



AVIC International Holding (HK) Limited
中國航空工業國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)



Interim Report 2009

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CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Overall review

For the first half of 2009, the Group achieved a turnover of HK\$108,448,000 (2008: HK\$112,951,000) and a profit attributable to equity holders of HK\$4,777,000 (2008: loss of HK\$24,128,000). Basic earnings per share amounted to HK¢0.10 (2008: basic loss per share of HK¢0.50).

Electric and steam power supply business

For the first half of 2009, the turnover of Zhejiang Sealand Thermolectric Share-Holding Co. ("Zhejiang Sealand"), a subsidiary of the Company, decreased slightly by 4% from HK\$111,860,000 to HK\$107,067,000. The overall gross profit rate remained at 6%. Zhejiang Sealand continued to enhance production efficiency through implementing technology innovation, strengthening internal management and reinforcing production safety. It also endeavored to benefit from the government grant program in terms of energy saving and environmental protection. Government grants of HK\$2,366,000 (2008: HK\$639,000) was earned during the period. The electric and steam power supply business recorded a profit of HK\$618,000 (2008: HK\$2,255,000) for the period.

Aero-technology related business

Totally 16 EC120 helicopters were sold in the first half of 2009. Turnover from the aero-technology related business amounted to HK\$1,381,000 (2008: HK\$1,091,000). Having considered the profit and cashflow forecast of Project EC120, the Group made a provision for impairment of HK\$2,000,000 (2008: HK\$2,000,000) against the financial assets thereunder. As a result, the aero-technology related business recorded a loss of HK\$1,419,000 (2008: HK\$2,399,000) for the period.

Others

For the six months ended 30 June 2009, the Group recorded fair value gain on equity investments at fair value through profit or loss and derivative financial instruments of HK\$5,070,000 (2008: fair value loss of HK\$12,064,000), dividend income from available-for-sale investments of HK\$6,938,000 (2008: nil) and share of losses of jointly-controlled entity and associates of HK\$17,000 (2008: HK\$420,000).

PROSPECTS

In the second half year, Zhejiang Sealand will continue to reinforce production safety and to improve production efficiency through implementing technology innovation. In coordination with the enhanced internal management, Zhejiang Sealand will strive for better results.

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 2009, the Group had current assets of HK\$524,871,000 (31 December 2008: HK\$545,937,000), including cash and bank balances and time deposits in an aggregate of HK\$377,181,000 (31 December 2008: HK\$404,406,000). The Group's current liabilities as at 30 June 2009 were HK\$172,342,000 (31 December 2008: HK\$157,445,000).

As at 30 June 2009, the Group's equity attributable to equity holders of the parent amounted to HK\$933,335,000 (31 December 2008: HK\$919,058,000), comprising issued capital of HK\$475,440,000 (31 December 2008: HK\$475,440,000) and reserves of HK\$457,895,000 (31 December 2008: HK\$443,618,000). The Group's outstanding bank borrowing as at 30 June 2009 amounted to HK\$17,045,000 (31 December 2008: HK\$29,412,000). 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 2% (31 December 2008: 3%).

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 2009, 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\$28,542,000 (31 December 2008: HK\$27,446,000);
- (b) certain of the Group's leasehold land with an aggregate net book value of approximately HK\$28,528,000 (31 December 2008: HK\$29,092,000); and
- (c) certain of the Group's short term time deposits amounting to HK\$60,458,000 (31 December 2008: HK\$53,672,000).

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. In view of the fact 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 AVIC International Holding Corporation ("AVIC Int'l"), 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, AVIC Int'l 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 2009, 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 2009, there were 274 (31 December 2008: 282) 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, 21 September 2009

ADDITIONAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2009, 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 positions in share options of associated corporation of the Company:

Name of director	Notes	Name of associated corporation	Relationship with the Company	Number of share options held	Capacity and nature of interest
Ji Guirong	(a)	Sino Gas Group Limited	Associate	14,900,000	Directly beneficially owned
Zhang Chuanjun	(b)	Sino Gas Group Limited	Associate	10,000,000	Directly beneficially owned

Notes:

- (a) On 23 August 2007, Mr. Ji Guirong was granted options to subscribe for an aggregate of 14,900,000 ordinary shares of HK\$0.20 each, at an exercise price of HK\$0.35 per share, in Sino Gas Group Limited ("Sino Gas"). The Stock Exchange closing price of Sino Gas' shares on the trading day immediately prior to 23 August 2007 was HK\$0.33 per share. The options were granted by having received a total non-refundable payment of HK\$1.00 from Mr. Ji. The exercise periods are as follows:

Number of share options	Exercise period
4,966,667	1/10/2007 to 31/1/2015
4,966,667	1/1/2008 to 31/1/2015
4,966,666	1/7/2008 to 31/1/2015
14,900,000	

No options have been exercised or cancelled during the year.

