

# Interim Report 2008



**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

# CONTENTS

Chairman's Statement	2
Additional Information	7
Interim Financial Statements	11
Report on Review of Interim Financial Information	29

## CHAIRMAN'S STATEMENT

### BUSINESS REVIEW

#### *Overall review*

For the first half of 2008, although the Group's turnover rose by 21% to HK\$112,951,000 as compared to HK\$93,205,000 (excluding discontinued operation) for the corresponding period last year, the Group reported a loss attributable to equity holders of HK\$24,128,000 (2007: profit of HK\$15,037,000). Basic earnings per share dropped by 242% to a loss of HK¢0.5042. The main reasons for the drop in profit included:

- The facade contracting works business had contributed profit of HK\$10,437,000 to the Group for the first half of 2007. This business had been disposed of at the end of 2007.
- There was a drop in gross profit rate in electric and steam power supply business in 2008.
- A loss on partial disposal of equity interest in a subsidiary of HK\$9,986,000 was recorded.

#### *Electric and steam power supply business*

For the first half of 2008, the turnover of Hangzhou Sealand Electric Power Company Limited ("Hangzhou Sealand"), a subsidiary of the Company, increased by 21% from HK\$92,344,000 to HK\$111,860,000. Sales of steam power increased by 16% over the corresponding period last year, representing 83% of the turnover, while that of electric power decreased by 10%. Both the sales volume of electric and steam power dropped due to the declining consumption by some customers resulting from their reduced production as affected by the poor economic climate in the Mainland. Besides, the coal price grew tremendously throughout the first half of 2008. To cover the continuously increasing coal price, the selling price of steam power was raised from RMB138 per ton to RMB183.6 per ton. However, the increase in the selling price failed to catch up with the rapid rise in the coal price. Accordingly, the overall gross profit rate dropped from 14% to 6%. For the six months ended 30 June 2008, the electric and steam power supply business contributed profit of HK\$7,910,000 (2007: HK\$17,391,000) to the Group.

During the six months ended 30 June 2008, the Group disposed of 14% out of its 70% shareholding in Hangzhou Sealand to an independent third party at a consideration of RMB12,270,000 (equivalent to approximately HK\$14,023,000) as the Group considered that facing various uncertainties encountered by the electric power industry in the Mainland such as the tremendous rise in the coal price, the partial disposal of equity interest in Hangzhou Sealand enabled the Group to focus its resources on the aero-technology related business and to increase the reserve

fund for future expansion of the aviation business, while still holding controlling equity interest in Hangzhou Sealand. A loss on disposal of HK\$9,986,000 was recorded. After the disposal, Hangzhou Sealand is still a subsidiary of the Company as the Group still holds 56% equity interest in it.

### ***Aero-technology related business***

Totally 28 EC120 helicopters were sold in the first half of 2008. Turnover from the aero-technology related business amounted to HK\$1,091,000 (2007: HK\$861,000). Having considered the profit and cashflow forecast of Project EC120, the Group made a provision for impairment of HK\$2,000,000 (2007: HK\$600,000) against the financial assets thereunder. The aero-technology related business recorded a loss of HK\$2,573,000 (2007: HK\$112,000) for the period.

## **PROSPECTS**


Facing the difficult global economic climate and high coal price, Hangzhou Sealand will continue to ensure safe production, to improve production efficiency and to implement stringent cost control so as to enhance its competitive position. It is the long term strategy of the Group to further develop and diversify its aero-technology related business. The Group will closely monitor projects in aviation industry and aviation-related industry in China with good prospects.

## **FINANCIAL REVIEW**

### ***Liquidity, capital structure and financial resources***

The Group has consistently maintained sufficient working capital. As at 30 June 2008, the Group had current assets of HK\$565,961,000 (31 December 2007: HK\$701,929,000), including cash and bank balances and time deposits in aggregate of HK\$487,736,000 (31 December 2007: HK\$544,402,000). The Group's current liabilities as at 30 June 2008 were HK\$127,984,000 (31 December 2007: HK\$204,520,000).

