



CATIC International Holdings Limited
中國航空技術國際控股有限公司
(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

Stock Code 股份代號 : 232



INTERIM REPORT 2007

TOKYO

LOS ANGELES

CONTENTS

Chairman's Statement	2
Additional Information	8
Interim Financial Statements	12
Report on Review of Interim Financial Information	27

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Overall review

The Group's results for the first half of 2007 remained stable. Turnover amounted to HK\$357,183,000 (2006: HK\$543,534,000), representing a drop of 34% over the corresponding period last year, which was mainly because many of the facade contracting projects were still at their preliminary design phase and accordingly the turnover of facade contracting works declined over the corresponding period last year. Profit attributable to equity holders amounted to HK\$15,037,000 (2006: HK\$27,076,000), representing a drop of 44% over the corresponding period last year. The main reason was that a gain on deemed disposal of interest in an associate of HK\$16,777,000 had been recorded in the first half of last year. Excluding this factor, profit attributable to equity holders rose by 46%. Basic earnings per share amounted to HK¢0.36 (2006: HK¢0.70).

Facade contracting works

Majority of the projects secured in the second half of 2006 were still at their preliminary design phase during the first six months of 2007 and accordingly the turnover for six months ended 30 June 2007 only amounted to HK\$263,978,000, which is substantially down from HK\$461,010,000 for the corresponding period in 2006. Gross profit during the period benefited from the contribution arising from Burj Dubai in United Arab Emirates and hence performed well. The 1680-foot Burj Dubai, claimed to be the World's tallest skyscraper and featuring more than 160 floors, is expected to be completed by the end of 2008. The Group's profit on this project is based on an agreed percentage calculated monthly on the combined total project costs contributed by the Group and its co-operative partner and hence the profit margin of this project is relatively better than that of other projects.

In short, notwithstanding the much reduced turnover, the Group derived profit contribution of HK\$7,478,000 (2006: HK\$7,990,000) from facade contracting works for the first half of 2007.

The aggregate amount of new contracts secured during the first half of 2007 exceeded HK\$500 million, including the following major projects:

- (1) The Venetian Macao in Cotai, Parcel 2, Macau – Package 22310
- (2) Shanghai IFC

As at 30 June 2007, the remaining value of contracts in hand amounted to HK\$2,148,000,000 (31 December 2006: HK\$2,204,000,000) after having deducted previously included project costs to be contributed by the co-operative partner in Burj Dubai.

Electric and steam power supply

During the first half of 2007, Hangzhou Sealand Electric Power Company Limited (“Hangzhou Sealand”), a subsidiary of the Company, enjoyed a satisfactory growth. In comparison with the corresponding period last year, turnover increased by 12% from HK\$82,603,000 to HK\$92,344,000. During the period, the sales volume of steam power increased by 13% as compared with the corresponding period last year while that of electric power decreased by 14%. The sales income of steam power contributed 80% of the total sales income of electric and steam power supply, representing an increase of 5% from 75% of the corresponding period last year. In addition, income from installation of infrastructure for steam supply amounted to HK\$5,573,000 during the period, representing an increase of HK\$5,544,000 over the corresponding period last year. For the six months ended 30 June 2007, electric and steam power supply business contributed HK\$17,391,000 (2006: HK\$10,895,000) to the Group’s profit.

Aero-technology related business

Totally twenty-six EC120 helicopters were sold in the first half of 2007. Having considered the profit and cashflow forecast of Project EC120, the Group made a provision for impairment of HK\$600,000 (2006: HK\$1,000,000) against the financial assets thereunder. The aero-technology related business recorded a loss of HK\$112,000 (2006: HK\$681,000) for the period.

During the period, the Group recorded investment profit in an aggregate of HK\$5,573,000 (2006: HK\$1,060,000) from two associates, CATIC Siwei Co., Ltd. (“CATIC Siwei”) and China Nav-Info Co., Ltd. (“China Nav-Info”). CATIC Siwei previously engaged mainly in the provision of aero-photographic services in the Mainland. During the period, its business was changed to the provision of rental services of aero-photographic equipments and investment holding. China Nav-Info is a company engaging in the business of utilising geographical information system and global positioning system technologies to manufacture location-based navigation products and to provide related services.