- (b) On 3 January 2006, Mr. Zhang Chuanjun was granted options to subscribe for an aggregate of 10,000,000 ordinary shares of HK\$0.20 each, at an exercise price of HK\$0.20 per share, in Sino Gas. The Stock Exchange closing price of Sino Gas' shares on the trading day immediately prior to 3 January 2006 was HK\$0.20 per share. The options were granted by having received a total non-refundable payment of HK\$1.00 from Mr. Zhang. The exercise periods are as follows:

Number of share options	Exercise period
5,000,000	1/7/2006 to 31/1/2015
5,000,000	1/1/2007 to 31/1/2015
10,000,000	

No options have been exercised or cancelled during the year.

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 2009, 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, 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 spouses 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 13 May 2003, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Since the adoption of the Scheme, no options have been granted thereunder.

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

As at 30 June 2009, 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	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Speed Profit Enterprises Limited ("Speed Profit")	Beneficial owner	508,616,000	10.70
Tacko International Limited ("Tacko")	Beneficial owner	1,386,943,000	29.17
	Through a controlled corporation	508,616,000	10.70
CATIC (H.K.) Limited ("CATIC (H.K.)")	Through a controlled corporation	1,895,559,000	39.87
AVIC International Holding Corporation ("AVIC Int'l")	Through a controlled corporation	1,895,559,000	39.87
Aviation Industry Corporation of China ("AVIC")	Through a controlled corporation	1,895,559,000	39.87
Atlantis Investment Management Ltd.	Investment manager	434,000,000	9.13

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 AVIC Int'l, which is in turn a wholly-owned subsidiary of AVIC. Pursuant to the SFO, Tacko is deemed to be interested in the shares held by Speed Profit; and each of CATIC (H.K.), AVIC Int'l and AVIC is deemed to be interested in the aggregate shares directly held by Speed Profit and Tacko.

Save as disclosed above, as at 30 June 2009, 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 2009, 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 Rules Governing the Listing of Securities on the Stock Exchange (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 2009.

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 2009 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

For the six months
ended 30 June

	Notes	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
REVENUE	4	108,448	112,951
Cost of sales		(101,139)	(104,621)
Gross profit		7,309	8,330
Other income and gains	5	16,064	13,193
Administrative and other operating expenses, net		(18,815)	(13,583)
Finance costs	6	(1,112)	(3,113)
Deficit on revaluation of an investment property		(700)	–
Loss on partial disposal of equity interest in a subsidiary		–	(9,986)
Share of profits and losses of:			
Jointly-controlled entity		2,351	–
Associates		(2,368)	(420)
Impairment of a financial asset under Project EC120		(2,000)	(2,000)
Gain on disposal of an available-for-sale investment		1,314	–
Fair value gain/(loss) on equity investments at fair value through profit or loss and derivative financial instruments		5,070	(12,064)
PROFIT/(LOSS) BEFORE TAX	7	7,113	(19,643)
Tax	8	(2,087)	(3,493)
PROFIT/(LOSS) FOR THE PERIOD		5,026	(23,136)

CONDENSED CONSOLIDATED INCOME STATEMENT (cont'd)

		For the six months ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
<i>Note</i>		HK\$'000	<i>HK\$'000</i>
ATTRIBUTABLE TO:			
	Equity holders of the parent	4,777	(24,128)
	Minority interests	249	992
		5,026	(23,136)
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY			
HOLDERS OF THE PARENT			
9		HK0.10 cent	(HK0.50 cent)
	– Basic	N/A	(HK0.50 cent)
	– Diluted		

