

Director & General Manager's Statement

Looking back at last year, 2012 was overall a very successful year for HAESL, with a record number of hours output and profit generated. However, in keeping with the second part of our aspirational Vision statement - to be "Best in the World; Best for the World" - we maintained a strong focus on developing the Sustainability elements of our business performance.

While we increased the intensity of our focus on workplace safety, regrettably we saw an increase in the number of lost time injuries (LTIs) at HAESL during the year, with 17 incurred in total. While many of these injuries were relatively minor in nature, and a majority incurred from staff moving around the facility rather than at machines or while handling tooling at the workplace, we are nevertheless focussed on reversing this trend as quickly and effectively as possible. We introduced a weekly Management Safety Walk during the year whereby a member of the company's senior management team - more often than not, myself - walks a section of the facility with departmental and health & safety team representatives, adding a fresh set of eyes to identify potential safety risks from the workshop conditions or observed working practices. We also witnessed an encouraging increase in reporting of potential safety risks by our staff (the "I Care I Report" scheme, started in 2010), more than doubling the number of reports to 1,451. We introduced an enhancement to this scheme in 2012 ("+ I Resolve"), encouraging staff to initiate a fix for the problem they observe. Over 30% of the reports received qualified under this new criterion. Furthermore, HAESL's "I Care I Report + I Resolve" scheme was recognised by the company's peers within the wider community of the Swire group in Hong Kong for a "Most Replicable Project" award at the group's Sustainability Conference late in the year.

HAESL has continued deepening its engagement within the community in which it operates. It continued its long-standing participation in and support of the Round Table 24-hour Charity Pedal Kart Grand Prix, which took place in February. A number of teams of HAESL staff participated in the Outward Bound Adventure Race in March, and many participated in company-organised charity hikes during the year. HAESL has continued to work closely in supporting the Evangel Children's Home, and was nominated by this charity to join the Caring Company programme during the year. We also ran a successful 'Toy Bank' campaign at the end of 2012, whereby staff contributed unwanted toys in good condition, which were cleaned and re-packaged for donation to underprivileged children in our community.

Engagement with our staff continues to be a key focus for HAESL's management team. Beyond the usual forums for interacting with staff representatives, the biannual All Staff Briefings, and the Storyboard interaction sessions held in May, an Employee Engagement Survey was held in September to receive more direct feedback from staff. We also held an Open Day in December for staff and their families, which served the dual purpose of creating a fun day out, and helping our employees' families gain a better understanding of the work we do at HAESL.

On the environmental front, HAESL has continued to explore ways of reducing its consumption of electricity, and has many programmes operating in parallel to this end. We continued to support the WWF's 'Earth Hour' initiative as a symbolic part of this endeavour. We are also working closely with an airline towards a goal of sustainably supporting engine test run programmes after overhaul using a blend of sustainably-produced biofuel with standard fossil-fuel Jet A1.

As always, we cannot rest on our laurels. We continue to seek ways to improve our performance for the future in areas of Sustainability. And, as we develop, we aim to deepen the ties to these activities that make them an inextricable part of our daily work and not an optional extra.

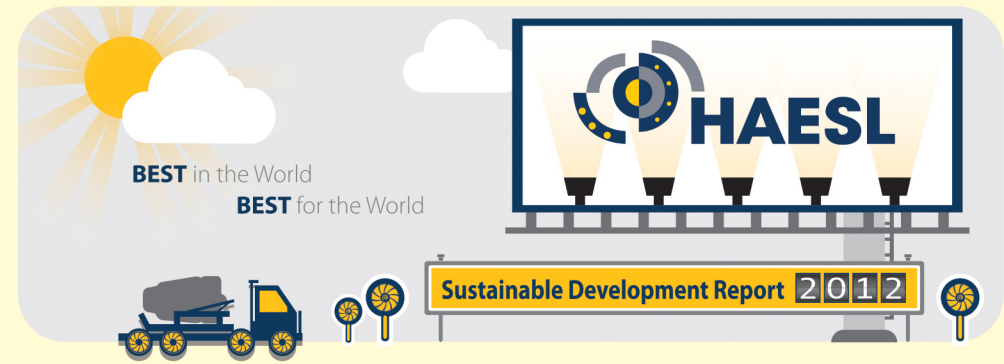
Richard Kendall
Director & General Manager

Governance and Stakeholder Engagement

HAESL is committed to operating with the utmost integrity and to the highest ethical standards. Ultimate responsibility for company's decisions, policies and direction lies with its Board of Directors.

Following a comprehensive review of HAESL's key stakeholders in 2010, the company engaged with eleven stakeholder organisation and three employee focus groups to share views on overall performance within the organisation. We remain fully committed to engaging in dialogue and activity with key stakeholders.

Stakeholder engagement



Please tell us what you think!

Your comments on this report or on HAESL's sustainability performance are welcome and appreciated.

For any enquiries or information, please contact our Sustainable Development Manager, Kenny Tsang by email at sd@haesl.com or simply return the reply slip to the following address:

2/F Administration Building,
Hong Kong Aero Engine Services Limited,
70 Chun Choi Street,
Tseung Kwan O Industrial Estate,
Tseung Kwan O, N.T., Hong Kong.



Energy consumptions and carbon emissions

Our business requires three main energy sources. They are electricity, natural gas and aviation fuel (Standard Jet-A1 kerosene). Like most businesses, electricity from the grid is crucial for the company's day-to-day operations. Our location means our power is supplied by China Light and Power (a utility company that generates power in both the HK and Guangdong areas). Natural gas (Towngas) is supplied solely for catering purposes in our canteen (managed by Asia Pacific Catering Limited). Aviation fuel is needed to test engines before returning them to our customers.