PROSPECTS

Whilst focusing on market developments in the U.S. and Dubai, the Group has been closely monitoring substantial projects in the Mainland and has recently won a substantial project in Shanghai as described above. Concurrently, the Group is also working very hard to further strengthen project management to complete its projects in hand in bid to secure more projects in the future.

In the second half year, Hangzhou Sealand will continue to ensure safe production and improve production efficiency through proper maintenance of equipments. Moreover, in coordination with the stringent cost control and enhanced internal management implemented, Hangzhou Sealand will strive for better operating results.

By reference to the order on hand situation, the delivery quantity of EC120 helicopters in the second half year is expected to go upwards. Project EC120 will be able to continue to yield reasonable investor returns to the Group. It is also expected that CATIC Siwei and China Nav-Info will bring stable investor income to the Group.

FINANCIAL REVIEW

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 30 June 2007, the Group had current assets of HK\$861,221,000 (31 December 2006: HK\$652,181,000), including cash and bank balances and time deposits in an aggregate of HK\$506,808,000 (31 December 2006: HK\$176,138,000). The Group's current liabilities as at 30 June 2007 were HK\$465,191,000 (31 December 2006: HK\$479,405,000).

In May 2007, the Company issued 720,000,000 ordinary shares to an existing shareholder of the Company and granted 80,000,000 share options with an exercise price of HK\$0.34 per share to certain independent third parties, for an aggregate cash consideration, before placing expenses, of HK\$244,800,000; and issued 68,000,000 ordinary shares resulting from the exercise of share options at an exercise price of HK\$0.34 per share for an aggregate cash consideration of HK\$23,120,000. As at 30 June 2007, the Group's equity attributable to equity holders of the parent amounted to HK\$875,950,000 (31 December 2006: HK\$591,724,000), comprising issued capital of HK\$477,330,000 (31 December 2006: HK\$398,530,000) and reserves of HK\$398,620,000 (31 December 2006: HK\$193,194,000). The Group's outstanding bank borrowing as at 30 June 2007 amounted to HK\$96,735,000 (31 December 2006: HK\$167,614,000). The Group's gearing ratio, calculated on the basis of total bank borrowings as a percentage of equity attributable to equity holders of the parent, was 11% (31 December 2006: 28%).

The Group's banking facilities are mainly utilised for the issue of documentary credits for purchase of construction materials, for the issue of bid bonds and performance guarantees in accordance with contractual terms, and for capital expenditure and general working capital requirements.

Charges on the Group's assets

As at 30 June 2007, the following Group's assets were pledged to secure the Group's bank facilities:

- (a) the Group's investment property with carrying value of HK\$17,915,000 (31 December 2006: HK\$14,900,000);
- (b) certain of the Group's land and buildings with an aggregate net book value of approximately HK\$43,375,000 (31 December 2006: HK\$41,938,000);
- (c) certain of the Group's available-for-sale investments amounting to HK\$10,061,000 (31 December 2006: HK\$10,835,000); and
- (d) certain of the Group's long term and short term time deposits amounting to HK\$9,360,000 (31 December 2006: HK\$9,360,000) and HK\$89,401,000 (31 December 2006: HK\$64,046,000), respectively.

Exposure to fluctuations in exchange rates

The Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi or United States dollars. No significant exposure to fluctuations in exchange rates exists. The Group will continue to monitor the movement in exchange rates and take necessary measures if the situations so justify so as to minimise any adverse impact that fluctuations of exchange rates might have on the Group.

MATERIAL ACQUISITIONS AND DISPOSALS

On 4 January 2006, Sino-Aviation Investments Limited (“Sino-Aviation Investments”), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (“JV Agreement”) with China National Aero-Technology Import & Export Corporation (“CATIC”), the Company’s ultimate holding company, and Chengdu Aircraft Industry (Group) Corporation Ltd. (“Chengdu Aircraft”), for the establishment of a joint venture to engage in the research and development, design and manufacture of, and provision of technical services for, parts and components for commercial aircraft. According to the JV Agreement, the total registered capital of the joint venture will be RMB100 million (equivalent to approximately HK\$103 million), of which 40%, 15% and 45% respectively, will be contributed by Sino-Aviation Investments, CATIC and Chengdu Aircraft. The JV Agreement is conditional upon, (i) internal approval obtained by each of the three parties; and (ii) the approvals from the relevant PRC authorities. As at 30 June 2007, the JV agreement was not effective as the conditions stated above have not been fulfilled.

