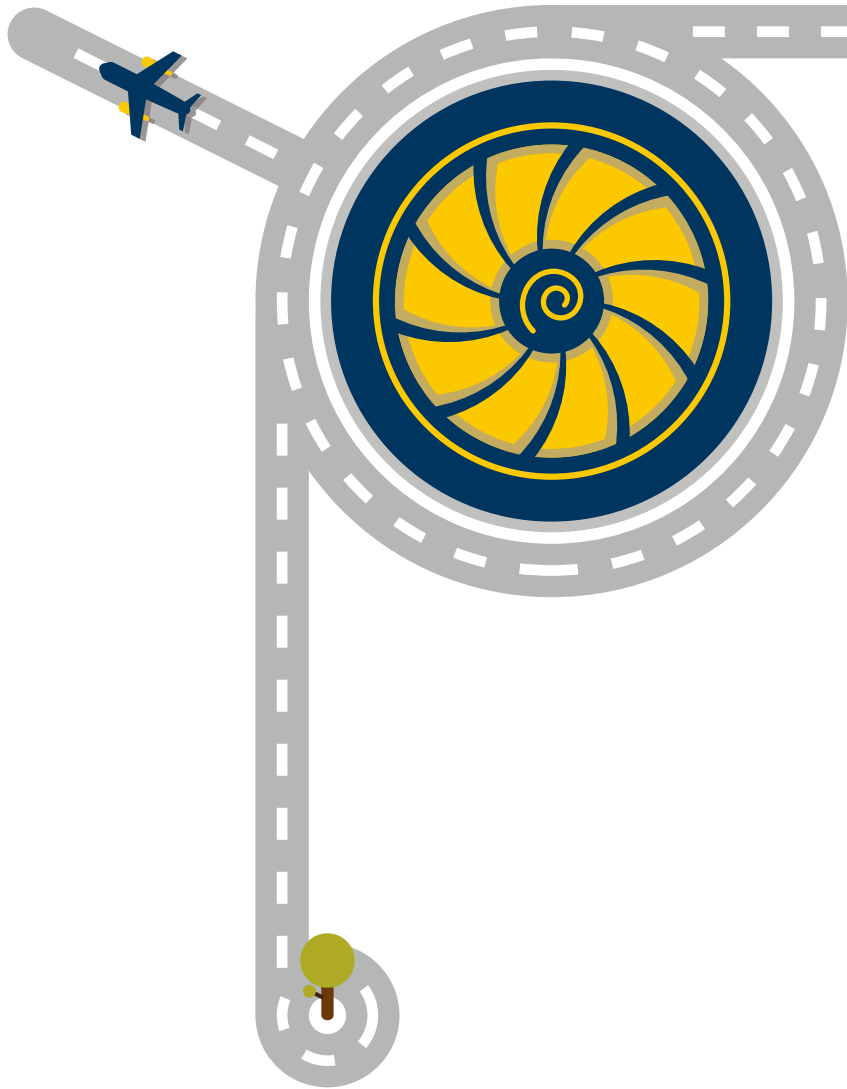


Sustainable Development Report 2012





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About this Report

This document is Hong Kong Aero Engine Services Limited's (HAESL's) Sustainable Development report for 2012 – which is in line with the policy of the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines.

HAESL published an annual Environmental, Health and Safety Report in 2004, 2005, and 2006, before migrating to a Corporate Social Responsibility Report in 2007, and a Sustainable Development Report from 2008 onwards. This Sustainable Development Report covers the calendar year from 1st January, 2011 to 31st December, 2012 and has been approved to meet the GRI's Application Level B+. (refer to page 51)

The information presented in this report covers the activities of HAESL's business, which operates at a single site in Hong Kong, S.A.R. China. It does not include information relating to Singapore Aero Engine Services Pte Ltd, in which HAESL holds a 20% shareholding. This report covers information on HAESL's governance procedures, economic, safety, environmental and social performance; as well as key initiatives undertaken by the Company.

The report focuses on the GRI performance indicators that are most relevant to HAESL's activities. Whilst we have endeavoured to provide the most accurate view possible of the Company's performance, we acknowledge that further improvements can be made with respect to data collection. This is something we will continue to refine and improve the accuracy of in future reports.

Any feedback on our performance and initiatives, or suggestions as to how we may be able to improve the content and presentation of this report would be most welcome. Please contact our Sustainable Development Manager Kenny Tsang by email at sd@haesl.com or through our website at www.haesl.com.





01

Company Profile

Company Profile

Hong Kong Aero Engine Services Ltd (HAESL) provides repair and overhaul services for 'large fan' civil aero engines and their components to airlines based in Hong Kong, Mainland China, the Middle East and other locations in the world. A joint-venture company between Hong Kong Aircraft Engineering Company Limited (HAECO) (45%), Roll Royce (45%) and SIA Engineering Company (10%), HAESL combines the skill and experience of two of Asia's most successful aircraft maintenance, repair and overhaul companies, with a world-leading name in the development and manufacture of gas turbine engines.

HAESL first began operations in 1997, initially taking over from HAECO's own engine overhaul operations, and is now a leading repair and overhaul facility for Rolls Royce's range of RB211 and Trent aero engines. Located at Tseung Kwan O, in Hong Kong's New Territories, HAESL employs currently around 1,200 staff, operating from an advanced US\$233 million facility with 52,000sqm of floor space, with an overhaul capacity in excess of 250 engines and module sets per year. The company is also equipped with one of the largest test cells in Asia – capable of testing engines generating up to 130,000 pounds of thrust.

The company possesses a significant component repair capability – up to 90% of the components from engines that it overhauls – and has developed nine 'Centre of Excellence' facilities supporting Fan Blade, Turbine Blade, HP/IP Bearing Support, Honeycomb, Seal Fin, Variable Inlet Guide Vane (VIGV), Vane, Compressor Case and Engine Mount repairs on components from Rolls Royce engines from around the globe.

HAESL also provides an 'on-wing care' capability to its customers through services such as engine boroscope inspection and blade repairs - using advanced boroblending repair techniques – either on location at various airports, or off-site at aircraft maintenance facilities.

Over 2,700 Rolls Royce RB211 and Trent aero engines have been serviced by HAESL since the company commenced operations in 1997. HAESL also continues to plan for the future, with the ongoing development of its capability readiness program in order to support servicing of the Trent XWB engine.

This engine has been designed for use on all variants of the Airbus A350 XWB aircraft and will have the lowest carbon emissions of any wide-body aero engine. In addition, it will be the most environmentally- efficient engine thus far in the Trent family.

HAESL remains committed to being an environmentally responsible company that makes significant contributions to sustainable development – this is reflected in the Company's vision statement: "Best in the World, Best for the World".





02

HAESL Fast Facts
2012

HAESL Fast Facts 2012

<p>US\$1,553.5m Revenue</p> 	<p>1,203 Employees</p> 
<p>15 years of Operations</p> <p>15</p>	<p>5 Phases of workshops and technical offices in a single site</p> 
<p>Output of 220 Engines</p> 	<p>9 CoE cells with 5 cells accredited with gold award*</p> 

Engine Types Served
Rolls Royce RB211-524 (Engines for Boeing 747 Aircraft)
Rolls Royce Trent 700 (Engines for Airbus A330 Aircraft)
Rolls Royce Trent 800 (Engines for Boeing 777 Aircraft)
Rolls Royce Trent 500 (Engines for Airbus A340 Aircraft)

Rolls Royce Centre of Excellence (CoE) Accreditations achieved
Fan Blade Repair - Gold Award
Honeycomb Repair - Gold Award
HP/IP Seal Bearing Support Repair - Gold Award
Turbine Blade Repair - Gold Award
Seal Fin Repair - Gold Award
VIGV (Variable Inlet Guide Vane) Repair - Silver Award
Engine Mount Repair - Silver Award
Vane Repair - Silver Award
Compressor Case Repair - Blue Award

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

Notes:

* Centre of Excellence (CoE) programme is a significant component of the Rolls Royce Aero Repair & Overhaul (AR & O) Global Strategy. The aim of this programme is to recognise repair shops for their outstanding repair performance on specific engine components.

Measured in terms of Turn Around Time (TRT), Capability and Quality, three standards of CoE's (Blue, Silver & Gold) are awarded to qualified units.

Gold standard is recognised as the highest award.

All figures as of 31.12.2012



03

Director & General
Manager's Statement

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



04

Governance and
Stakeholder
Engagement

Governance and Stakeholder Engagement

■ Governance

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. The Board, made up of seven non-executive directors and one executive director, meets four times a year. It is comprised of three members from HAECO, three members from Rolls-Royce, one member from SIAEC, and the Director & General Manager of HAESL. The board members are British, Chinese and Singaporean with one female member. All the non-executive directors, those with no involvement in the day of day business management, are appointed by the shareholders according to business expertise and qualification.

In addition to providing the Board with information on the company's key issues, strategies and risk management, the Director & General Manager presents a sustainable development paper at each meeting. Outside of board meetings, HAESL submits regular sustainable development performance data to its shareholders and participates in regular meetings regarding this across the Swire / HAECO and Rolls-Royce group of companies.

Within the business, HAESL's sustainable development issues are governed by a combination of the Environmental and Health and Safety Committee, the HAESL Executive Committee (comprising the Director & General Manager, GM Operations, GM Commercial and GM Finance & Administration), and the HAESL Staff Committee (HAESL Executive Committee and Human Resources Manager). Each committee meets on a monthly basis.

Both the management and the wider workforce engage in regular monthly dialogue through the two main staff representative bodies - the General Staff Consultative Committee, and the Contract Staff Association.



Governance and Stakeholder Engagement

Health and Safety and Risk Management Governance

HAESL's Health & Safety (H&S) Steering Committee is chaired by the Company's Director & General Manager, Richard Kendall, and includes representatives from each of the main departments within the company. The role of the committee is to cover the company's strategy and policy setting, project governance, legislative compliance, and reviews performance against current H&S objectives as a cross-department workgroup. The committee meets every month.