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months
ended 30 June

	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	5,026	(23,136)
Exchange realignment arising on translation of foreign operations	1,860	15,165
Available-for-sale investments:		
Change in fair value	9,698	(10,551)
Less: Reclassification adjustment for gain included in the income statement	(1,314)	–
	8,384	(10,551)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	10,244	4,614
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	15,270	(18,522)
ATTRIBUTABLE TO:		
Equity holders of the parent	15,021	(19,514)
Minority interests	249	992
	15,270	(18,522)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
	<i>Note</i>		
NON-CURRENT ASSETS			
Investment property		–	18,300
Property under development		7,646	–
Property, plant and equipment		255,817	223,474
Prepaid land lease payments		28,871	29,099
Goodwill		30,493	30,493
Interest in jointly-controlled entity		45,184	42,833
Interests in associates		181,714	123,680
Financial asset under Project EC120		7,459	9,459
Available-for-sale investments		71,935	47,399
Deposit for acquisition of an investment		–	61,166
Deposits and other receivables		20,500	20,466
Total non-current assets		649,619	606,369
CURRENT ASSETS			
Inventories		28,845	31,359
Trade and bills receivables	11	26,965	46,772
Loan to an associate		31,048	9,048
Prepayments, deposits and other receivables		43,334	38,987
Derivative financial instrument		17,498	–
Available-for-sale investments		–	15,365
Pledged time deposits		60,458	53,672
Cash and cash equivalents		316,723	350,734
Total current assets		524,871	545,937

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(cont'd)*

		30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
	<i>Note</i>		
CURRENT LIABILITIES			
Due to minority shareholders		4,528	–
Trade and bills payables	<i>12</i>	140,879	117,625
Tax payable		2,019	2,622
Other payables and accruals		7,871	7,786
Interest-bearing bank borrowings		17,045	29,412
Total current liabilities		172,342	157,445
NET CURRENT ASSETS		352,529	388,492
TOTAL ASSETS LESS CURRENT LIABILITIES		1,002,148	994,861

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(cont'd)*

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
NON-CURRENT LIABILITY		
Deferred tax liabilities	6,033	6,798
Net assets	996,115	988,063
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	475,440	475,440
Reserves	457,895	443,618
	933,335	919,058
Minority interests	62,780	69,005
Total equity	996,115	988,063

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the parent

	Issued capital HK\$'000	Share premium account 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 2009 (unaudited)	475,440	193,970	4,490	1,078	6,428	21,532	216,120	919,058	69,005	988,063
Total comprehensive income for the period	-	-	-	8,384	-	1,860	4,777	15,021	249	15,270
Share of reserves by minority interest	-	-	-	-	-	(744)	-	(744)	744	-
Dividend payable to minority shareholders	-	-	-	-	-	-	-	-	(7,218)	(7,218)
At 30 June 2009 (unaudited)	475,440	193,970	4,490	9,462	6,428	22,648	220,897	933,335	62,780	996,115
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
Total comprehensive income for the period	-	-	-	(10,551)	-	15,165	(24,128)	(19,514)	992	(18,522)
Transfer to reserve fund	-	-	-	-	188	-	(188)	-	-	-
Share of reserves by minority interest	-	-	(1,472)	-	-	(10,229)	-	(11,701)	11,701	-
Investment reclassified to interest in an associate	-	-	-	6,795	-	-	(639)	6,156	-	6,156
Partial disposal of equity interest in a subsidiary	-	-	(687)	-	-	(2,382)	3,069	-	15,500	15,500
At 30 June 2008 (unaudited)	478,530	194,445	2,748	475	7,115	22,711	191,834	897,858	61,239	959,097

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Net cash inflow from operating activities	31,992	6,479
Net cash outflow from investing activities	(51,668)	(7,612)
Net cash outflow from financing activities	(15,190)	(43,529)
Net decrease in cash and cash equivalents	(34,866)	(44,662)
Cash and cash equivalents at 1 January	350,734	508,074
Effect of foreign exchange rate changes, net	855	(426)
Cash and cash equivalents at 30 June	316,723	462,986
Analysis of balances of cash and cash equivalents		
Cash and bank balances	80,255	45,062
Non-pledged time deposits with original maturity of less than three months when acquired	236,468	417,924
	316,723	462,986

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 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 2008, except for the adoption of certain new and revised 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 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:

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>

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

(cont'd)

HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives – Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

The adoption of the new HKFRSs, except for HKAS 1 (Revised) as described below, had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

In October 2008, the HKICPA first issued *Improvements to HKFRSs* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The Group adopted these amendments for the current period's financial statements.