On 25 January 2007, Billirich Investment Limited (“Billirich”), a wholly-owned subsidiary of the Company, entered into a convertible bond agreement with Sino Gas Group Limited (“Sino Gas”), pursuant to which convertible bonds with an aggregate principal amount of HK\$15,600,000 were issued by Sino Gas to Billirich. The convertible bonds are interest-bearing at 2% per annum and Billirich has the right to convert the convertible bonds into ordinary shares of Sino Gas at HK\$0.65 per share (subject to adjustment upon the change in the capital structure of Sino Gas) and the convertible bonds will mature at two years after the issue of the convertible bonds. Besides, upon the occurrence of certain mandatory conversion events, Sino Gas shall have the right to require the conversion of the principal amount then outstanding and all interest accrued thereon into ordinary shares of Sino Gas at the then conversion price. Assuming full conversion of the convertible bonds at the conversion price of HK\$0.65 per share, the convertible bonds can be converted into 24,000,000 ordinary shares of Sino Gas. As of 25 May 2007, the conversion price of HK\$0.65 per share was adjusted to HK\$0.633 per share as a result of the change in capital structure of Sino Gas.

On 15 March 2007, the Group disposed of 30,000,000 ordinary shares of Sino Gas (which were designated as equity investment at fair value through profit or loss in prior year) to an independent third party and issued a call option to that party to acquire at an exercise price of HK\$0.5 per share from the Group a maximum of an additional 45,000,000 ordinary shares of Sino Gas. Such call option grants the option holder the right to acquire those shares within 24 months from the date of the issue of the option.

Save as disclosed above, the Group had no other material acquisitions or disposals during the period.

CONTINGENT LIABILITIES

Details of the significant contingent liabilities of the Group are set out in note 15 to the interim financial statements.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 17 to the interim financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2007, there were 1,500 (31 December 2006: 1,409) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical insurance and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

APPRECIATION

I would like to take this opportunity to express my appreciation to my fellow directors and all our staff for their support, hard work and dedication.

By Order of the Board
Fu Shula
Chairman

Hong Kong, 7 September 2007

ADDITIONAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Underlying shares in respect of share options

At the annual general meeting held on 14 May 2001, the Company adopted a share option scheme (the "2001 Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Subsequent to the adoption of the 2001 Scheme on 14 May 2001, the Stock Exchange introduced a number of changes to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on share option schemes. These new rules came into effect on 1 September 2001. In compliance with the amended Chapter 17 of the Listing Rules, a new share option scheme (the "Existing Scheme") was adopted by the Company at the annual general meeting held on 13 May 2003 and at the same time the 2001 Scheme was terminated. Since the adoption of the Existing Scheme, no options have been granted thereunder.

Notwithstanding the termination of the 2001 Scheme, the relevant provisions thereof remain in full force and effect to the extent necessary to give effect to the exercise of any outstanding share options granted thereunder prior to their respective terminations. Details of share options granted under the 2001 Scheme prior to its termination and outstanding as at 30 June 2007 were as follows:

Eligible person	Number of shares options				Outstanding at 30 June 2007	Date of grant	Exercise period (i)	Exercise price per share (ii)
	Outstanding at 1 January 2007	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period				
Director								
Ji Guirong	20,000,000	-	-	-	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
Other employees	22,000,000	-	-	-	22,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
	<u>42,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,000,000</u>			

- (i) Share options must be held for a minimum of six months before exercise. Exercise period shall not exceed a period of five years commencing on the expiry of a period of not less than six months after the date the option is accepted.
- (ii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30 June 2007, none of the directors of the Company had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of shareholders	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
Tacko International Limited ("Tacko")	(1)	1,335,767,000*	27.98
CATIC (H.K.) Limited ("CATIC (H.K.)")	(1)	1,335,767,000#	27.98
Speed Profit Enterprises Limited ("Speed Profit")	(2)	508,616,000*	10.65
Catic International Finance Limited ("Catic Finance")	(2)	508,616,000#	10.65
China National Aero-Technology Import & Export Corporation ("CATIC")	(3)	1,844,383,000#	38.63
China Aviation Industry Corporation I ("AVIC I")	(3)	1,844,383,000#	38.63
China Aviation Industry Corporation II ("AVIC II")	(3)	1,844,383,000#	38.63

* These shares were directly beneficially owned by these shareholders.