As at 30 June 2008, the Group's equity attributable to equity holders of the parent amounted to HK\$897,858,000 (31 December 2007: HK\$922,917,000), comprising issued capital of HK\$478,530,000 (31 December 2007: HK\$478,530,000) and reserves of HK\$419,328,000 (31 December 2007: HK\$444,387,000). The Group's outstanding bank borrowing as at 30 June 2008 amounted to HK\$58,286,000 (31 December 2007: HK\$96,017,000). 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 6% (31 December 2007: 10%).

The Group's banking facilities are mainly utilised for capital expenditure and general working capital requirements.

### ***Charges on the Group's assets***

As at 30 June 2008, the following Group's assets were pledged to secure the Group's banking facilities:

- (a) certain of the Group's land and buildings with an aggregate net book value of approximately HK\$29,325,000 (31 December 2007: HK\$30,817,000);
- (b) certain of the Group's leasehold land with an aggregate net book value of approximately HK\$5,076,000 (31 December 2007: HK\$4,852,000); and
- (c) certain of the Group's short term time deposits amounting to HK\$24,750,000 (31 December 2007: HK\$36,328,000).

As at 31 December 2007, the Group's investment property with carrying value of HK\$24,200,000 had also been pledged to secure the Group's banking facilities.

### ***Exposure to fluctuations in exchange rates***

The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the unit's functional currency, which are mainly denominated in United States dollars. In view of the fact that the Hong Kong dollar is pegged to the United States dollar and that the Group tries to match its assets and liabilities with the same currency, the Group's exposure to foreign currency risk is minimal.

## **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 (the “JV Agreement”) with China National Aero-Technology Import & Export Corporation (“CATIC”), a substantial shareholder of the 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 parts and components for commercial aircraft, and provision of related technical services. According to the JV Agreement, the total registered capital of the joint venture will be RMB100 million (equivalent to approximately HK\$114 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 2008, the JV agreement has not become effective as the conditions stated above have not been fulfilled.

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 14 to the interim financial statements.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2008, there were 285 (31 December 2007: 281) 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 and life 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, 23 September 2008

## ADDITIONAL INFORMATION

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, 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:

#### *Long position in share options of the Company:*

<b>Name of director</b>	<b>Number of options directly beneficially owned</b>
Ji Guirong	20,000,000

Certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company.

Save as disclosed above, as at 30 June 2008, 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.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' interests and short positions in shares and underlying shares" above and in the section "Share option scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.



## SHARE OPTION SCHEME

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 during the period were as follows:

Name or category of participant	Number of share options				At 30 June 2008	Date of grant of share options <sup>*</sup>	Exercise period of share options <sup>**</sup>	Exercise price of share options <sup>***</sup> <i>HK\$ per share</i>
	At 1 January 2008	Granted during the period	Exercised during the period	Expired/forfeited during the period				
<b>Director</b>								
Ji Guirong	20,000,000	-	-	-	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
<b>Other employees</b>								
In aggregate	22,000,000	-	-	-	22,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
	42,000,000	-	-	-	42,000,000			

\* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

\*\* The 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.

\*\*\* 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.

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

As at 30 June 2008, 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	Number of ordinary shares held	Percentage of the Company's issued share capital
Speed Profit Enterprises Limited ("Speed Profit")	508,616,000*	10.63
Tacko International Limited ("Tacko")	1,335,767,000*	27.91
	508,616,000#	10.63
CATIC (H.K.) Limited ("CATIC (H.K.)")	1,844,383,000#	38.54
China National Aero-Technology Import & Export Corporation ("CATIC")	1,844,383,000#	38.54
China Aviation Industry Corporation I ("AVIC I")	1,844,383,000#	38.54
China Aviation Industry Corporation II ("AVIC II")	1,844,383,000#	38.54
Atlantis Investment Management Ltd.	434,000,000*	9.07

\* These shares were directly beneficially owned by these shareholders.

# These shares were owned through controlled corporations.

*Note:* Speed Profit is a wholly-owned subsidiary of Tacko, which is in turn a wholly-owned subsidiary of CATIC (H.K.). CATIC (H.K.) is a wholly-owned subsidiary of CATIC, which is in turn owned as to 50% by AVIC I and as to 50% by AVIC II. Pursuant to the SFO, Tacko is deemed to be interested in the shares held by Speed Profit; and each of CATIC (H.K.), CATIC, AVIC I and AVIC II is deemed to be interested in the aggregate shares directly held by Speed Profit and Tacko.