3 main energy sources



Energy Consumption		2011	2012	% change
Direct Energy Consumption	GJ	100,615	124,356	23.6%
Indirect Energy Consumption	GJ	88,643	109,624	23.7%
Total Energy Consumption	GJ	189,257	233,980	23.6%

Greenhouse Gas Emission		2011	2012	% change
Direct Emission (Scope 1)	kgCO ₂ e	7,182,768	9,589,127	33.5%
Indirect Emission (Scope 2)	kgCO ₂ e	13,305,699	17,966,144	35.0%
Other Indirect Emission (Scope 3) by Business Air Travel	kgCO ₂ e	231,208	289,387	25.2%
Total GHG Emission	kgCO ₂ e	20,719,675	27,844,658	34.4%
Total GHG Emission per worked manhour	kgCO ₂ e/hr	70.87	84.05	18.6%

Water usage		2011	2012	% change
Water usage	m ³	94,517	124,590	31.82%

Material Recycled		2011	2012	% change
Paper recycled	kg	15,480	14,830	-4.2%
Cardboard recycled	kg	17,820	16,140	-9.4%
Plastics recycled	kg	-	3,450	NA
Metal recycled	kg	8,266	14,561	76.2%

Zero Tolerance Policy (Description of HAESL H&S Policy)

HAESL is a labour-intensive business with currently more than 1000 staff working on site. Health and safety have always been our top priority. We are committed to align our focus towards Swire's zero tolerance strategy and keep HAESL a safe workplace for everyone.

Occupational Health & Safety Performance		2011	2012	% change
Total workforce	No.	1,058	1,203	13.7%
Manhours worked (Total Attended Hour by all staff)	No.	2,408,315	2,765,440	14.8%
Work-related fatalities (employees)	No.	0	0	na
Lost time injuries ^(Note 1)	No.	9	17	88.9%
Minor injuries / first aid cases	No.	5	9	80.0%
Total lost day	No.	118.0	381.5	223.3%
Lost time injury rate ^(Note 2)		0.75	1.23	64.5%
Man day lost rate ^(Note 1)		13.11	22.44	71.2%

I Care I Report

As of end of AP12 (i.e. 29th December 2012), there has been 1,451 ICIR submissions. Based on the four main criteria (Quality, Severity, Likelihood and Efforts made) within the ICIR scoring mechanism, the submitted reports were scored to reflect their quality and urgency. With a scoring system ranging from 0 to 25 points, 453 reports scored above 16 points and thus were identified as proactive reports.

Safety Campaigns

Our 2012 safety performance was worse compared to 2011. The 17 LTI's were almost double 2011's figure. In view of these numbers we believe we must be more proactive and in 2012 launched a series of safety campaigns.

The Management Safety Walk

In response to the increase in LTI's, Senior Management decided to take a further step in identifying accident root causes pro-actively.

Monitoring Contractors

We introduced a contractor monitoring campaign to ensure HAESL is providing a safe work environment for all contractors and at the same time, ensuring contractors comply with all regulatory requirements and the HAESL in-house H&S rules.

Safety Handbook and Safety Video

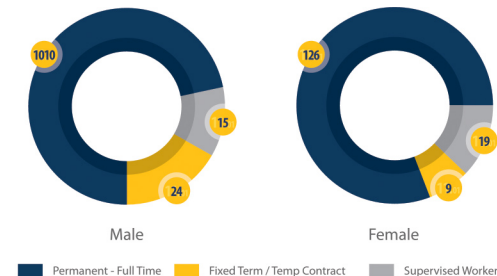
To increase staff awareness on manual handling and the use of overhead cranes, two booklets – the Manual Handling Safety Booklet and Crane Safety Booklet were distributed to employees in 2012.

HAESL's core values

In 2010 HAESL introduced five Core Values – Teamwork, Respect, Integrity, Commitment and Excellence – which underpin our Vision to be "Best in the World, Best for the World". We believe these values are the most important components in our continued success. The acronym "Tea & RICE" serves as an easy reminder of these values which are reflected in our daily lives.

Tea and RICE:

- Teamwork**
Our success is based on teamwork, we offer mutual support to achieve common goals;
- Respect**
Respect should have no boundaries (irrespective of position);
- Integrity**
Our honesty gains trust and we learn from our mistakes focusing on the positive;
- Commitment**
We engage in our work with consistent energy and courageously take accountability for our actions;
- Excellence**
We strive to deliver quality results in the work we do, and actively pursue continuous improvement.



Type of Employees	Average Training Hour (Per Year Per Employee)
Executive	20.00
Senior Management / Departmental Managers	20.00
Middle / Junior Management & Supervisory Staff	45.39
Non-Executive	37.65
Customer Facing Staff	30.50
Non-Customer Facing Operational / Technical Staff	79.60
Other Staff	37.65

Employee engagement activities held in 2012 :

- Employee engagement survey
- Storyboard 2012
- HAESL Open Day 2012
- BT Outward Bound Adventure Race 2012

Caring company Award

In 2012, HAESL was nominated by the Evangel Children's home (ECH) as a 'Caring Company' for its contribution to the local community. Throughout the years, HAESL has focused on, and supported, youth development in nearby districts (including Kowloon East). This enables us to share our social, economic and environmental values.



Charity Pedal Kart Grand Prix



2012 Ngong Ping Charity Walk

Charitable and Community Programmes

- Blood Donation
- Toy Bank

Charitable donations made directly by HAESL(USD) 35,063

List of Awards achieved and Membership in 2012
1. Caring Company award
2. The Hong Kong Polytechnic University Distinguished Knowledge Transfer Award
3. The Most Replicable Award in Swire's Sustainable Development(SD) Forum 2012
4. WWF Silver Corporate Membership