philippine Airlines. Line maintenance support has been given to Dragonair's operations in Beijing and Shanghai. Profit for the year increased over 1999, partly reflecting a full year's usage of the second hangar.

HAESL had a good year, with increased throughput and much improved profitability. In addition to work performed for Cathay Pacific Airways, significant engine work was also carried out for South African Airways, Emirates Airlines, Rolls-Royce plc, China Southern Airlines, Thai International and Malaysian Airlines. In conjunction with Rolls-Royce plc and SIA Engineering Company Limited (SIAEC), the company is establishing a Trent engine overhaul facility in Singapore complementing the Hong Kong capabilities of HAESL. HAESL has a 20% interest in this joint venture. In turn SIAEC has acquired a 10% interest in HAESL, half of which came from each of its shareholders.

BFGoodrich Aerospace Asia-Pacific Limited, which refurbishes carbon brakes and overhauls wheel hubs at Fanling, continued to perform very well.

The Company's 50% interest in Bridgestone Aircraft Tire Company (Asia) Limited was sold to Bridgestone Corporation on 31st March 2000.

FINANCE

Most of the surplus funds generated by operations during the year were used to finance the share repurchase approved by shareholders on 25th October 2000. The Group's net liquid funds decreased by HK\$85 million during the year to HK\$18 million at the end of the year.

The Company is expected to generate sufficient liquid funds during 2001 to meet its operating, working capital and budgeted capital expenditure requirements. In addition, it has negotiated loan facilities equivalent to HK\$454 million, of which HK\$298 million is subject to renewal during 2001.

At the end of 2000, the Group's gearing ratio was 0.04, being the proportion of net assets that are financed by long term debt.

CURRENCY FLUCTUATIONS

The Group's income is substantially in HKD or USD. Operating costs and capital expenditure of the Company and its Hong Kong based jointly controlled entities is substantially in HKD or

USD while those of its jointly controlled entities in China is a mix of RMB and USD. Forward contracts and natural hedging are used to minimise the risk of potential losses arising from foreign exchange fluctuations as a result of trading in this mix of currencies.

STAFF

The Company employed 3,610 staff at the end of 2000, including 291 craftsmen and engineering apprentice trainees for TAECO and 150 full-time HAECO employees who have been seconded to TAECO. In addition TAECO employed 1,464 local staff and HAESL 621 staff.

The significant turnaround in the Company's results this year reflects the hard work and commitment of all the staff, and on behalf of the shareholders, I would like to thank them for their continuing support.

PROSPECTS

In 2000, the Company saw the benefits of the restructuring undertaken following the move from Kai Tak to Hong Kong International Airport. In 2001, the Company's Hong Kong based customers are expected to increase their fleets, which combined with an expectation of increased usage of the airport should see some improvement to line maintenance revenue. However, competition at Hong Kong International Airport for technical and non-technical line maintenance services and a world-wide oversupply of airframe maintenance facilities will continue to result in pressure on profit margins despite measures taken to improve profitability.

TAECO has established a reputation for quality and service, and expects to continue to enjoy high utilisation of its hangar facilities in 2001. HAESL is expected to make another good contribution to the Company's overall result this year.

David Turnbull

Chairman

Hong Kong, 6th March 2001