Save as disclosed above, as at 30 June 2008, 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 2008, the Company applied the principles of, and complied with all the code provisions and, where applicable, the recommended best practices of the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Listing Rules, except for all Non-executive Directors are appointed without specific terms. 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 2008.

## **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 2008 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

	<i>Notes</i>	<b>For the six months ended 30 June</b>	
		<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
<b>CONTINUING OPERATIONS</b>			
REVENUE	4	<b>112,951</b>	93,205
Cost of sales		<b>(104,621)</b>	(79,011)
Gross profit		<b>8,330</b>	14,194
Other income and gains	5	<b>13,193</b>	10,408
Administrative and other operating expenses, net		<b>(13,583)</b>	(12,261)
Finance costs	6	<b>(3,113)</b>	(2,675)
Surplus on revaluation of an investment property		–	3,015
Surplus on revaluation of items of property, plant and equipment		–	2,970
Loss on deemed disposal of an associate		–	(271)
Share of profits and losses of associates		<b>(420)</b>	5,573
Loss on partial disposal of equity interest in a subsidiary		<b>(9,986)</b>	–
Impairment of a financial asset under Project EC120		<b>(2,000)</b>	(600)
Fair value loss on equity investments at fair value through profit or loss and derivative financial instruments		<b>(12,064)</b>	(10,174)
PROFIT/(LOSS) BEFORE TAX	7	<b>(19,643)</b>	10,179
Tax	8	<b>(3,493)</b>	(1,389)
PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		<b>(23,136)</b>	8,790

## CONDENSED CONSOLIDATED INCOME STATEMENT *(cont'd)*

	<i>Notes</i>	<b>For the six months ended 30 June</b>	
		<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
<b>DISCONTINUED OPERATION</b>			
Profit for the period from a discontinued operation		-	10,437
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>(23,136)</b>	19,227
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the parent		<b>(24,128)</b>	15,037
Minority interests		<b>992</b>	4,190
		<b>(23,136)</b>	19,227
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
	<b>9</b>		
Basic			
- For profit/(loss) for the period		<b>(0.5042 cent)</b>	0.3550 cent
- For profit/(loss) from continuing operations		<b>(0.5042 cent)</b>	0.1086 cent
Diluted			
- For profit/(loss) for the period		<b>(0.5017 cent)</b>	0.3524 cent
- For profit/(loss) from continuing operations		<b>(0.5017 cent)</b>	0.1078 cent
<b>DIVIDEND PER SHARE</b>	<b>10</b>	<b>Nil</b>	Nil

**CONDENSED CONSOLIDATED BALANCE SHEET**

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>		
Investment property	<b>24,200</b>	24,200
Property, plant and equipment	<b>217,838</b>	202,736
Prepaid land lease payments	<b>29,733</b>	28,216
Goodwill	<b>30,493</b>	38,117
Interests in associates	<b>140,114</b>	21,205
Financial asset under Project EC120	<b>9,959</b>	11,959
Available-for-sale investments	<b>70,012</b>	115,721
Deposit for acquisition of an investment	<b>3,493</b>	20,029
Rental and utility deposits	<b>93</b>	92
<b>Total non-current assets</b>	<b>525,935</b>	462,275
<b>CURRENT ASSETS</b>		
Inventories	<b>21,860</b>	17,400
Trade and bills receivables	<b>24,409</b>	22,838
Prepayments, deposits and other receivables	<b>31,851</b>	62,461
Equity investment at fair value through profit or loss	<b>–</b>	54,190
Derivative financial instrument	<b>105</b>	638
Pledged time deposits	<b>24,750</b>	36,328
Cash and cash equivalents	<b>462,986</b>	508,074
<b>Total current assets</b>	<b>565,961</b>	701,929
<b>CURRENT LIABILITIES</b>		
Due to a minority shareholder	<b>–</b>	5,740
Trade and bills payables	<b>60,381</b>	80,758
Tax payable	<b>2,035</b>	2,313
Other payables and accruals	<b>7,282</b>	17,425
Derivative financial instrument	<b>–</b>	2,209
Interest-bearing bank borrowings	<b>58,286</b>	96,017
Finance lease payables	<b>–</b>	58
<b>Total current liabilities</b>	<b>127,984</b>	204,520
<b>NET CURRENT ASSETS</b>	<b>437,977</b>	497,409
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>963,912</b>	959,684