The company believes that listening to, and communicating with, the frontline workforce is crucial for the advancement of its health and safety policies. The H&S workgroup is made up of elected representatives from various departments in the company, and is chaired by the H&S coordinators, meeting on a monthly basis. The workgroup provides a forum for the elected representatives to present their ideas, gather feedback and assist the Steering Committee in the implementation of H&S policy.

HAESL's Environmental and Facility Committee is chaired by the Company's General Manager of Operations, and focuses on facility repairs, maintenance projects, energy-saving initiatives and addressing any environmental-related risks. An Environmental and Facility Committee meeting is held every 2 months. Representatives at this meeting include the HAESL Sustainable Development Manager, the Facility Manager and the company's Energy/Environmental Consultant.

In 2012, HAESL enhanced its company and operational risk assessment process as part of its continued efforts to proactively identify and reduce hazards related to H&S and Product Integrity and Safety. This process scrutinises each step, or activity, within the maintenance process to help identify H&S and product safety risks (such as manual handling risks, or storage issues) through a combination of visual monitoring and thorough assessment of best working practices. Data is collated and actions are identified that can help to reduce the degree of risk faced by employees to an acceptable level. A bimonthly Product Safety Governance meeting is currently in place to underpin this process. This meeting is chaired by the Company's Director and General Manager, and includes representatives from relevant departments and functions, covering similar topics focused on maintaining the highest levels of product and employee safety. Throughout 2013, management aim to further develop H&S and Product Safety Governance into a single HAESL Safety Management Governance structure.

Governance and Stakeholder Engagement

Stakeholder Engagement

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

In 2012 HAESL established regular engagement with the SWIRE group operating companies to share SD activities, projects and good practices and also improved links with the Hong Kong Polytechnic University (HKPOLYU) and Hong Kong University of Science and Technology (HKUST) to further promote engineering and operational safety.

These will remain key initiatives in 2013 as the HAESL SD Strategy continues to evolve.

HAESL continue to engage with stakeholders from different levels of seniority and operational functions in Hong Kong and beyond.



Stakeholder	Profile	Our Engagement / Activity
Customers	Airlines	Customer satisfaction survey and focus group meeting
Employees	All employees	Company story board, regular departmental briefing, focus group meeting: Contract Staff Association(CSA) and General Staff Consultative Committee(GSCC)
Business partners	International	Regular dialogue with our joint venture shareholders and partners from the Rolls Royce Global Repair Service (GRS) network
Suppliers	Local and International	Purchasing policy survey and self-assessment (since 2011)
Government and regulators	HK SAR Government	On-going dialogue and business associations
Non-governmental Organisations and Local communities	NGO's and Local academic institutions	Focus group meetings, on-going dialogue and activities through various associations (e.g. Evangel Children's Home, Hong Kong Polytechnic University, Hong Kong University of Science and Technology and the Hong Kong Institution of Engineers (HKIE))
Swire Operating company	Swire Beverages	Introduction of HAESL Safety Management System (SMS)



05

Environment

Environment

Environmental performance (energy consumption, water usage, carbon footprint)

In general, aviation businesses are seen as having a large environmental impact. As a leading aero engine Maintenance, Repair and Overhaul (MRO) company, we endeavour to conduct our business in a responsible and sustainable manner exercising stewardship of the valuable resources we have at hand. Over the course of 15 years of sustained operations in Tseung Kwan O we strive to minimise our local environmental impact; focusing a large amount of our energy monitoring this crucial aspect of performance.

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.

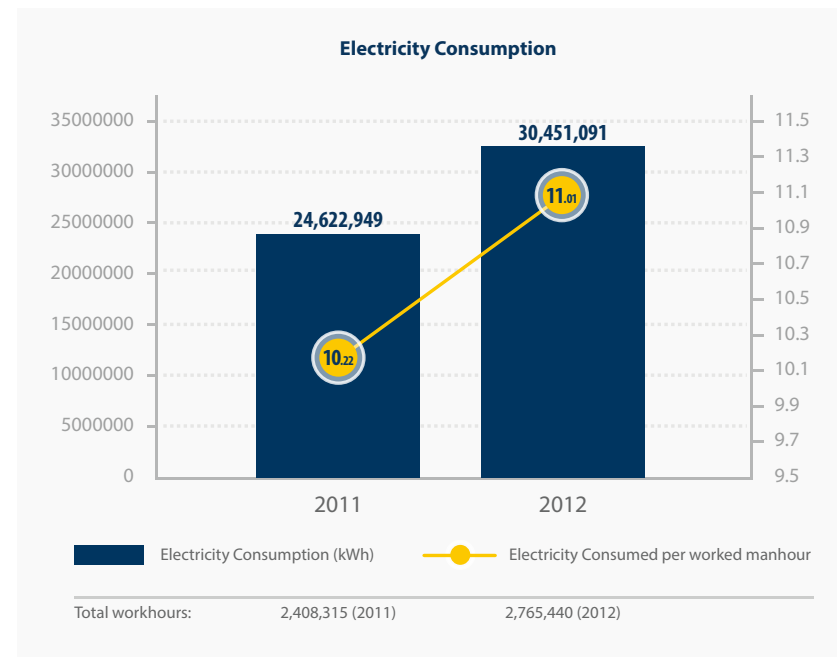
3 main energy sources



Electricity

An increase in both gross electricity consumption and usage intensity was recorded in 2012. Electricity consumption was recorded at 30,451,091 kWh in 2012, an increase of 23.7% from 2011. The average consumption per total worked hour is 11.01 kWh, which represents a 7.7% increase over last year. This increase in consumption was mainly due to business expansion encompassing the conversion of a few storage areas into fully functional workshops each containing a large electrical oven for fan case repairs.

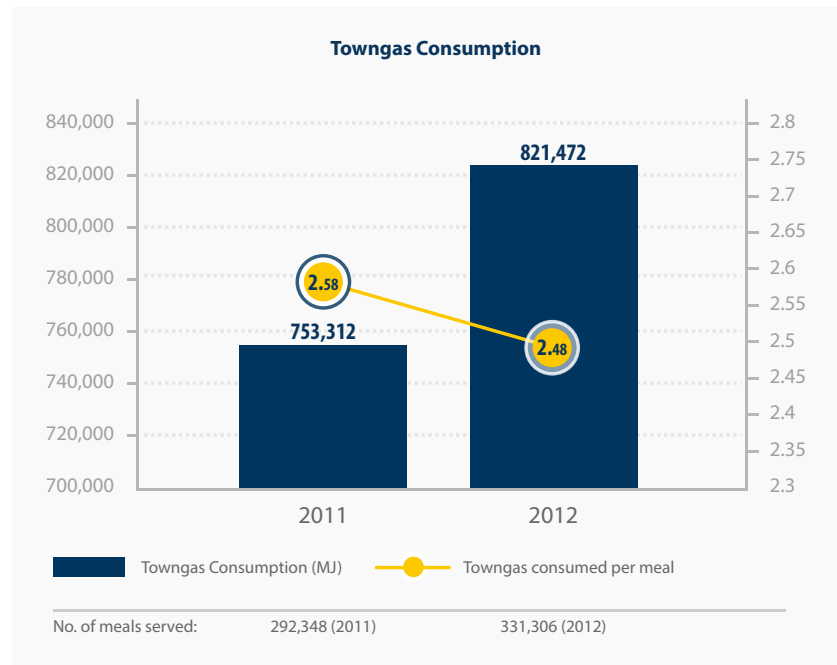
In addition, electricity consumption increased as Phase 5 became fully operational in 2012.



Environment

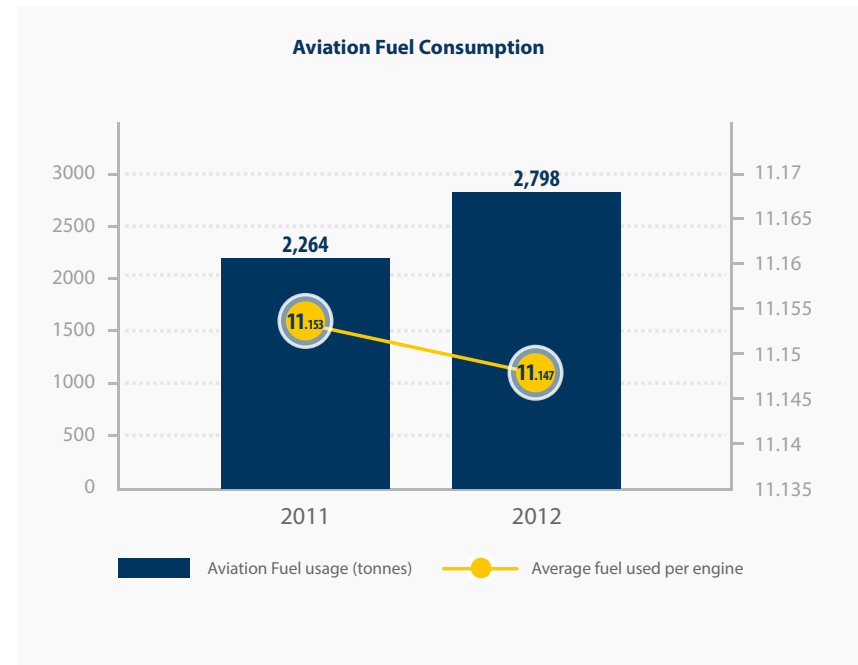
Towngas

Towngas consumption for 2012 increased 9% from 753,312 MJ to 821,472 MJ from 2011. The increase is attributed to a 13.3% growth in the workforce and corresponding increase in output from our canteen. 331,306 meals were served in 2012, an average of 2.48 MJ per meal – a 3% improvement from 2011 (2.58 MJ per meal).



Aviation fuel

2012 saw an increase in the total number of engines tested - 251 (from 203 in 2011) - an increase of 23.6%. This increase saw a corresponding increase in aviation fuel consumption. In 2012, HAESL used 2,798 tonnes of aviation fuel in engine testing (also an increase by 23.6% from 2011). Each engine tested consumes approximately 11.15 tonnes of fuel - this has remained broadly stable from 2011-2012.