In May 2009, the HKICPA issued *Improvements to HKFRSs 2009* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Most amendments are effective for annual periods beginning on or after 1 January 2010. The Group early adopted the amendment to HKFRS 8 *Operating Segment* for the current period's 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, that have been issued but are not yet effective, in the interim financial statements:

HKFRS 3 (Revised)	<i>Business Combinations</i> ¹
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ¹
HKAS 39	Amendment to HKAS 39 <i>Financial Instruments: Amendment</i>
	<i>Recognition and Measurement – Eligible Hedged Items</i> ¹
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners</i> ¹
HK(IFRIC)-Int 18	<i>Transfer of Assets from Customers</i> ¹

¹ 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 HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, 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 Group's operating segments are structured and managed according to the nature of their operations and the products and services they provide.

The Group has identified two reportable segments for the purposes of resource allocation and performance assessment. Summary details of the reportable segments are as follows:

- (a) the electric and steam power supply business segment engages in the generation and sale of electric and steam power; and
- (b) the aero-technology related business segment engages in the share of profit from the development, manufacture and distribution of helicopters.

No operating segments have been aggregated to form the above reportable segments.

4. Segment information (cont'd)

Management assesses the performance of the operating segments based on the operating profit or loss. Revenue and expenses are allocated to the operating segments with reference to sales generated and expenses incurred by those segments. Impairment of assets directly attributable to the operating segments is also included in the operating profit or loss of those segments. The Group's other income and expenses not directly attributable to the operating segments are excluded.

The following table presents revenue and results regarding the Group's operating segments.

	Revenue For the six months ended 30 June		Results	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Electric and steam power supply business	107,067	111,860	618	2,255
Aero-technology related business	1,381	1,091	(1,419)	(2,399)
Segment revenue and results	108,448	112,951	(801)	(144)
Interest income, rental income and unallocated gains			8,579	6,108
Unallocated expenses			(9,119)	(6,481)
Finance costs			-	(149)
Loss on partial disposal of equity interest in a subsidiary			-	(9,986)
Share of profits and losses of:				
Jointly-controlled entity			2,351	-
Associates			(2,368)	(420)
Gain on disposal of an available-for-sale investment			1,314	-
Fair value gain/(loss) on equity investments at fair value through profit or loss and derivative financial instruments			5,070	(12,064)
Profit/(loss) for the period			5,026	(23,136)

5. Other income and gains

For the six months
ended 30 June

	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Other income		
Bank interest income	1,227	6,527
Interest income on convertible bonds	209	156
Interest income on loans to an associate	553	–
Interest income on other receivables	474	–
Income from installation of infrastructure for steam supply	2,323	3,751
Government grants	2,366	639
Income from sale of coal residues	1,530	1,578
Dividend income from available-for-sale unlisted investments	6,938	–
Gross rental income	134	401
Others	70	141
	15,824	13,193
Gains		
Gains on disposal of items of property, plant and equipment	240	–
	16,064	13,193

6. Finance costs

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Interest on bank overdrafts and bank loans wholly repayable within five years	1,112	3,112
Interest on a finance lease	–	1
	1,112	3,113

7. Profit/(loss) before tax

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

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Depreciation	9,181	8,116
Recognition of prepaid land lease payments	364	389
Impairment of trade and bills receivables, net	460	–
Write-off of other receivables	14	–
Write-back of provision for financial guarantee contracts	–	(431)

8. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2009 and 2008.

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 legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Current		
– Hong Kong	–	–
– Elsewhere	2,851	2,399
Deferred	(764)	1,094
Total tax charge for the period	2,087	3,493

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

A diluted earnings per share amount for the six months ended 30 June 2009 has not been disclosed as no diluting events existed during the period.

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

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent	4,777	(24,128)

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

	For the six months ended 30 June	
	2009 (Unaudited) '000	2008 (Unaudited) '000
Number of shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation	4,754,397	4,785,303
Effect on dilution – weighted average number of ordinary shares:		
Share options	–	24,215
	4,754,397	4,809,518

10. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2009 (2008: Nil).

