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## **HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED**

**香港飛機工程有限公司**

(Incorporated in Hong Kong with limited liability)

(Stock Code: 44)

### **Announcement**

### **Continuing Connected Transactions with JSSHK**

Reference is made to the Company's announcements dated 1st December 2004, 1st October 2007, 1st October 2010 and 14th November 2013 in connection with the Services Agreement dated 1st December 2004 entered into by the Company with JSSHK. The Services Agreement will be renewed on 1st October 2016 for a term of three years from 1st January 2017 to 31st December 2019. As JSSHK is a connected person of the Company, the Transactions contemplated under the Services Agreement constitute continuing connected transactions for the Company under Rule 14A.31 of the Listing Rules and are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

**Services Agreement** dated 1st December 2004 and to be renewed on 1st October 2016

**Parties:** (1) HAECO  
(2) JSSHK

#### **Particulars**

Pursuant to the Services Agreement, JSSHK provides the Services to members of the Group. The Services comprise advice and expertise of the directors and senior officers of the Swire Group including (but not limited to) assistance in negotiating with regulatory and other governmental or official bodies, 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. The Services Agreement also provides for procuration by JSSHK for the Group of the use of relevant trademarks owned by JSS. In return for the Services, JSSHK receives annual service fees. The Company also reimburses the Swire Group for all the expenses incurred in the provision of the Services at cost.

Upon renewal of the Services Agreement, the basis for calculation of the annual service fees will remain unchanged. Annual service fees are calculated as 2.5% of the Company's consolidated profit before taxation and non-controlling interests, adjusted by (a) adding back the annual service fee, (b) excluding any gain or loss on the realisation, change in fair value or other revaluation of fixed assets, (c)(i) disregarding any impairment provision in respect of goodwill and (ii) calculating the overall gain or loss on the subsequent realisation of any related investment by reference to its cost, (d) subtracting any profits and losses from associates and joint ventures, but adding back the dividends receivable from these companies, and (e) excluding any dividend or profit in respect of which service fee is payable under any other profit related services agreement with the Swire Group to avoid duplication of payment.

Service fees for each year are payable in cash from the Company's internal resources in arrears in two instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment.

The Services Agreement will be renewed automatically on 1st October 2016 for the three years from 1st January 2017 to 31st December 2019. The Services Agreement will be renewed automatically under its terms 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.

A party to the Services Agreement may terminate it with immediate effect by notice to the other party in the event of default by that other party. In the event of termination of the Services Agreement, all the rights and obligations of the parties shall forthwith cease, but any rights, liabilities or remedies arising prior to such termination shall not be affected.

### **The annual caps**

The annual caps for the Transactions have been determined by reference to the actual amounts of the Services (excluding reimbursement of costs in respect of shared administrative services) in the four years ended 31st December 2015 set out below. In addition, a cushion has been added to provide flexibility for possible changes in the level of profit by reference to which service fees are charged and possible changes in the level of reimbursed costs.

Reimbursement of costs by HAECO to JSSHK mainly covers the employment costs of the directors and senior officers of the Swire Group who are seconded to HAECO under the Services Agreement. Such reimbursement of costs forms part of the Transactions and the annual caps under the Services Agreement.

Sharing of administrative services, including company secretarial services, constitutes exempt continuing connected transactions under Listing Rule 14A.98 and the cost of such services accordingly does not form part of the Transactions or the annual caps under the Services Agreement.



The annual caps represent the maximum aggregate annual amounts of the service fees and the costs reimbursed to the Swire Group except those in respect of shared administrative services.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
(HK\$ million)	Actual	Actual	Actual	Actual
Services	84	68	79	84
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
(HK\$ million)	Cap	Cap	Cap	Cap
Services	200	250	250	250

### **Reasons for, and benefits of, the Transactions**

Since 1992, the Company has had agreements with members of the Swire Group for the provision of management support services. The Company has considerably benefited from the management expertise and other services provided by the Swire Group.

### **Connection between the parties**

JSS is a holding company of the Company. JSSHK, a wholly-owned subsidiary of JSS, is therefore a connected person of the Company under the Listing Rules.

### **Compliance with Listing Rules**

As the highest of the relevant percentage ratios as defined under Rule 14.07 of the Listing Rules (other than the profits ratio) in respect of the annual caps of the Transactions will, on an annual basis, be more than 0.1% but less than 5%, the Transactions constitute continuing connected transactions for the Company and are subject to the announcement, annual review and annual reporting requirements but are exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will comply with the continuing obligations under Rules 14A.55-59 of the Listing Rules and will re-comply with the relevant Listing Rules if the annual caps are exceeded, when the Services Agreement is renewed or when there is a material change to its terms.

### **Opinion of the Directors**

In view of the benefits of the Services to the Company, the Directors (including the independent non-executive Directors) consider that the terms of the Services Agreement are fair and reasonable and that the Services Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group and is in the interests of the Company and its shareholders as a whole.



W.E.J. Barrington, G.T.F. Hughes, F.N.Y. Lung, J.R. Slosar, M.B. Swire and A.K.W. Tang being directors and/or employees (and also a shareholder in the case of Merlin Swire) of the Swire Group, which is a substantial shareholder of the Company, are interested in the Transactions and have abstained from voting on the relevant board resolutions of the Company in respect of the Transactions.

## **Directors**

As at the date of this announcement, the Directors of the Company are:

Executive Directors: J.R. Slosar (Chairman), W.E.J. Barrington, G.T.F. Hughes, F.N.Y. Lung, A.K.W. Tang;

Non-Executive Directors: C.P. Gibbs, M.B. Swire; and

Independent Non-Executive Directors: R.E. Adams, B.Y.C. Cha, Y.K. Leung, J.L. Lewis and P.P.W. Tse.

## **Definitions**

<b>“Directors”</b>	The directors of the Company.
<b>“Group”</b>	The Company and its subsidiaries.
<b>“HAECO” or “Company”</b>	Hong Kong Aircraft Engineering Company Limited 香港飛機工程有限公司, a company incorporated in Hong Kong and listed on the Stock Exchange, the principal activity of which is the provision of overhaul and maintenance services for commercial aircraft.
<b>“JSS”</b>	John Swire & Sons Limited, a private investment holding company incorporated in England.
<b>“JSSHK”</b>	John Swire & Sons (H.K.) Limited 香港太古集團有限公司, a private investment holding company incorporated in Hong Kong and wholly owned by JSS.
<b>“Listing Rules”</b>	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
<b>“Services”</b>	The services provided by JSSHK to the Group under the Services Agreement.
<b>“Services Agreement”</b>	The services agreement dated 1st December 2004 between the Company and JSSHK.
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited.



- “Swire Group”** JSS and its subsidiaries.
- “Transactions”** The continuing connected transactions contemplated under the Services Agreement.

By Order of the Board  
**Hong Kong Aircraft Engineering Company Limited**  
香港飛機工程有限公司  
David Fu  
Company Secretary

Hong Kong, 19th August 2016