Environment

Other forms of energy consumption

In addition to the main sources of energy consumption, HAESL also uses energy from other indirect sources. These include company air travel, company cars (petrol consumption) and the use of acetylene and pressurised CO₂ for component repairs*. A conversion of all these forms into gigajoules is shown in the following table:

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%

Table 1 - Comparison between 2011 and 2012 energy consumption



In order to further analyse the amount of Greenhouse Gas (GHG) produced from consuming energy, energy consumption figures are translated into Greenhouse Gas (GHG) emission equivalent ** (kgCO_{2e}) and presented below:

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

Table 2 - Comparison between 2011 and 2012 GHG emission

For more information regarding HAESL's energy consumption, refer to "Performance Data".

Note:

* The amount of acetylene and pressurised carbon dioxides used were negligible when compared with the other consumptions. These amounts were hence neglected in the total energy consumptions and carbon dioxide emission calculations.

** Refer to Guidelines from Green House Gas Protocol for GHG emission conversions and calculations.

Both energy consumptions and Greenhouse Gas emissions increased due to the expansion of Phase 5, which became fully operational in 2012.

Environment

Water Consumption

Water consumption increased in 2012. Potable water used increased to 124,590 cubic metres from 94,517 cubic metres. This increase is attributed to the Centre of Excellence Building (Phase 5) becoming fully operational, with more machinery and air conditioning in operation.



Waste management and recycling of materials

The use of large volumes of chemicals and consumables is unavoidable in this industry. Waste management and recycling are therefore important considerations in our sustainability policy.

To meet our own environmental responsibilities, care is always taken to ensure waste is handled appropriately and with minimal impact to the nearby community. Our own waste water treatment plants process liquid chemical waste before discharge occurs into the sewer. The remaining sludge, resins and any other waste (including heavy metals) are handled by an approved waste disposal company. HAESL has and continues to meet its obligations related to environmental regulations and laws.

Where possible HAESL has encouraged and practised recycling. Paper products, plastics, metals and printer cartridges have been recycled since 2003. The following table gives the amount of materials recycled in 2012. All recycled materials are collected by a recognised recycling company.

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%
Printer Cartridges recycled	No.	349	457	30.9%

Table 3 - Material recycled in 2012

Environment

Environment campaigns in 2012

Future carbon offsetting projects – Biofuels

HAESL is continuously looking to reduce its operational carbon footprint. With this in mind we are exploring (in conjunction with an internationally-renowned airline) the opportunity to use alternative fuels for engine testing.

Fuel sustainability is the future, not only for aviation, but also for many other industries. HAESL is currently in the initial planning stages of engine run with Biofuel, analysing the benefits and impacts over conventional Jet A-1 kerosene. This early-stage planning includes defining our working team and identifying the potential stakeholders in the project.

Electronic Engineering Procedure Manual (e-EPM)

To reduce the use of paper in our day-to-day routine, the Quality & Improvement team has initiated the idea of reducing paper use by uploading manuals onto the intranet. Under an initiative created from a kaizen (improvement) project, all Engineering Procedural Manuals (EPMs) across different departments are now available on the company's intranet portal. It is no longer a requirement for a hard copy of these EPMs, which are closely reviewed every 6 months, to be kept with each operating department.

Water saving project

In view of high water consumption in 2011, the implementation of water saving initiatives to reduce the ever-rising water consumption figure is needed. The water saving project launched in October 2012 is an initiative that aims to reduce the use of water by installing water saving caps on water taps/faucets. The project, which is still undergoing an analysis stage, is expected to be completed in mid-2013.

2012 environmental performance & objectives for 2013

2012 objectives	Progress
Continuation of Project "Flame" (utilisation of landfill gas extraction to supplement / replace energy usage)	Ongoing. Will restart discussions with our project partners in 2013
Continue to explore opportunities to undertake engine run using sustainable bio-fuels as a replacement for traditional Jet A-1 aviation fuel	Planning to have the first engine run with biofuel as a pilot project with a leading airline.
BMS integration in data collection, in terms of water and electricity consumption	Ongoing integration with the current BMS that aligns with the 2011 objective
Develop and procure further energy efficiency improvements	Ongoing
Progress CO ₂ management systems	Ongoing

2013 objectives
Further development of the current HAESL EHS database
Introducing Greener HAESL initiative





06

Health and Safety

Health and Safety

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.

According to our data from AP1 to AP12*, 17 lost time injuries (LTI's) occurred with 9 additional minor injury cases. This correlates to an LTI rate* of 1.23, 64% up compared to 2011. There were 9 minor injury cases reported in 2012, which is 4 more than 2011. The corresponding minor injury rate* is 0.65, 57% up from 2011.

Note:

* AP1 to AP12 = HAESL's Accounting Period 2nd Jan 2012 – 29th Dec 2012

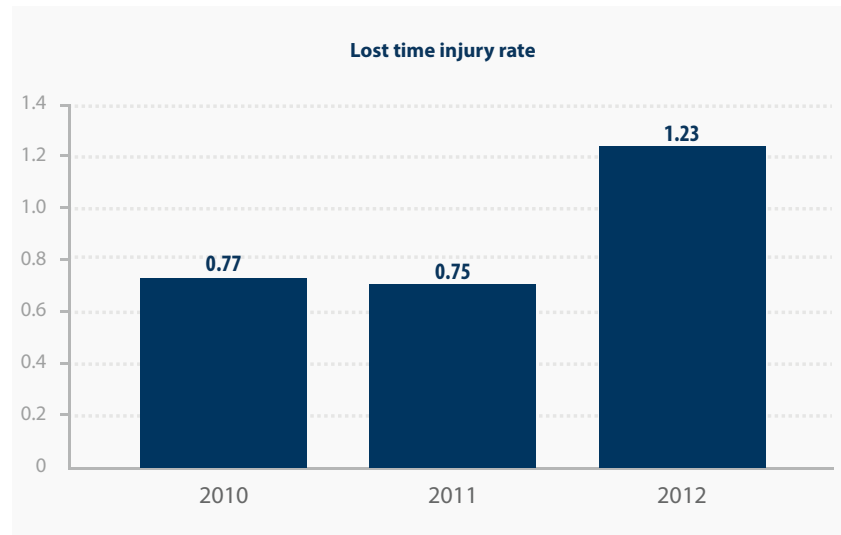


Figure 1 - Lost time injury (LTI) rate



Health and Safety

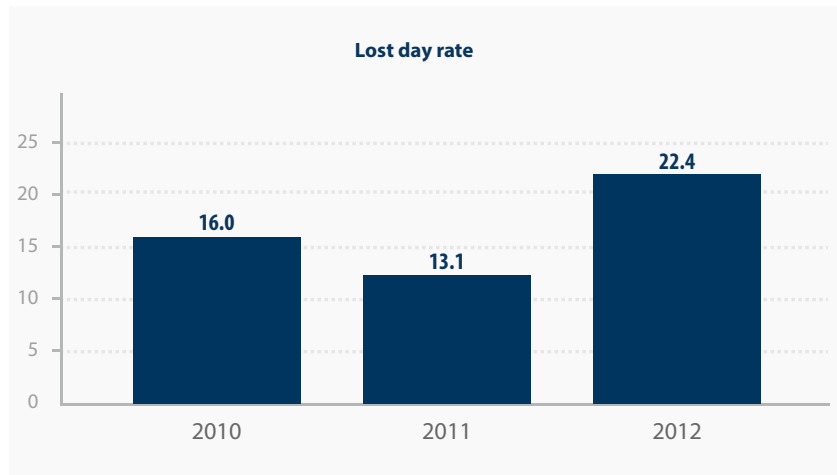


Figure 2 - Average lost day per injured employee

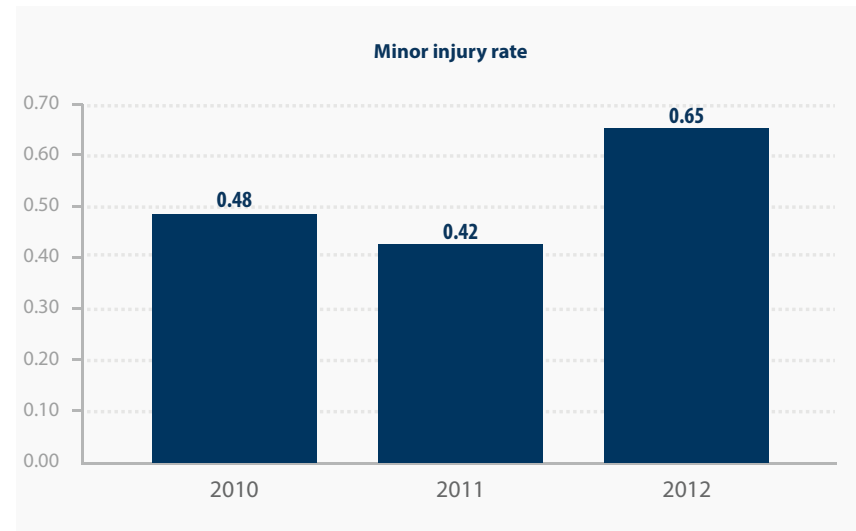


Figure 3 - Minor injury rate



From these LTI's, HAESL had a total of 381.5 man-days lost, which is an average of 22.4 days per injured employee.

Notes:

* Lost time injury(LTI) / minor injury rates represents the number of injuries per 100 employees per year. It is calculated as the total lost time injuries / minor injury multiplied by 200,000 and then divided by total hours worked. The factor 200,000 is the annual hours worked by 100 employees, based on 40 hours per week for 50 weeks a year.

LTI's and minor injury rates in 2012 were high. Whether it was using a set of stairs without holding the handrail, using a chisel without a hand-guard or trapping a finger in a tool, these incidents could have potentially been prevented. Whilst it is nearly impossible to identify every risk factor, we should nevertheless make good use of our 'I Care I Report' mechanism to identify and mitigate as many risks as possible.