11. Trade and bills receivables

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Trade and bills receivables	28,400	47,742
Impairment	(1,435)	(970)
	26,965	46,772

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:

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Current	18,471	38,743
31-60 days	5,194	4,786
61-90 days	2,001	2,389
Over 90 days	1,299	854
	26,965	46,772

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 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Current	134,108	112,428
31-60 days	6,500	3,100
61-90 days	–	333
Over 90 days	271	1,764
	140,879	117,625

13. Commitments

	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Contracted, but not provided for:		
Acquisition of plant and machinery	18,024	4,676
Construction of property	13,429	–
Establishment of a joint venture (<i>note</i>)	45,455	45,249
	76,908	49,925

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 AVIC International Holding Corporation ("AVIC Int'l"), 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, AVIC Int'l 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 2009, the JV Agreement has not become effective as the conditions stated above have not been fulfilled.

14. Contingent liabilities

As at 30 June 2009, the Group had contingent liabilities in respect of guarantees given to banks by the Group for banking facilities granted to major suppliers of HK\$39,773,000 (31 December 2008: HK\$39,593,000) which were utilised to the extent of approximately HK\$31,507,000 (31 December 2008: HK\$31,365,000).

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:

		For the six months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
<i>Notes</i>			
	Rental income received from a shareholder	134	401
<i>(i)</i>			
	Net income from Project EC120 Associate:	1,381	1,091
<i>(ii)</i>			
	Interest income on convertible bonds issued by an associate	209	–
<i>(iii)</i>			
	Interest income on loans to an associate	553	–
<i>(iv)</i>			

Notes:

- (i) The Company entered into a tenancy agreement with CATIC (H.K.) Limited (“CATIC (H.K.)”), a deemed shareholder of the Company, on 31 December 2007, to lease the Company’s investment property to CATIC (H.K.) at a monthly rental of HK\$66,890 (exclusive of rates, management fees and air-conditioning charges) for a term of one year commencing on 1 January 2008. The rental was determined with reference to open market rentals.
- A supplemental agreement was entered into between the Company and CATIC (H.K.) on 10 December 2008 to extend the above tenancy agreement to 28 February 2009.
- (ii) Balance represented net cash proceeds received or receivable from AVIC Int’l generated from Project EC120.
- (iii) On 18 March 2009, the convertible bond held by Billirich Investment Ltd. (“Billirich”), a wholly-owned subsidiary of the Company, and issued by Sino Gas Group Limited (“Sino Gas”), an associate of the Group, with a principal amount of HK\$15,600,000, matured.

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

(a) *(cont'd)*

Notes: (cont'd)

On 15 April 2009, Billirich subscribed for convertible bonds issued by Sino Gas with an aggregate principal amount of HK\$27,500,000. The convertible bonds bear interest at 2% per annum, are convertible into ordinary shares of Sino Gas at HK\$0.20 per share (subject to adjustment upon the change in capital structure of Sino Gas) and will mature in two years.

- (iv) The Group had loans to an associate of HK\$31,048,000 (31 December 2008: 9,048,000) at the balance sheet date. The loans to an associate are unsecured, bear interest at 3.65% per annum and are repayable within one year.

(b) Other transactions with related parties:

On 19 June 2008, CATIC Helicopter Development (Shenzhen) Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Jiangxi Hongdu Aviation Industry Co., Ltd. ("Hongdu"), a subsidiary of Aviation Industry Corporation of China, the ultimate holding company of the Company, and AVIC Int'l, to purchase from Hongdu 40% equity interest of Eaglet Aero-Technology Inc. ("Eaglet"), a company registered in the PRC with registered share capital of RMB10,000,000 and principally engaged in the trading of aviation products, for a cash consideration of RMB3,057,000 (equivalent to approximately HK\$3,458,000) (the "Acquisition"). Prior to the Acquisition, Eaglet was owned as to 40% by Hongdu and 60% by AVIC Int'l. Upon completion of the Acquisition on 11 September 2008, Eaglet was accounted for as an associate of the Group.

(c) Outstanding balances with related parties:

The amounts due to minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

15. Related party transactions (cont'd)

(d) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Short term employee benefits	3,589	3,246
Post-employment benefits	180	162
Total compensation paid to key management personnel	3,769	3,408

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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TO THE BOARD OF DIRECTORS OF AVIC INTERNATIONAL HOLDING (HK) LIMITED

(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 10 to 30 which comprises the condensed consolidated statement of financial position of AVIC International Holding (HK) Limited as at 30 June 2009 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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

21 September 2009