These shares were owned through controlled corporations.

Notes:

- (1) Tacko is a wholly-owned subsidiary of CATIC (H.K.), which is in turn a wholly-owned subsidiary of CATIC. Pursuant to the SFO, both CATIC (H.K.) and CATIC are deemed to be interested in the 1,335,767,000 shares held by Tacko.
- (2) Speed Profit is a wholly-owned subsidiary of Catic Finance, which is in turn a wholly-owned subsidiary of CATIC. Pursuant to the SFO, both Catic Finance and CATIC are deemed to be interested in the 508,616,000 shares held by Speed Profit.
- (3) CATIC is owned as to 50% by AVIC I and as to 50% by AVIC II. Pursuant to the SFO, each of CATIC, AVIC I and AVIC II is deemed to be interested in the aggregate of the shares stated in (1) and (2) above (i.e. an aggregate of 1,844,383,000 shares held by Tacko and Speed Profit).

Save as disclosed above, as at 30 June 2007, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain good standards of the corporate governance practices by emphasising transparency, accountability and responsibility to its shareholders.

Throughout the six months ended 30 June 2007, the Company applied the principles of, and complied with all the code provisions and some of the recommended best practices of the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Listing Rules. The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2007.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in compliance with the Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. It currently comprises three Independent Non-executive Directors of the Company.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2007 have been reviewed by the Audit Committee, and have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
REVENUE	3	357,183	543,534
Cost of sales		(306,479)	(498,613)
Gross profit		50,704	44,921
Other income and gains	4	12,026	7,077
Administrative and other operating expenses, net		(41,401)	(35,933)
Surplus on revaluation of an investment property		3,015	–
Surplus on revaluation of items of property, plant and equipment		2,970	–
Impairment of a financial asset under Project EC120		(600)	(1,000)
Finance costs	5	(2,679)	(3,114)
Fair value loss on equity investments at fair value through profit or loss and derivative financial instruments		(10,174)	–
Gain/(loss) on deemed disposal of an interest in an associate		(271)	16,777
Share of profits and losses of associates		5,573	4,580
PROFIT BEFORE TAX	6	19,163	33,308
Tax	7	64	(4,119)
PROFIT FOR THE PERIOD		19,227	29,189
ATTRIBUTABLE TO:			
Equity holders of the parent		15,037	27,076
Minority interests		4,190	2,113
		19,227	29,189
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– Basic		0.3550 cent	0.6971 cent
– Diluted		0.3524 cent	N/A
DIVIDEND PER SHARE	9	Nil	Nil

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
NON-CURRENT ASSETS			
Investment property		17,915	14,900
Property, plant and equipment	10	234,918	194,483
Prepaid land lease payments		29,900	28,579
Goodwill		38,117	38,117
Interests in associates		53,437	48,136
Financial asset under Project EC120		25,360	25,959
Available-for-sale investments		101,717	91,102
Deferred tax assets		7,722	3,700
Rental and utility deposits		2,251	2,255
Pledged time deposits		9,360	9,360
Total non-current assets		520,697	456,591
CURRENT ASSETS			
Inventories		14,721	15,624
Amounts due from contract customers		44,211	70,550
Trade and retention receivables	11	171,987	251,728
Prepayments, deposits and other receivables		58,306	58,253
Equity investments at fair value through profit or loss		62,235	79,888
Derivative financial instruments		1,709	-
Pledged time deposits		89,401	64,046
Cash and cash equivalents		417,407	112,092
Tax recoverable		1,244	-
Total current assets		861,221	652,181
CURRENT LIABILITIES			
Amounts due to contract customers		147,146	113,568
Trade and bills payables	12	138,742	109,569
Tax payable		4,391	2,553
Warranty provision		10,720	10,301
Other payables and accruals		62,384	75,578
Derivative financial instruments		4,902	-
Interest-bearing bank borrowings		96,735	167,614
Finance lease payables		171	222
Total current liabilities		465,191	479,405
NET CURRENT ASSETS		396,030	172,776
TOTAL ASSETS LESS CURRENT LIABILITIES		916,727	629,367