Health and Safety

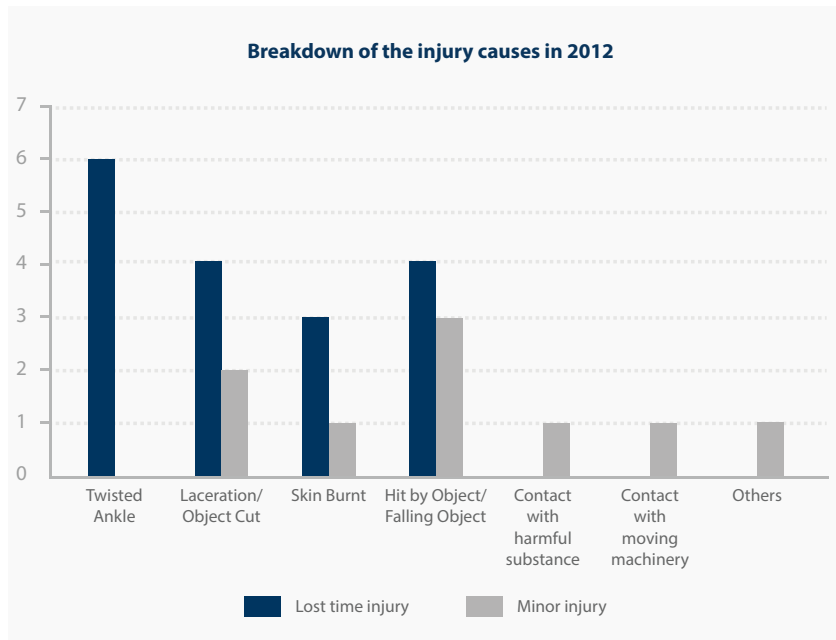


Figure 4 - Break down of the injuries into different categories

On a positive note 2012 saw a high number of 'I Care I Report' submissions. This shows good colleague engagement and allows us where possible to resolve H&S issues. In addition, the introduction of the Senior Management Safety Walk has added focus to H&S risks as well as an 'extra pair of eyes' on the premises.



I Care I Report

In 2010 HAESL launched the I Care I Report (ICIR) proactive reporting programme. Encouraging all HAESL employees to report H&S issues minimises potential accident hazards.

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.

With middle management support we can see that our colleagues have heightened safety awareness on our workshop floors with particular sensitivity to the potential risks they might expose. Offsite meetings were conducted in November 2012 with all Component Repair Engineers and Supervisors to ensure familiarisation with the ICIR system. Based on the 2012 figures, we have seen the quality and number of reports improving significantly.

In addition to the above improvements, the Health & Safety team now has an ICIR database for general management of reports. In the future, reports will be made directly into the database - allowing for improved monitoring and statistical analysis and for further research.



Health and Safety

Health and safety risk assessment

Display screen risk assessment

Similar to previous years, HAESL is concerned with the risks that our office staff might be exposed to their working environment. To make sure all office staff are assessed based on the same criteria, a company-wide display screen risk assessment was conducted by the health and safety team in 2012. Computer users who work in front of a computer for a minimum of six hours with four hours of consecutive use fell into the scope of this assessment. Questionnaires were distributed to all HAESL colleagues. A total of 250 employees were identified as a “daily users”. In order to reduce the chances of repetitive strain injuries (and other related health issues), equipment such as neck rests and keyboard cushions will be purchased in 2013 and distributed to those identified.



Figure 5 – 30 staff participated the OSHC manual handling training and obtained their certificate after training

Risk assessment

Similar to previous years, our Environmental, Health & Safety (EHS) workgroup members are responsible for performing risk assessments at different areas within our workshops. The assessment will not only focus on health & safety, but also emphasise product safety awareness. Our EHS workgroup members are all trained and qualified as Safety Supervisors by the Occupational Safety & Health Council (OSHC), Hong Kong.

Manual handling assessment

Some engine parts are heavy and large in size. There is always risk to our staff when handling engine parts and other heavy objects manually. To reduce the chance of handling injuries, HAESL has nominated 30 people to participate in an external manual handling assessor training course. These individuals will assist the H&S team by conducting manual handling risk assessments in the workshop.

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.



Health and Safety

■ 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.

From October 2012 "Management Safety Walks" were initiated as a regular event occurring weekly on Wednesdays.

The safety walk has become one of the most communicative weekly activities between senior management and frontline supervisors and workers. Eight major Walk Zones have been identified and each will be inspected on average, every two months.

The Walk's focus is not only on worker H&S, it also pays close attention to product safety and general housekeeping. As of 31st December 2012, different zones were inspected at least once by senior management; with a total of 150+ improvements identified to make HAESL a safer, more enjoyable place to work.

2012 Weekly safety walk zones

1. Phase 1 & Phase 4 Module Shop
2. Phase 5 (G/F and U/M level offices and FM area)
3. Phase 5 (1/F and 2/F and roof)
4. Phase 2 G/F (from plating to hand-rework)
5. Phase 2 G/F (from plasma to heat-treatment) and Mezzanine offices
6. Phase 2 1/F (MR / Materials & Stores) incl. mezzanine offices
7. Phase 3 (offices, electrical & M07 workshops) + Phase 4 Sheet Metal & training workshops
8. Admin Building & external areas

Table 1 - 2012 Weekly safety walk zones

■ 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. Starting from mid-2012, before any actual work starts, contractors are required to submit a method statement, stating the associated risks and control methods for every step of the project. In addition to various spot checks performed by the Health & Safety team, with the aid of the ICIR scheme, all staff can report any unsafe acts performed by contractors working within HAESL premises.

■ 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. Manual Handling Safety Booklets were distributed to all staff (including office staff), whereas the Crane Safety Booklets were distributed to all workshop staff. These picture based booklets give good advice to our colleagues on incident and accident avoidance.

At the same time, HAESL utilises all in-house television screens to promote safety by playing safety videos during lunch and tea breaks to improve safety awareness of various topics such as use of Personal Protective Equipment (PPE) training and relaxation exercises.



Health and Safety



■ First aid forum

A first aid forum was organised in December 2012 to brief all new and existing first aiders. The forum included a series of first aid sharing, case studies and rescue exercises to help our first aiders be more competent in providing services to our employees. In addition to the normal sharing, a guest speaker was also invited to discuss the psychological effects after a traumatic event. All first aiders found the forum useful and it strengthened their response skills to any first aid requests from the workshop floor.

■ Safety Training

To increase health & safety awareness, each member of staff has to enrol in basic safety training within their first month of employment and attend the course within three months. Run by our in-house Health & Safety Leaders, our employees receive industry specific H&S training, such as chemical safety, workplace safety, fire safety and manual handling. Each employee receives scheduled training according to their own training requirements.

Apart from normal safety training, HAESL regularly invites external trainers to share their experience on specific safety issues. For example, trainers from Linde Hong Kong Oxygen were invited to train staff specifically in handling pressurised gases in 2012.



Strengthened
response skill to first aid requests

Health and Safety

Safety target for the future (2013)

2012 objectives	Progress
To maintain accident (LTI) at nine incidents per year or less	17 LTI's were reported in 2012. These incidents were reviewed and Management Safety Walk was introduced to minimise H&S risks in HAESL
To include the element "I Resolve" to the I Care I Report Scheme, and to enable reporters to be more proactive devising solutions for unsafe issues	"I Care I Report + I Resolve" was successfully launched in 2012, with 1,451 reports received. Among these reports, 453 reports are classified as "Proactive". Will continue to enhance the programme
Perform display screen risk assessment to all potential high risk users	Completed
Improve our subcontractor monitoring procedures	Completed
Introduce Manual handling procedure to mitigate the risk of manual handling / lifting heavy objects.	Completed
Review previous LTI cases to prevent similar cases	Ongoing
Be audited on Factory & Industrial Undertaking (F & IU) with an acceptable outcome	Completed

2013 objectives
To reduce LTI and minor injuries in 2013
To perform noise assessments throughout the workshop
To launch a "Health Safe" programme to promote a healthy culture
To launch a Manual handling programme in 2013



Senior management weekly safety walk at Haesl



07

Our people

Our people

Introduction

As a company that relies on highly skilled labour, talent management is a critical aspect to keep our business sustainable. At HAESL Hong Kong, we employ approximately 1,200 individuals. We are an equal opportunities employer, and we offer competitive compensation and benefit packages to our employees.

We hope all of our colleagues enjoy working at HAESL; in addition, we aim to instil our culture – team work, respect, integrity, commitment and excellence - all aspects of our employees lives.

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.

HAESL VISION
Best in the world
Best for the world

World Class Values
Teamwork, Integrity, Respect,
Commitment, Excellence

World Class Image
Competitive Pricing, Proactive Service,
Lean Organisation, Safe & Healthy
Workplace, Environmentally Conscious Operations

World Class Characteristics & Behaviours
Continuous Improvement, Customer Focused,
Clear Accountability, Effective Communication, Dedication to Quality

Strategic Objectives

- Exceed our customers' quality, service and cost expectations
- Grow and diversify our revenue base
- Develop an industry leading workforce
- Drive optimal engine streamer and CR performance
- Embed a continuous improvement culture
- Reward our stakeholders



Our people

Employment statistics (by type of employment type, gender, age, years of service)

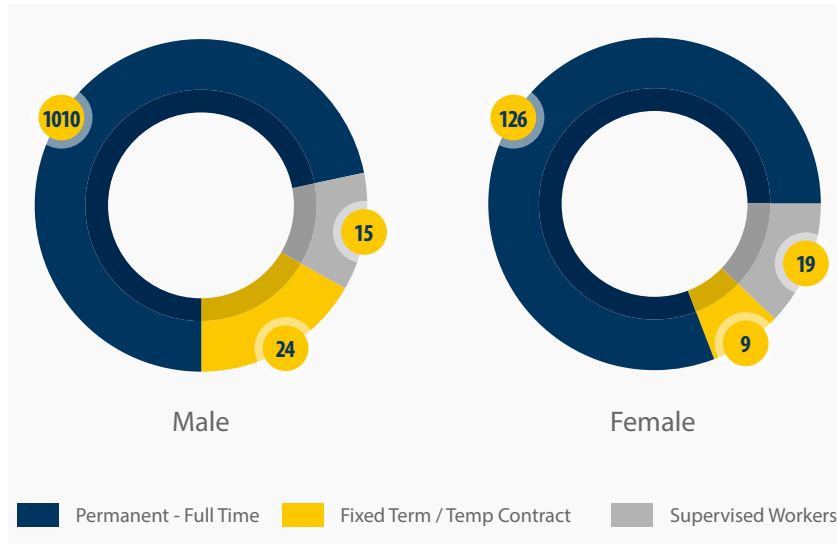


Figure 1 - Employment type (with gender)

As of the end of AP12 (29th Dec 2012), there were a total of 1,203 employees within HAESL. The majority are permanent and full-time employees. 87% of the workforce is male with the remainder, female.

