

**HONGKONG AIRCRAFT ENGINEERING COMPANY LTD :
EATING OUT OF A CRACKED RICE BOWL**

Nobody likes to eat out of a cracked rice bowl, and the existing (and remaining) employees of Hongkong Aircraft Engineering Company Ltd (HAECO) (Code: 44 - \$HK12) must be fully cognizant of this fact.

Because the staffing of HAECO was reduced, during the past Financial Year, by about 720 employees, representing about 16 percent of HAECO's former Total Establishment level of about 4,430 workers.

It has cost HAECO about \$HK92 million in compensation packages, paid to former junior staff members over the past few Financial Years.

That HAECO may have had no choice in the matter of sacking, or causing workers to hit the streets, or adopting the policy of attrition on the assembly line, is immaterial -- because it would have been fruitless, also, talking to the 1915 Captain of the British Steamship, The Lusitania, explaining that the German submarine that torpedoed the luxury liner, sending 1,198 passengers and crew to their watery deaths, would not have fired on the liner had it not been carrying arms to the Allied Forces, facing off against the armed forces of Germany's Kaiser Wilhelm II.

And, while HAECO would claim, with some justification, that it had to unload some of the '*fat*', it appears not to have stopped senior Management from giving more money to the '*boys*' by way of increases in Total Emoluments.

The HAECO 1999 Annual Report is quite definitive, in its attempts at obfuscation, and makes light of what Management did with regard to unloading staff, during the past Financial Year, ended December 31.

By a little simple arithmetic, it is, also, very clear just how much Senior Management took for itself ... while 720 former HAECO workers hit the streets in search of alternate employment.

Page 37 of the 1999 Annual Report indicates that Directors' Remuneration rose, on average, from about \$HK791,666 per man in 1998 to the figure of about \$HK935,176 per man in 1999.

In 1998, there was a total of 21 Executive and Non-Executive Directors who, in total, received about \$HK16.63 million.

In 1999, there was a total of 17 Executive and Non-Executive Directors who, between them, took about \$HK15.90 million.

The 5 Executive Directors in 1999 took all but \$HK116,000 of the \$HK15.90-million figure, with the Chairman, Mr D.M. Turnbull, taking home \$HK4.50 million, Managing Director P.K. Chan got \$HK4 million for the Year, Messrs A. Hoad and P.A. Kilgour, each received \$HK3 million, while Mr S.K.C. Lau got paid about \$HK1.50 million.

While one may be tempted to criticise the extent of the Directors' Remuneration, considering the large number of sackings of more junior staff, last Year, it is not unreasonable to pay the Chairman of a public company in the range of \$HK375,000 per month to run an enterprise, the Turnover of which approaches \$HK2 billion.

HAECO, not too long ago, had a virtual monopoly in the old Hongkong, but the new Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) is a different '*animal*' from colonialist Hongkong.

Rightly or wrongly, HAECO is facing, seemingly, insurmountable problems: One should not rule out the possibility of its extinction from the public arena within the next few years unless Management can pull the proverbial rabbit out of the proverbial English hat.

The Financials

The 10-Year Summary of this Company, which specialises in the maintenance, repair and overhaul of commercial aeroplanes in the HKSAR, does not make for inspiring reading because it shows that the 1999 Turnover was the lowest for the past decade, and the Profit Attributable to Shareholders was the lowest since the Year Dot:

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
	<i>All Figures are Denominated in \$HK million</i>									
Turnover	1,959.20	2,028.20	2,375.10	2,461.50	2,390.80	2,418.40	2,307.10	2,097.10	1,806.10	1,601.20
Profit Attributable to Shareholders	59.40	145.60	320.10	494.50	331.30	413.60	447.00	387.90	320.60	289.40
Dividends	81.40	111.10	148.20	148.20	148.20	174.10	187.00	168.50	150.00	140.70
Earnings Per Share (\$HK)	0.32	0.79	1.73	2.67	1.79	2.23	2.41	2.09	1.73	1.56

For the time being, at least, HAECO has a monopoly with regard to its facilities at the Chek Lap Kok, Hongkong International Airport, the HKSAR, but for how long it can maintain this position is questionable.

It only has one hangar, capable of accommodating 3, wide-bodied aeroplanes while Chek Lap Kok is a large airport, which could well afford to have more than one company of the ilk of HAECO.

Even with an additional facility, it is still very vulnerable to competition.

Chairman Turnbull was not talking all bull when he stated, under the strap line, '*Prospects*', in his 1999 Chairman's Statement: *'The Company has emerged from a very difficult 1999 in an improved competitive position. Whilst revenue growth is unlikely in the short term as competitive pressures show little sign of easing, the cost savings that have been implemented should ensure an improvement in core profitability ...'*

TARGET would not hesitate to go on record as saying that HAECO is unlikely to improve profitability in the coming years if ... [CLICK TO ORDER FULL ARTICLE](#)

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