CONDENSED CONSOLIDATED BALANCE SHEET (cont'd)

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
<i>Notes</i>		
NON-CURRENT LIABILITIES		
Deferred tax liabilities	3,514	4,512
Finance lease payables	–	58
Total non-current liabilities	3,514	4,570
Net assets	913,213	624,797
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	477,330	398,530
Reserves	398,620	193,194
	875,950	591,724
Minority interests	37,263	33,073
Total equity	913,213	624,797

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent										
	Issued capital	Share premium account	Share option reserve	Property, plant and equipment	Available-for-sale investment	Reserve fund	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total equity
				revaluation	revaluation						
				reserve	reserve						
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2007 (unaudited)	398,530	4,917	-	1,773	37,185	5,852	10,239	133,228	591,724	33,073	624,797
Exchange realignment	-	-	-	-	-	-	6,039	-	6,039	-	6,039
Change in fair value of available-for-sale investments	-	-	-	-	(2,898)	-	-	-	(2,898)	-	(2,898)
Surplus on revaluation	-	-	-	600	-	-	-	-	600	-	600
Profit for the period	-	-	-	-	-	-	-	15,037	15,037	4,190	19,227
Transfer to reserve fund	-	-	-	-	-	507	-	(507)	-	-	-
Issue of shares	72,000	172,800	-	-	-	-	-	-	244,800	-	244,800
Share issue expenses	-	(2,472)	-	-	-	-	-	-	(2,472)	-	(2,472)
Issue of share options	-	(17,740)	17,740	-	-	-	-	-	-	-	-
Issue of shares upon exercise of share options	6,800	16,320	-	-	-	-	-	-	23,120	-	23,120
Transfer of reserve upon exercise of share options	-	15,079	(15,079)	-	-	-	-	-	-	-	-
At 30 June 2007	477,330	188,904	2,661	2,373	34,287	6,359	16,278	147,758	875,950	37,263	913,213
At 1 January 2006 (unaudited)	374,148	1,973	-	320	-	4,601	4,279	86,530	471,851	34,071	505,922
Exchange realignment	-	-	-	-	-	-	127	-	127	-	127
Change in fair value of available-for-sale investments	-	-	-	-	(1,443)	-	-	-	(1,443)	-	(1,443)
Profit for the period	-	-	-	-	-	-	-	27,076	27,076	2,113	29,189
Share of movements in post-acquisition reserves of an associate	-	-	673	-	-	-	925	-	1,598	-	1,598
Transfer to reserve fund	-	-	-	-	-	533	-	(533)	-	-	-
Issue of shares	26,850	4,028	-	-	-	-	-	-	30,878	-	30,878
Share issue expenses	-	(1,149)	-	-	-	-	-	-	(1,149)	-	(1,149)
Dividend to a minority shareholder	-	-	-	-	-	-	-	-	-	(4,152)	(4,152)
At 30 June 2006	400,998	4,852	673	320	(1,443)	5,134	5,331	113,073	528,938	32,032	560,970

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Net cash inflow from operating activities	177,357	37,336
Net cash outflow from investing activities	(66,669)	(28,286)
Net cash inflow from financing activities	194,459	49,661
Net increase in cash and cash equivalents	305,147	58,711
Cash and cash equivalents at 1 January	112,092	85,267
Effect of foreign exchange rate changes, net	168	127
Cash and cash equivalents at 30 June	417,407	144,105
Analysis of balances of cash and cash equivalents		
Cash and bank balances	135,527	96,402
Non-pledged time deposits with original maturity of less than three months when acquired	281,880	47,703
	417,407	144,105

NOTES TO INTERIM FINANCIAL STATEMENTS

1. *Accounting policies and basis of preparation*

The condensed consolidated interim financial statements are prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and are in compliance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) in the current period for the first time as disclosed in note 2 below.

2. *Impact of new and revised Hong Kong Financial Reporting Standards*

The following new and revised HKFRSs are adopted for the first time for the current period’s financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these HKFRSs has had no material impact on the accounting policies of the Group and the presentation of these interim financial statements.

3. Segmental information

The following table presents revenue and results for the Group's business segments.