Note:

* Supervised worker is defined as an individual who performs regular work on-site for, or on behalf of, the reporting organisation but is not recognised as an employee under national law or practice.

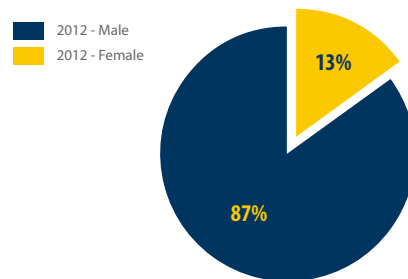


Figure 2 - Gender population

Age distribution is relatively evenly spread over the four age categories – 29% for the under 30s, 25.7% for 30-39, 23.1% for 40-49 and 22.2% for above 50s. Looking at the years of service amongst our staff, we see a significant proportion at 1-5 years (29.5%) with less at 6-10 years (14.0%) and 11-15 years (14.1%). This reflects our recent growth and indicates our employee population is healthy with a slightly high number of younger colleagues and reasonably good staff retention.

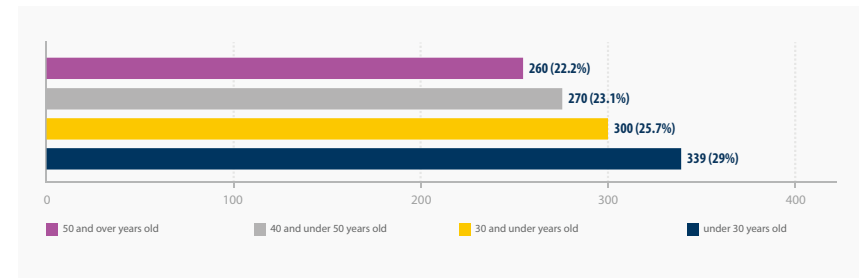


Figure 3 - Age group population

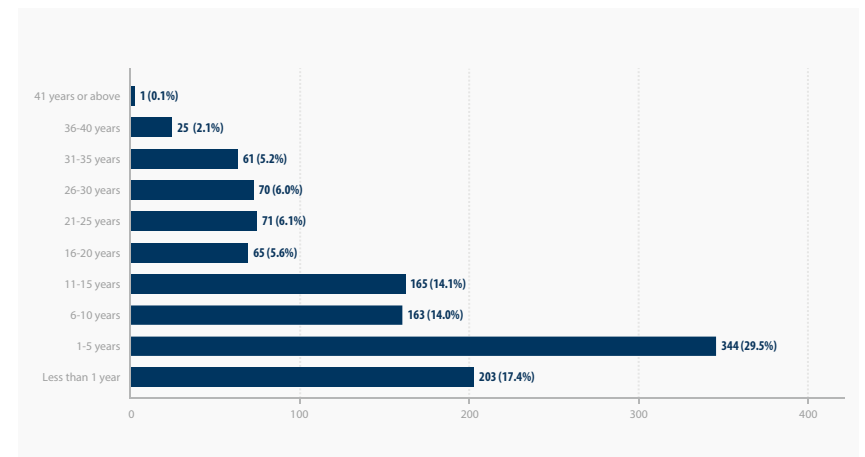


Figure 4 - Years of service distribution

Our people

Employee Engagement

In 2011 senior management decided to hold bi-weekly lunch meetings with contract staff*, this gives invited employees an opportunity to exchange ideas and concerns with management in an open, more relaxed setting. This dialogue encourages two-way communication, allowing employees to understand decisions made by senior management and senior management to appreciate and incorporate the views from the workforce in their decision-making.

Notes:

* Contract Staff are permanent staff who have an engineer / officer pay grade or above with an enhanced benefit scheme.

Employee Engagement Survey

To gauge employee engagement and to understand their emotional attachment to their job, colleagues and the company, employee engagement survey sessions were held in September 2012. 610 staff completed the engagement surveys, a response rate of 52%.

Employee development

To maintain our employees' high level of skills and technical know-how, training sessions are provided to all levels of staff, regardless of their age and gender. The following table shows the average training hours per year per employee. In general, operational / technical staff received the highest training hours per year, an average of 79.6 hours for each operational / technical employee.

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

Table 1 - Average training hour per year per employee



Our people

BT Outward bound Adventure Race 2012

In 2012, HAESL entered 5 teams (up from 2 in 2011) into the BT Outward Bound Adventure Race. The teams were drawn from various departments, including Customer Business, EOH, CR, Technical Services, the management team and the Rolls Royce Field Support Office. This arduous 16km race was held in cold and misty weather. Starting and finishing in Sai Kung, the course took participants via the Ma On Shan plateau and Trio Beach. Participants had to climb waterfalls, canoe, walk the plank and navigate drainage canals during the race. Despite the obstacles, the race was a great teambuilding exercise and all participants reported a good time.

The BT Outward Bound Adventure Race was not only about physical endurance, but also a test of our basic instincts fused with communication and trust in each other. In the future, we believe HAESL will enrol even more teams into this challenging event.



Employee benefits

As a responsible employer, we offer competitive compensation and benefit packages to our employees. We aim to provide a positive working atmosphere that promotes 'Tea and RICE' (Teamwork and Respect, Integrity, Commitment and Excellence), and we feel that an appropriate work-life balance is good for everyone.

In addition to all regulatory requirements stated by the Labour Department, we also offer the following benefits to our employees:

- Medical Health Care Services Subscriptions to Quality Healthcare;
- Dental subsidies to full-time employees who enrol in the company's dental programme;
- Lunch subsidies to all staff for discounted meals served in our canteen;
- Transportation fee subsidies to all staff who take the company coach to work;
- Free health check for staff aged 40 or above;
- Free psychological consultation to all staff
- Physiotherapy services to staff who require it.
- Different sport / activity interest groups organised by Sport and Recreation Committee
- General Staff Consultative Committee (GSCC) and the Contract Staff Association (CSA) to address staff concerns and solicit their opinions on employee welfare services
- Storyboard sessions to raise staff awareness on the company's strategies
- Scholarships offered to employees' children who have exceptional academic performance

In addition to the above benefits, the company also offers different incentive driven benefits to our staff:

- Free lunch and cakes to reward our staff for achieving regular on time delivery and high quality performance

Our people

HAESL Open Day



Figure 5 – A HAESL engineer giving a brief presentation to visitors on turbine blades and what the repair cell does.

For the first time in 5 years, HAESL opened its doors to the public to allow guests a chance to understand and appreciate the nature of aircraft engine overhaul and engineering.

Visitors were free to explore the Engine Overhaul and Component Repair workshops, with engineers stationed at every section to give an overview of our work. Guests were very impressed by the cleanliness of the premises, and excited children had the chance to see huge engines up close.

A wide variety of activities and shows kept our guests entertained all day long.

There was glass painting for the artistic and a Football Challenge for the sporty. Visitors could also test their strength on the hammer bell. A 'Buzz Lightyear' bouncy castle delighted the younger guests. A magic show including stunts and juggling added to the entertainment.

Staff families had the opportunity to familiarise themselves with the HAESL working environment leading to a shared understanding of our environment, our staff and our business.



Figure 6 – The crown performing his routine



Figure 8 – A child enjoys the bouncy castle



Figure 7 – Children performing on stage for prizes



Figure 9 – Families took personalised photos with an aero engine and our pedal kart. All proceeds were donated to different local NGO's

Our people



KH Tang
Principal Tradesman

Figure 1 - KH Tang working in front of his workstation

KH Tang

KH Tang, often known as "class monitor", is a principal tradesman from the Engine Overhaul team. As a member of the Engine Overhaul 04 Module (High Pressure System) Team, his duties include assembling and disassembling the HP system, as well as general engine inspection. Apart from his job responsibilities, he is also a representative of the Staff Recreation and Sport Club (SRSC) and an active member of the volunteer team. As a representative of the SRSC, he strongly encourages his fellow colleagues to join sport activities organised by the company. He believes that to make a company grow sustainably, both teamwork and employees' health are essential.

Before joining HAESL, KH believed the industry to be so unique and specialised he often wondered how HAESL could compete with other foreign companies, especially given the business location in a post-industrial city like Hong Kong. After joining HAESL, he found colleagues are professional and serious about their occupation. "I didn't realise that HAESL was so well known internationally, especially within Asia". He hopes HAESL will continue its leading position in the aviation industry and that it will bring new techniques and advance technologies to Hong Kong. At the same time, he also believes that HAESL will continue to act responsibly towards the local community and the environment.



Figure 2 - Big Photo after a tennis event (KH Tang at the Rightmost)

Mabel Cheung

Mabel joined HAESL's Graduate Trainee Program in 2011 and has gained varied work experience and training from different departments during her rotation.

With charitable activities featuring heavily as part of life at HAESL, Mabel is keen to participate. She has helped with the BOCHK Corporate challenge, HK 24 hour Charity Pedal Cart Grand Prix, HAESL's charity hiking day and others. Mabel also participated in a green project with the aim of making HAESL's work environment a greener place to be. Mabel is pleased that HAESL is not just about work but also personal development and employee interests.

Mabel believes that investing in sustainable development is one of keys to maintain and sustain a company in the long run. HAESL has taken an active role in this area in an attempt to become more responsible and accountable to all its stakeholders.