## CONDENSED CONSOLIDATED BALANCE SHEET *(cont'd)*

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Deferred tax liabilities	<b>4,815</b>	3,721
Net assets	<b>959,097</b>	955,963
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	<b>478,530</b>	478,530
Reserves	<b>419,328</b>	444,387
Minority interests	<b>897,858</b> <b>61,239</b>	922,917 33,046
Total equity	<b>959,097</b>	955,963

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent										
	Issued capital HK\$'000	Share premium account HK\$'000	Share option reserve HK\$'000	Property, plant and equipment revaluation reserve HK\$'000	Available-for-sale investment revaluation reserve HK\$'000	Reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2008 (unaudited)	478,530	194,445	-	4,907	4,231	6,927	20,157	213,720	922,917	33,046	955,963
Exchange realignment	-	-	-	-	-	-	15,165	-	15,165	-	15,165
Change in fair value of available-for-sale investments	-	-	-	-	(10,551)	-	-	-	(10,551)	-	(10,551)
Share of reserves by minority interest	-	-	-	(1,472)	-	-	(10,229)	-	(11,701)	11,701	-
Partial disposal of equity interest in a subsidiary	-	-	-	(687)	-	-	(2,382)	3,069	-	15,500	15,500
Investments reclassified to interest in associates	-	-	-	-	6,795	-	-	(639)	6,156	-	6,156
Profit/(loss) for the period	-	-	-	-	-	-	-	(24,128)	(24,128)	992	(23,136)
Transfer to reserve fund	-	-	-	-	-	188	-	(188)	-	-	-
<b>At 30 June 2008 (unaudited)</b>	<b>478,530</b>	<b>194,445</b>	<b>-</b>	<b>2,748</b>	<b>475</b>	<b>7,115</b>	<b>22,711</b>	<b>191,834</b>	<b>897,858</b>	<b>61,239</b>	<b>959,097</b>
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 and share options	72,000	155,060	17,740	-	-	-	-	-	244,800	-	244,800
Share issue expenses	-	(2,472)	-	-	-	-	-	-	(2,472)	-	(2,472)
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)	-	-	-	-	-	-	-	-
<b>At 30 June 2007 (unaudited)</b>	<b>477,330</b>	<b>188,904</b>	<b>2,661</b>	<b>2,373</b>	<b>34,287</b>	<b>6,359</b>	<b>16,278</b>	<b>147,758</b>	<b>875,950</b>	<b>37,263</b>	<b>913,213</b>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Net cash inflow from operating activities	6,479	177,357
Net cash outflow from investing activities	(7,612)	(66,669)
Net cash inflow/(outflow) from financing activities	(43,529)	194,459
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(44,662)</b>	305,147
Cash and cash equivalents at 1 January	508,074	112,092
Effect of foreign exchange rate changes, net	(426)	168
<b>Cash and cash equivalents at 30 June</b>	<b>462,986</b>	417,407
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	45,062	135,527
Non-pledged time deposits with original maturity of less than three months when acquired	417,924	281,880
	462,986	417,407

## 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 2007, except for the adoption of certain new Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) for the first time in the current period as disclosed in note 2 below.

### 2. Impact of new Hong Kong Financial Reporting Standards

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

HK(IFRIC)–Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)–Int 12	Service Concession Arrangements
HK(IFRIC)–Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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. Impact of issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in the interim financial statements:

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Cost <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>4</sup>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>4</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>2</sup>
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 October 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2009

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 1 (Revised) and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