	2007				2006			
	Facade contracting works (Unaudited) HK\$'000	Electric and steam power supply (Unaudited) HK\$'000	Aero-technology related business (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000	Facade contracting works (Unaudited) HK\$'000	Electric and steam power supply (Unaudited) HK\$'000	Aero-technology related business (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:								
Sales to external customers	263,978	92,344	861	357,183	461,010	82,603	(79)	543,534
Other income	108	7,377	-	7,485	71	4,001	851	4,923
Total	264,086	99,721	861	364,668	461,081	86,604	772	548,457
Segment results	7,478	17,391	(112)	24,757	7,990	10,895	(681)	18,204
Interest income, rental income and unallocated gains				7,556				2,153
Unallocated expenses				(5,599)				(5,292)
Finance costs				(2,679)				(3,114)
Fair value loss on equity investments at fair value through profit or loss and derivative financial instruments				(10,174)				-
Gain/(loss) on deemed disposal of an interest in an associate				(271)				16,777
Share of profits and losses of associates				5,573				4,580
Profit before tax				19,163				33,308
Tax				64				(4,119)
Profit for the period				19,227				29,189

4. Other income and gains

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Income in respect of an exclusive distributorship of certain helicopter engines	–	851
Bank interest income	4,247	1,825
Income from installation of infrastructure for steam supply	5,573	29
Government grants	389	769
Income from sale of coal residues	1,315	3,202
Gross rental income	294	294
Gain on disposal of items of property, plant and equipment	–	35
Others	208	72
	12,026	7,077

5. Finance costs

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank overdrafts and bank loans wholly repayable within five years	3,643	4,722
Less: Amounts capitalised to long term construction contracts	(971)	(1,622)
	2,672	3,100
Interest on a finance lease	7	14
	2,679	3,114

6. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Depreciation	9,131	8,219
Less: Amounts capitalised to long term construction contracts	(1,564)	(1,814)
	7,567	6,405
Recognition of prepaid land lease payments	473	480
Provision/(write-back of provision) for impairment of trade and retention receivables, net	600	(169)

7. Tax

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2007. No Hong Kong profits tax had been provided for the six months ended 30 June 2006 as the Group had available tax losses brought forward to offset the estimated assessable profits arising in Hong Kong.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislations, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Current		
– Hong Kong	1,970	–
– Elsewhere	2,986	1,901
Deferred	(5,020)	2,218
Total tax charge/(credit) for the period	(64)	4,119

8. Earnings per share attributable to ordinary equity holders of the parent

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the parent	15,037	27,076
Number of shares		
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	4,236,286	3,883,890
Effect of dilution – weighted average number of ordinary shares:		
Share options	30,269	–
	4,266,555	3,883,890

9. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

10. Property, plant and equipment

During the period, the Group incurred HK\$21,288,000 in purchasing land and building, HK\$10,374,000 in development of construction in progress, HK\$5,590,000 in purchasing plant and machinery, HK\$2,556,000 in purchasing motor vehicles, HK\$1,736,000 in purchasing generation plant and related structure, and HK\$1,091,000 in leasehold improvements.

11. Trade and retention receivables

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Trade receivables	78,840	169,904
Retention receivables	93,147	81,824
	171,987	251,728

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Current	58,380	130,272
31-60 days	13,440	35,820
61-90 days	6,403	2,082
Over 90 days	617	1,730
	78,840	169,904

Retention receivables represent certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and are released to the Group pursuant to the provisions of the relevant contracts after the completion of the projects in question. No aged analysis of retention receivables is presented as the amount retained is provided for on each payment up to a maximum amount calculated on a prescribed percentage of the contract sum.

12. Trade and bills payables

An aged analysis of the trade and bills payables, as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Current	133,272	99,605
31-60 days	1,680	5,601
61-90 days	407	434
Over 90 days	3,383	3,929
	138,742	109,569

13. Share capital

	Number of ordinary shares (Unaudited) '000	Nominal value (Unaudited) HK\$'000
Ordinary shares of HK\$0.10 each, issued and fully paid:		
At 1 January 2007	3,985,303	398,530
Issue of shares	720,000	72,000
Issue of shares upon exercise of share options	68,000	6,800
At 30 June 2007	4,773,303	477,330

13. Share capital (cont'd)

During the period, the movements in share capital were as follows:

- (a) 720,000,000 ordinary shares were issued to an existing shareholder of the Company and 80,000,000 share options were granted with an exercise price of HK\$0.34 per share to certain independent third parties, for an aggregate cash consideration, before placing expenses, of HK\$244,800,000.
- (b) 68,000,000 ordinary shares were issued resulting from the exercise of share options at an exercise price of HK\$0.34 per share for an aggregate cash consideration of HK\$23,120,000.