Though HAESL still faces a lot of obstacles in its sustainability journey, with continued efforts by the company and staff Mabel believes in a future where sustainable development will be nurtured by all colleagues.



Mabel Cheung
General Graduate Trainee

Figure 3 - Mabel in the Engine Overhaul Workshop

Our people



Johanna Yiu
Engineering
Graduate Trainee

Figure 4 - Johanna Yiu in front of a Rolls Royce Engine

Johanna Yiu

Johanna joined HAESL's Engineering Graduate Programme in late 2011. Apart from gaining knowledge and experience by working in various departments, Johanna has also participated in the Environmental, Health and Safety Committee for ICIR (I Care I Report) reviews and projects.

HAESL has been actively involved in numerous charity events, and Johanna was delighted to partake in several of them. They include the BOCHK Corporate Challenge, where HAESL's team was crowned as the Champion of the General Industries Division; and the Hong Kong 24 Hour Charity Pedal Kart Grand Prix, where she served in the engineering team, designing, manufacturing and repairing the competition karts.

Sustainable development has become increasingly important in the aero industry, especially with the focus on bio-fuel usage and emission-related regulations. At HAESL, sustainability can be further encouraged through hosting various events so that all staff can get involved. Johanna believes that HAESL will continue to care not only for the environment, but also for every employee through closer communication to build up trust as well as professional knowledge within the community.



Jacky Chow

Jacky Chow, a tradesman from the CR workshop, is known to almost everyone across all departments and levels due to his gregarious personality. After completing his secondary education in the United Kingdom, Jacky decided to return to Hong Kong to begin a career in aviation. Jacky (formerly a representative of the Staff Recreation and Sports Club [SRSC]) is extremely active in organising sporting competitions for HAESL colleagues.

He believes sport is great at bringing people together. "Sports competitions are a good way to demonstrate team work, as well as our commitment to excellence," he emphasises. "We work hard and play hard."

In 2012 he was elected as a representative of the GSCC (General Staff Consultative Committee). Jacky believes that effective communication between staff and management is important to company sustainability. "I am really grateful that HAESL has a good communication system, like the GSCC, to give us a direct and open way to communicate



with our employer – it helps us understand company goals and strategic direction, and at the same time, it's also an ideal platform to express our concerns to management." In the future, Jacky wishes that more staff will utilise the GSCC to express their concerns to management. "Maintaining good connections between staff and management is crucial for a sustainable business".

Figure 5 - Snapshots of Jacky in a Badminton Event organised by the SRSC



Jacky Chow
Tradesman

Figure 6 - Jacky working in front of his work station



08

Charitable and Community Programmes

Charitable and Community Programmes

■ 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.

In addition to activities, such as introducing children from the Evangel Children's Home (ECH) to nature and bird migration patterns, HAESL volunteers have also welcomed ECH to our workshops to experience how "large fan" civil aero engines work. HAESL's unique business environment enables children to broaden their horizons and to see what is possible for future careers in aviation.

■ Fund Raising Events (Pedal Kart, Hiking, Ngong Ping walk)

Charity Pedal Kart Grand Prix

The Hong Kong Pedal Kart Grand Prix encourages not only sporting and athletic excellence but also a strong charitable aspect.

The annual Pedal Kart Grand Prix is an unusual charity event combining spectacle and excitement. As a responsible member of society (and an engineering company) HAESL has continued to support this event since the company's inception. The charitable aim of the event is to raise money for the needy and to make a small difference in their lives.

The 24-hour non-stop race is no mean feat. It's a gruelling test of endurance and strength of will. The team includes cyclists, pit crew and many who help behind-the-scenes. Working together, the team must battle the clock, the weather and their own physical limits as well as the other teams out on the track.

Despite the cold weather, the Grand Prix brought all the participants together: HAESL staff, their families and children came to cheer the Company team and to share in the excitement, laughter and fun.

Overall, at the event HAESL raised HKD141,365 for charity.



Figure 1 - Our F1 Pedal Kart (2012)



Figure 2 - HAESL team in the Pedal Kart event (2012)

Charitable and Community Programmes

Hiking

A Charity hiking day was held to provide an opportunity for HAESL staff and their families to enjoy the outdoors. The purpose was to raise funds for the HAESL Pedal Kart team's participation in the 24-Hour race. Two routes were used both in the Sai Kung Country Park (from Chek Keng to Wong Shek Pier) and the other from Pak Tam Au to Sai Wan Ting.

Although the weather was not as expected, a good time was had by all HAESL colleagues away from the bustling city. The country park lived up to its name and offered up fantastic views of the hills and the ocean overlooking Tai Long Wan. It was quite a challenge hiking in the inclement weather up and over the hills. Despite this, most participants insisted on completing the routes to meet their charitable goals. The mix of hikers from various departments allowed colleagues to interact with and get to know people they normally don't see during their regular work days.



Figure 3 - Employees and their families join our Pedal Kart hiking event at Sai Kung

2012 Ngong Ping Charity Walk

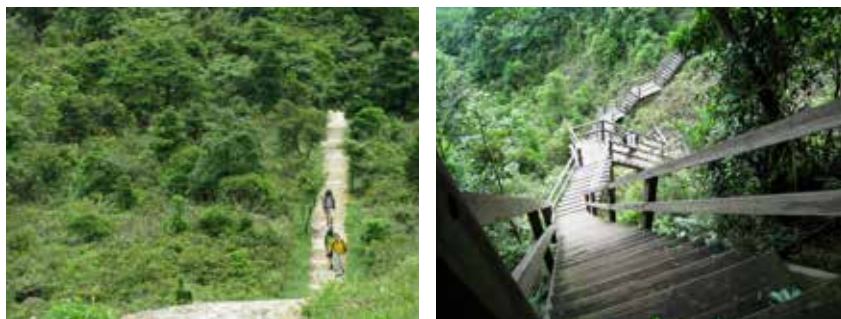
HAESL Charity Walk 2012 is a company-driven event aimed at encouraging staff to participate in charity events as well as raising awareness of social responsibility. This year the walk was held on Lantau Island.



Figure 4 - Hiking at Ngong Ping

In 2012, HAESL decided to support the Youth Hostel Association (YHA) toward their efforts in renovating a hostel. Their hostel in Chek Keng aims to provide primary and secondary students a location for school camps and leadership programmes, whilst promoting conservation. Because of continuous weathering at the hostel, the proceeds raised from the Charity Walk will be used for maintenance of the facility.

Charitable and Community Programmes



Participants could choose 2 routes - either a 2-star section route starting from Tung Chung Shek Mun Gap to the Lantau Big Buddha, or a 5-star route with the same starting section but continuing down to Tung Chung along the famous Ngong Ping 360 rescue trail. Many HAESL colleagues were joined by family members for a day in the outdoors. Fine weather on the day was appreciated by everyone.

Community Events

Blood Donation

Blood donation is a regular community event organised by HAESL. Held once a year, the Hong Kong Red Cross Blood Transfusion Service was asked to come to HAESL to help any interested employees who wished to donate blood.

Toy Bank

To strengthen our engagement with our local community (especially less fortunate families in the Kowloon East region), HAESL organised a Toy Bank campaign in December 2012. The aim was to encourage our colleagues to donate used toys to the under-privileged. This campaign also delivered the message that "Sharing is a Blessing". Our hope is that these toys will bring a smile to children in need. Gift cards were made available for colleagues' children to leave messages along with the toy donations.

As well as toy collection, HAESL staff also volunteered to inspect, clean and package the donated toys. In total, 756 toys were received from our colleagues, as well as other donations from Swire Beverages. The toys were divided into 428 gift packs and were donated to the Boys' and Girls' Club Association Hong Kong at Tsz Wan Shan, Wong Tai Sin.

Social engagement Committee

In order to develop a more structured social engagement strategy, HAESL invited the SWIRE Trust Head of Philanthropy to share knowledge on the social engagement strategies of other companies. This valuable information has become a foundation for HAESL to establish a social engagement strategy with defined goals 2013.



09

Economic Performance and Procurement Policy

Economic Performance and Procurement Policy

■ Performance in 2012 and the outlook for 2013

HAESL's financial performance was good for 2012. Revenues rose 28.9% in 2012. Breaking down our sales into two components – sold man-hours and engine materials, the latter overtook the former due to a rise in the induction of Full Refurbishment (FR) Engines. Sold Man hours only increased by 2% against the previous year. Heavier repairs, leading to a heavier workload with more materials per engine were the reason for the shift.

In spite of the current economic uncertainty and instability, the demand of engine repairs remained high in 2012; Engine output was 220 in 2012, an increase of 26 units compare to 2011. In terms of inducted engine types, there was a significant change in our engine mix since one of our major customers, decided to early retire some of their 747 fleets in favour for more efficient and fuel saving aircraft. Although we have low RB211-524 inputs, there were an increased number of Trent engines inductions under the Rolls Royce Total Care Agreement (TCA). We also won a few 524's repair contracts from other customers that compensated for the missing engine slots.

In terms of business outlook, we anticipate a slight reduction in workload in 2013. However, we remain confident that the demand of engine repair will be high, especially for the Trent 700 and 800 engines. To ensure we take a lead within the engine repair market, we will continuously furnish ourselves with better equipment for the forthcoming challenges ahead. These improvements include upgrading our test bed facilities, as well as utilising our workshops for the Trent XWB engine, which is expected to enter into service in 2014 and for which HAESL anticipates gaining capability in 2015.



Economic Performance and Procurement Policy

Economic information of HAESL

Economic Performance	2011	2012	% Difference
Engine Output	194	220	13.4%
Revenues generated (US\$M)	1,205.6	1,553.5	28.9%
Dividends paid to shareholders (US\$M)	91.4	111.6	22.1%
Employee Cost (US\$M)	42	49.5	17.9%
Taxation (US\$M)	19.8	23.9	20.7%
Charitable donations made directly by HAESL (USD)	33,602	35,063	4.3%

Procurement and supply chain management

In keeping with our vision to become recognised as “Best in the World, Best for the World”, we understand that corporate social responsibility is a key element in achieving this objective. We can only achieve a successful and sustainable business if our suppliers comply with our standards. Suppliers to HAESL should proactively provide clear, accurate and appropriate information on their progress towards achieving their social policy objectives.