#### 4. Segment information

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

	For the six months ended 30 June									
	2008					2007				
	Continuing operations			Discontinued operation		Continuing operations			Discontinued operation	
	Electric and steam power supply business (Unaudited) HK\$'000	Aero-technology related business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Facade contracting works business (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000	Electric and steam power supply business (Unaudited) HK\$'000	Aero-technology related business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Facade contracting works business (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	111,860	1,091	112,951	-	112,951	92,344	861	93,205	263,978	357,183
Other income	6,109	-	6,109	-	6,109	7,377	-	7,377	108	7,485
<b>Total</b>	<b>117,969</b>	<b>1,091</b>	<b>119,060</b>	<b>-</b>	<b>119,060</b>	<b>99,721</b>	<b>861</b>	<b>100,582</b>	<b>264,086</b>	<b>364,668</b>
Segment results	7,910	(2,573)	5,337	-	5,337	17,391	(112)	17,279	7,478	24,757
Interest income, rental income and unallocated gains			7,084	-	7,084			6,046	1,510	7,556
Unallocated expenses			(6,481)	-	(6,481)			(5,599)	-	(5,599)
Finance costs			(3,113)	-	(3,113)			(2,675)	(4)	(2,679)
Loss on deemed disposal of an associate			-	-	-			(271)	-	(271)
Share of profits and losses of associates			(420)	-	(420)			5,573	-	5,573
Loss on partial disposal of equity interest in a subsidiary			(9,986)	-	(9,986)			-	-	-
Fair value loss on equity investments at fair value through profit or loss and derivative financial instruments			(12,064)	-	(12,064)			(10,174)	-	(10,174)
Profit/(loss) before tax			(19,643)	-	(19,643)			10,179	8,984	19,163
Tax			(3,493)	-	(3,493)			(1,389)	1,453	64
Profit/(loss) for the period			(23,136)	-	(23,136)			8,790	10,437	19,227

## 5. Other income and gains

	<b>For the six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Bank interest income	<b>6,527</b>	4,158
Interest income on a convertible bond	<b>156</b>	89
Income from installation of infrastructure for steam supply	<b>3,751</b>	5,573
Government grants	<b>639</b>	389
Income from sale of coal residues	<b>1,578</b>	1,315
Gross rental income	<b>401</b>	294
Others	<b>141</b>	208
	<b>13,193</b>	12,026
Attributable to a discontinued operation	–	1,618
Attributable to continuing operations	<b>13,193</b>	10,408
	<b>13,193</b>	12,026

## 6. Finance costs

	<b>For the six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Interest on bank overdrafts and bank loans wholly repayable within five years	<b>3,112</b>	3,643
Less: Amounts capitalised to long term construction contracts	-	(971)
	<b>3,112</b>	2,672
Interest on a finance lease	<b>1</b>	7
	<b>3,113</b>	2,679
Attributable to a discontinued operation	-	4
Attributable to continuing operations	<b>3,113</b>	2,675
	<b>3,113</b>	2,679

## 7. Profit/(loss) before tax

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

	<b>For the six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Depreciation	<b>8,116</b>	9,131
Less: Amounts capitalised to long term construction contracts	-	(1,564)
	<b>8,116</b>	7,567
Recognition of prepaid land lease payments	<b>389</b>	473
Provision for impairment of trade and retention receivables, net	-	600
Financial guarantee contracts	<b>(431)</b>	-

# The disclosures presented in this note include those amounts charged/credited in respect of the discontinued operation.

## 8. Tax

No Hong Kong profits tax has been provided for the six months ended 30 June 2008 as the Group had no estimated assessable profits arising in Hong Kong during the period. Hong Kong profits tax had 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.

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

**8. Tax (cont'd)**

	<b>For the six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Current		
– Hong Kong	–	1,970
– Elsewhere	<b>2,399</b>	2,986
Deferred	<b>1,094</b>	(5,020)
<b>Total tax charge/(credit) for the period</b>	<b>3,493</b>	(64)
Represented by:		
Tax credit attributable to a discontinued operation	–	(1,453)
Tax charge attributable to continuing operations	<b>3,493</b>	1,389
	<b>3,493</b>	(64)

**9. Earnings/(loss) per share attributable to ordinary equity holders of the parent**

The calculations of basic and diluted earnings/(loss) per share are based on:

	<b>For the six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
<b>Earnings/(loss)</b>		
Profit/(loss) attributable to ordinary equity holders of the parent:		
From continuing operations	<b>(24,128)</b>	4,600
From a discontinued operation	–	10,437
	<b>(24,128)</b>	15,037



**9. Earnings/(loss) per share attributable to ordinary equity holders of the parent** *(cont'd)*

	<b>For the six months ended 30 June</b>	
	<b>2008 (Unaudited) '000</b>	2007 (Unaudited) '000
<b>Number of shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	<b>4,785,303</b>	4,236,286
Effect on dilution – weighted average number of ordinary shares:		
Share options	<b>24,215</b>	30,269
	<b>4,809,518</b>	4,266,555

**10. Dividend**

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2008 (2007: Nil).