14. Commitments

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Contracted, but not provided for:		
Acquisition of plant and machinery	9,424	2,990
Acquisition of land	-	19,598
Establishment of a joint venture*	39,841	39,841
	49,265	62,429

- * On 4 January 2006, Sino-Aviation Investments Limited ("Sino-Aviation Investments"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (the "JV Agreement") with China National Aero-Technology Import & Export Corporation ("CATIC"), the Company's ultimate holding company, and Chengdu Aircraft Industry (Group) Corporation Ltd ("Chengdu Aircraft"), for the establishment of a joint venture to engage in the research and development, design and manufacture of, and provision of technical services for parts and components for commercial aircrafts. According to the JV Agreement, the total registered capital of the joint venture will be RMB100 million (equivalent to approximately HK\$103 million), of which 40%, 15% and 45% respectively, will be contributed by Sino-Aviation Investments, CATIC and Chengdu Aircraft. The JV Agreement is conditional upon (i) the internal approval obtained by each of the three parties; and (ii) the approvals from the relevant PRC authorities. As at 30 June 2007, the JV Agreement has not become effective as the conditions stated above have not been fulfilled.

15. Contingent liabilities

As at 30 June 2007, the Group had contingent liabilities in respect of guarantees under performance bonds for construction contracts in the amount of HK\$111,781,000 (31 December 2006: HK\$89,503,000) and guarantees for banking facilities granted to major suppliers of HK\$115,762,000 (31 December 2005: HK\$96,222,000). In addition, the Group had a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance with a maximum possible amount of HK\$316,000 (31 December 2006: HK\$269,000) which has not been recognised as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

16. Related party transactions

- (a) In addition to the transactions described elsewhere in the interim report, the Group had the following material transactions with related parties during the period:

		For the six months ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	<i>Notes</i>		
Rental income received			
from a shareholder	<i>(i)</i>	294	294
Net income/(loss)			
from Project EC120	<i>(ii)</i>	861	(79)

Notes:

- (i) The Company entered into a tenancy agreement with CATIC (H.K.) Limited ("CATIC (H.K.)"), a deemed shareholder of the Company, to lease the Company's investment property to CATIC (H.K.) for a term of two years commencing on 1 January 2006 at a monthly rental of HK\$48,980 (exclusive of rates, management fees and air-conditioning charges). The rental was determined with reference to open market rentals.
- (ii) Balance represented net cash proceeds received or receivable from CATIC generated from Project EC120.

16. Related party transactions (cont'd)

- (b) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Short term employee benefits	3,318	3,276
Post-employment benefits	180	213
Total compensation paid to key management personnel	3,498	3,489

17. Post balance sheet event

On 29 August 2007, the Company entered into an agreement (the "Agreement") with an independent third party (the "Purchaser") to sell the entire issued share capital in FEA Holdings Limited ("FEA"), a direct wholly-owned subsidiary of the Company, at a consideration of HK\$205 million. The net proceeds of the disposal, after deducting relating expenses, is estimated to be approximately HK\$202.8 million and is intended to be used to finance investment in aero-technology related projects should appropriate opportunities arise and/or to be applied as general working capital. On completion, FEA will cease to be a subsidiary of the Company. The disposal is completed only when certain conditions are fulfilled by the Company. If any of the conditions is not fulfilled on or before 5:00 p.m. on 31 December 2007 or such later date as the Company and the Purchaser may otherwise agree in writing (the "Long Stop Date"), the Agreement shall automatically terminate and all obligations of the parties to the Agreement shall cease to have effect immediately upon such termination. Further details are set out in the announcement of the Company dated 30 August 2007.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

TO THE BOARD OF DIRECTORS OF CATIC INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 12 to 26 which comprises the condensed consolidated balance sheet of CATIC International Holdings Limited as at 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

7 September 2007