Economic Performance and Procurement Policy

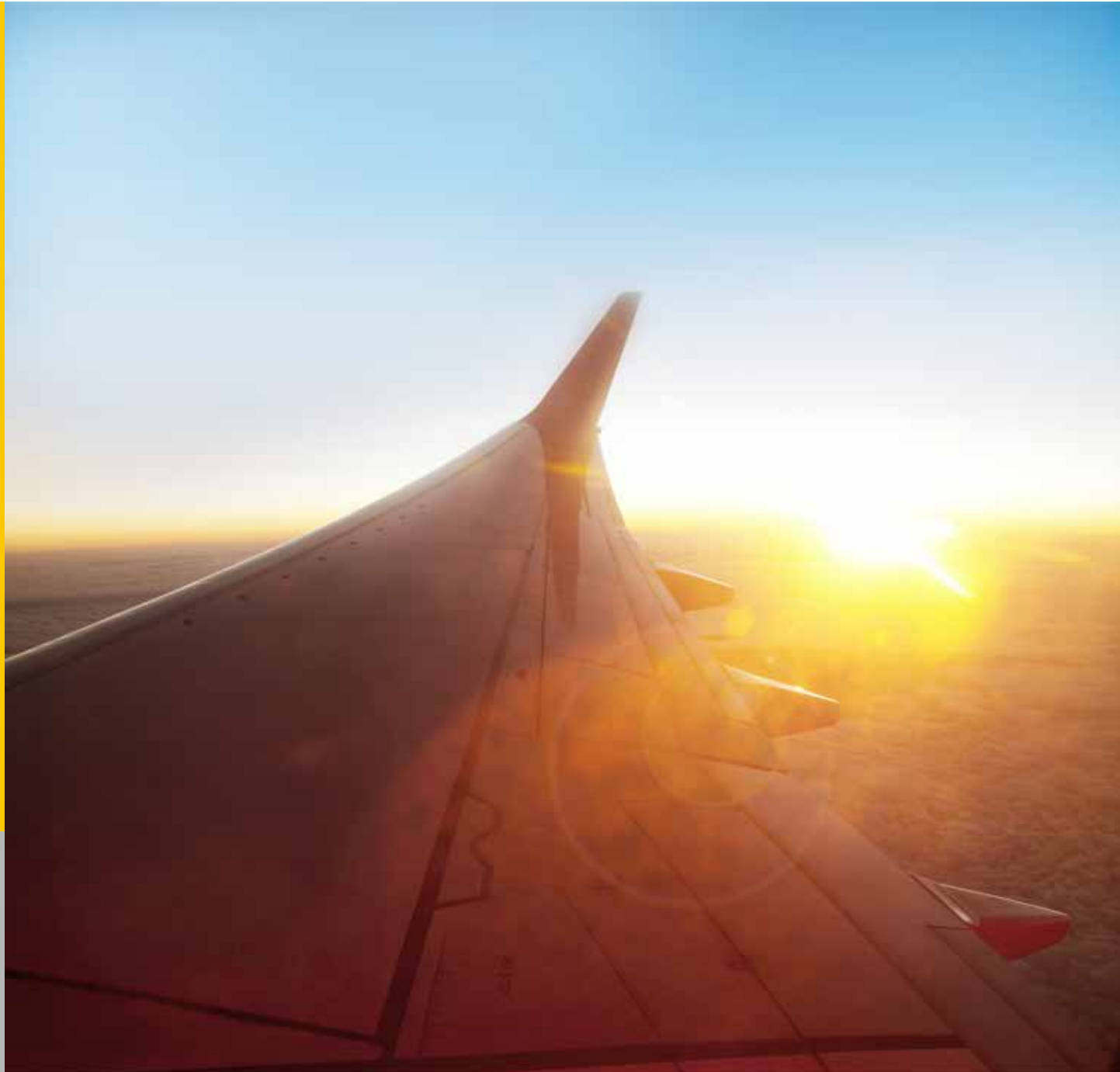
HAESL is committed to select and retain qualified suppliers that meet HAESL's Supplier Code of Conduct according to the following core standards:

1. Legal and Regulatory compliance
2. Environment
3. Forced Labour
4. Child Labour
5. Compensation and Working Hours
6. Health and Safety
7. Discrimination and Employee Rights
8. Ethics
9. Bribery
10. Conflict of Interest
11. Subcontractors and other Service Providers
12. Communication, Documentation and Inspections

For further information on HAESL's supplier's CSR code of conduct, visit www.haesi.com

All suppliers have to complete a self-assessment survey to declare their level of compliance towards HAESL supplier's code of conduct. HAESL will conduct on-going reviews with suppliers that have any non-compliance annually.





10

Planning for the
Future

Planning for the Future

In 2009, HAESL adopted the Global Reporting Initiative (GRI) as an international standard on reporting. We are delighted to report that we have progressed from a C+ to a B+ Application Level (in 2010 & 2011). In 2012, we adopted the most updated GRI 3.1 index for this SD report. Our commitment to structured and systematic stakeholder engagement is a key factor in this progression.

Over the years, we have been identifying areas of our business model to develop sustainably. These areas offer opportunities as well as challenges. Therefore a strong commitment from the management team and stakeholders is required. Some of these opportunities are:

1. Sustainable development journey

In 2013, we plan to have our first HAESL Sustainable Development (SD) Governance meeting with Human Resources and Senior Management. This meeting will aim to develop and review HAESL's SD goals & strategies, as well as align implementation plans. HAESL also hopes to strengthen resources in developing strategies focusing on environmental conservation as well as Child & Youth Development.

2. Sustainable alternative fuels

Towards the end of 2012, HAESL began (with a business partner) to progress a project to trial run an aero engine using Biofuel in a HAESL testing facility. The initial target date for the project is end of 2013. Regular meetings with project team representatives are in place to review activities such as logistical & technical planning, assessing & managing project risk, sourcing of fuel, and media relations & management. We believe utilising the HAESL testing facility for a Biofuel engine test run would give us good quality data to support future green aviation.

3. Building a safe and healthy workplace

A safe and healthy work environment is important. At HAESL we will continue to build a good culture of safety using all the mechanisms at our disposal as well as promote and support a healthy environment. From 2013 onwards HAESL will begin to set up programs to continue to disseminate knowledge to all staff promoting a safe and healthy work culture.



Performance Data

Economic Performance		2011	2012	% change
Engine Output	No.	194	220	13.4%
Revenues generated (US\$M)	US\$M	1,205.6	1,553.5	28.9%
Dividends paid to shareholders (US\$M)	US\$M	91.4	111.6	22.1%
Employee Cost (US\$M)	US\$M	42.0	49.5	17.9%
Taxation (US\$M)	US\$M	19.8	23.9	20.7%
Charitable donations made directly by HAESL (USD)	USD	33,602	35,063	4.3%

Environmental Performance		2011	2012	% change
Energy Consumption				
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				
Direct Emission (Scope 1)	kg CO _{2e}	7,182,768	9,589,127	33.5%
Indirect Emission (Scope 2)	kg CO _{2e}	13,305,699	17,966,144	35.0%
Other Indirect Emission (Scope 3) by Business Air Travel	kg CO _{2e}	231,208	289,387	25.2%
Total GHG Emission	kg CO _{2e}	20,719,675	27,844,658	34.4%
Fuel				
Jet Kerosene - Engine Test	Tonnes	2,264	2,798	23.6%
Unleaded Petrol - Passenger Car (Hong Kong)	L	1,920	1,669	-13.1%
Towngas	L	753,312	821,472	9.0%
Electricity				
Total Electricity consumed - HONG KONG (CLP)	kWh	24,622,949	30,451,091	23.7%
Refrigerant / Fire Extinguishing Agent				
R134a	kg	0	545	na
R417a	kg	0	0	na
R404a	kg	0	0	na
R22	kg	60	0	na
Halon-1301	kg	0	0	na
CFC - 12	kg	0	0	na

Performance Data

Environmental Performance		2011	2012	% change
Water				
Potable Water used	m3	94,517	124,589	31.8%
Water discharged to sewer	m3	62,688	124,589	98.7%
Materials				
Paper and paper products consumed	kg	25,540	28,095	10.0%
Printing Cartridges purchased	No.	686	628	-8.5%
Paints consumed	L	17,382	14,812	-14.8%
Materials				
Chemicals consumed (Liquid)	L	49,831	49,088	-1.5%
Chemicals consumed (Solid)	kg	115,497	100,836	-12.7%
Solid Waste Management				
Industrial / Commercial Waste disposed of	kg	509,000	564,630	10.9%
Grease trap waste disposed of	kg	88	86	-2.3%
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%
Printing Cartridges recycled	No.	349	457	30.9%
Hazardous Waste Managemnt				
Solid chemical waste disposed of	kg	2,966	8,969	202.4%
Liquid chemical waste disposed of	L	20,982	31,037	47.9%
Spent kerosene (aircraft fuel) recycled	L	7,600	11,600	52.6%
Lubrication oil recycled	L	12,000	13,800	15.0%
Significant chemicals / oil spills	No.	0	0	na
Compliance				
Significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	No.	0	0	na