**11. Trade and bills receivables**

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Trade and bills receivables	<b>24,430</b>	22,858
Impairment	<b>(21)</b>	(20)
	<b>24,409</b>	22,838

## 11. Trade and bills receivables (cont'd)

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

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Current	<b>18,998</b>	20,086
31-60 days	<b>2,656</b>	2,259
61-90 days	<b>1,466</b>	465
Over 90 days	<b>1,289</b>	28
	<b>24,409</b>	22,838

## 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:

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Current	<b>56,379</b>	78,753
31-60 days	<b>1,069</b>	609
61-90 days	<b>80</b>	–
Over 90 days	<b>2,853</b>	1,396
	<b>60,381</b>	80,758

### 13. Commitments

	<b>30 June 2008 (Unaudited) HK\$'000</b>	31 December 2007 (Audited) HK\$'000
Contracted, but not provided for:		
Acquisition of plant and machinery	<b>6,822</b>	2,063
Establishment of a joint venture ( <i>note</i> )	<b>45,714</b>	42,827
Establishment of an associate	<b>6,172</b>	–
	<b>58,708</b>	44,890

*Note:*

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”), a substantial shareholder of the 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 parts and components for commercial aircrafts, and provision of related technical services. According to the JV Agreement, the total registered capital of the joint venture will be RMB100 million (equivalent to approximately HK\$114 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 2008, the JV Agreement has not become effective as the conditions stated above have not been fulfilled.

### 14. Contingent liabilities

As at 30 June 2008, the Group had a contingent liability in respect of guarantees for banking facilities granted to major suppliers of HK\$123,429,000 (31 December 2007: HK\$169,165,000) which were utilised to the extent of approximately HK\$115,116,000 (31 December 2007: HK\$140,499,000).

## 15. 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:

	<i>Notes</i>	<b>For the six months ended 30 June</b>	
		<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Rental income received from a shareholder	(i)	<b>401</b>	294
Net income from Project EC120	(ii)	<b>1,091</b>	861

*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 one year commencing on 1 January 2008 at a monthly rental of HK\$66,890 (2007: 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.

## 15. Related party transactions (cont'd)

- (b) On 19 June 2008, CATIC Helicopter Development (Shenzhen) Limited (“Helicopter Shenzhen”), an indirectly wholly-owned subsidiary of the Company, entered into an agreement (the “Share Transfer Agreement”) with Jiangxi Hongdu Aviation Industry Co., Ltd. (“Hongdu”), an indirect subsidiary of China Aviation Industry Corporation II, an ultimate shareholder of the Company, and CATIC, a substantial shareholder of the Company. Pursuant to the Share Transfer Agreement, Helicopter Shenzhen agreed to purchase, and Hongdu agreed to sell, 40% interest of Eaglet Aero-Techonology Inc. (“Eaglet”), for a cash consideration of RMB3,056,600 (equivalent to approximately HK\$3,493,000) (the “Share Transfer”). Before the Share Transfer, Eaglet is owned as to 40% by Hongdu and 60% by CATIC. CATIC undertook to give up the pre-emptive right in respect of the Share Transfer. Upon completion, Eaglet will become an associate of the Company. As at 30 June 2008, the Share Transfer has not yet been completed.
- (c) Compensation of key management personnel of the Group:

	<b>For the six months ended 30 June</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Short term employee benefits	<b>3,246</b>	3,318
Post-employment benefits	<b>162</b>	180
Total compensation paid to key management personnel	<b>3,408</b>	3,498

## 16. Comparative amounts

The comparative income statement has been re-presented as if the operation discontinued during the year ended 31 December 2007 had been discontinued at the beginning of the comparative period.

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



**Ernst & Young**

18th Floor  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

Tel: +852 2846 9888  
Fax: +852 2868 4432  
[www.ey.com](http://www.ey.com)

### 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 11 to 28 which comprises the condensed consolidated balance sheet of CATIC International Holdings Limited as at 30 June 2008 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

23 September 2008