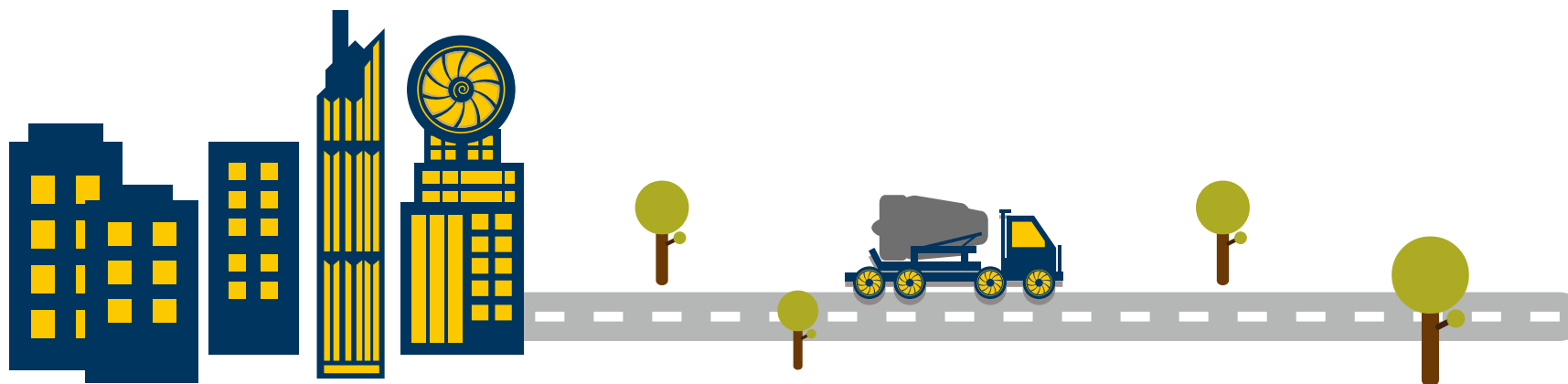
Performance Data

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 3)		13.11	22.44	71.2%

Notes:

- Lost time injuries** are defined as work-related injuries which result in lost time of a minimum of one scheduled working day.
- Lost time injury rate** represents the number of injuries per 100 employees per year. It is calculated as the total lost time injuries multiplied by 200,000 and then divided by total hours worked. The factor 200,000 is the annual hours worked by 100 employees, based on 40 hours per week for 50 weeks a year.
- Lost day rate** represents total number of lost day divided by the total number of lost time injuries i.e. average days given to each lost time injury.

Appendix: Emission factors for GHG emissions Calculations	CO2e (Kg/unit)
Jet Kerosene	3,154 kg / tonne
Unleaded Petrol - Passenger Car (Hong Kong)	2.7079 kg / L
Towngas	0.593 kg/ unit
Electricity - Hong Kong (CLP)	0.59 kg/ kWh
R134a	1300 kg/ unit



GRI Indicators

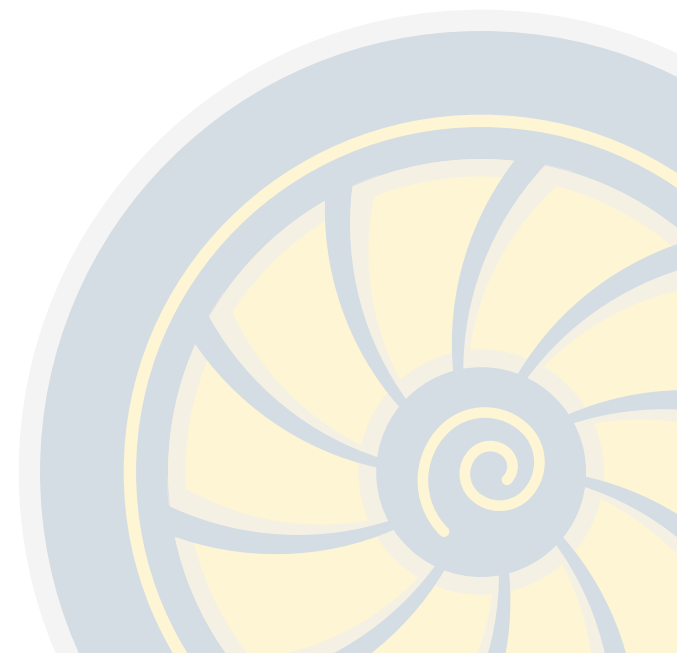
GRI Indicators		Reference Page
1. Strategy and Analysis		
1.1	Statement from the most senior decision-maker of the organisation	DGM Statement
1.2	Description of key impacts, risks, and opportunities	DGM Statement, Planning for the Future, Governance & Stakeholder Engagement
2. Organisational Profile		
2.1	Name of the organisation	Company Profile
2.2	Primary brands, products, and/or other services	Company Profile
2.3	Operational structure of the organisation, including main divisions, operation companies, subsidiaries and joint ventures	Company Profile
2.4	Location of organisation's headquarters	Company Profile
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	Company Profile
2.6	Nature of ownership and legal form	Company Profile
2.7	Markets served (Including geographic breakdown, sectors served and types of customers/beneficiaries)	Company Profile
2.8	Scale of the reporting organisation	Company Profile
2.9	Significant changes during the reporting period regarding size, structure or ownership	Company Profile
2.10	Awards received in the reporting period	Our Awards
3. Report Parameters		
3.1	Reporting period (e.g. fiscal/calendar year) for information provided	About this report
3.2	Date of most recent previous report (if any)	About this report
3.3	Reporting cycle (annual, biennial, etc.)	About this report
3.4	Contact point for questions regarding the report or its contents	About this report
3.5	Process for defining report content	About this report
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	About this report
3.7	State any specific limitations on the scope or boundary of the report	About this report
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations	About this report
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	Environment, Health & Safety, Our People, Performance Data, Economic Performance & Procurement Policy
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods)	About this report

GRI Indicators		Reference Page
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	About this report
3.12	Table identifying the location of the Standard Disclosures in the report	GRI Indicators
3.13	3.13 Policy and current practice with regard to seeking external assurance for the report	About this report, HKQAA Verification Statement
4. Governance, Commitments and Engagement		
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight	Governance & Stakeholder Engagement
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Governance & Stakeholder Engagement
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members	Governance & Stakeholder Engagement
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Governance & Stakeholder Engagement
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives	Governance & Stakeholder Engagement
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Governance & Stakeholder Engagement
4.7	Process for determining the composition, qualifications and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity	Governance & Stakeholder Engagement
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Governance & Stakeholder Engagement
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	Governance & Stakeholder Engagement
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	Governance & Stakeholder Engagement
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Governance & Stakeholder Engagement
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses	Governance & Stakeholder Engagement
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations	Governance & Stakeholder Engagement
4.14	List of stakeholder groups engaged by the organisation	Governance & Stakeholder Engagement
4.15	Basis for identification and selection of stakeholders with whom to engage	Governance & Stakeholder Engagement
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Governance & Stakeholder Engagement
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	Governance & Stakeholder Engagement

GRI Indicators

Standard Disclosures: Performance Indicators		Reference Page
Economic Performance		
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	Economic Performance & Procurement Policy
Environmental Performance		
EN1	Materials used by weight or volume	Environment , Performance Data
EN3	Materials used by weight or volume	Environment , Performance Data
EN4	Indirect energy consumption by primary source	Environment , Performance Data
EN5	Energy saved due to conservation and efficiency improvements	Environment , Performance Data
EN8	Total water withdrawal by source	Environment , Performance Data
EN10	Percentage and total volume of water recycled and reused	Environment , Performance Data
EN16	Total direct and indirect greenhouse gas emissions by weight	Environment , Performance Data
EN17	Other relevant indirect greenhouse gas emissions by weight	Environment , Performance Data
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Environment , Performance Data
EN21	Total water discharge by quality and destination	Environment , Performance Data
EN22	Total weight of waste by type and disposal method	Environment , Performance Data
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Environment , Performance Data
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Environment , Performance Data
Social: Labour Practices and Decent Work		
LA1	Total workforce by employment type, employment contract, and region broken down by gender	Our People, Performance Data
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region	Our People, Performance Data
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Our People
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	Our People, Performance Data
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and gender	Health & Safety, Performance Data
LA10	Average hours of training per year per employee by gender and by employee category	Our People, Performance Data
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Our People
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Our People

Standard Disclosures: Performance Indicators		Reference Page
Social: Human Rights		
HR2	Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening and actions taken	Economic Performance & Procurement Policy
Social: Society		
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Charitable and Community Programmes
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Our People
Social: Product Responsibility		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Health & Safety



Verification Statement



Scope and Objective

Hong Kong Quality Assurance Agency (“HKQAA”) was commissioned by Hong Kong Aero Engine Services Limited (hereinafter referred to as “HAESL”) to undertake an independent verification of the Sustainable Development Report 2012 (hereinafter called “the Report”). The Report stated HAESL’s sustainability performance and efforts made for the period from 1st January 2012 to 31st December 2012. The verification team was not involved in any aspect on the preparation or drafting of the Report.

The aim of this verification was to provide assurance on the completeness and accuracy of the information stated in the Report. The Report’s coverage of the standard disclosures defined in the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines Version 3.1 (G3.1) was also assessed to confirm if the B+ application level had been achieved.

Methodology

The process used in this verification was based on current best practices. The Report was reviewed based on the following criteria:

- The principles of completeness, accuracy, neutrality, comparability and responsiveness, as set out in the Institute of Social and Ethical AccountAbility standard AA1000, and
- The Global Reporting Initiative (GRI) G3.1 Guidelines.

The verification procedure included reviewing relevant documentation, interviewing responsible personnel with accountability for preparing the Report and verifying the selected representative sample of data and information consolidated in the Report. Raw data and supporting evidence of the selected samples were thoroughly examined.

Conclusion

The Report provided a comprehensive and balanced account of the performance of HAESL in the context of sustainable development. The verification team confirmed that the Report was prepared based on factual statements and that the data contained within the Report are accurate. It is a fair and honest representation of initiatives, targets, progress and performance on HAESL’s sustainable development achievements.

The verification team determined that the Report fulfills the B+ application level of the GRI G3.1 Guidelines based on the outcome of the verification process.

Opportunities for improvement on the reporting structure and content are separately submitted to HAESL for their consideration on the compilation of future sustainable development reports. It does not affect our opinion on the Report.
Signed on behalf of Hong Kong Quality Assurance Agency

Jorine Tam
Assistant Director
June 2013

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- All staff and stakeholders who have supported and contributed to all relevant SD activities throughout 2012



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:

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