



**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 2010





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## **CHAIRMAN'S STATEMENT**

### **BUSINESS REVIEW**

#### ***Overall review***

For the first half of 2010, the Group achieved turnover of HK\$128,934,000 (2009: HK\$108,448,000) and loss attributable to equity holders of HK\$3,182,000 (2009: profit of HK\$4,777,000). Basic losses per share amounted to HK¢0.07 (2009: basic earnings per share of HK¢0.10).

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

For the first half of 2010, the turnover of Zhejiang Sealand Thermolectric Share-Holding Co. ("Zhejiang Sealand"), a non-wholly-owned subsidiary of the Group principally engaging in the supply of electric and steam power in the Linping industrial region of Hangzhou in China, increased by 20% from HK\$107,067,000 to HK\$128,365,000. The overall gross profit rate increased from 6% to 11%. The consumer's demand for steam power started to recover from the Global Financial Tsunami. The sales volume of steam power for the period was 560,000 tonnes, an increase of 8% from 2009. The average selling price of steam power was raised by 15% so as to cope with the rise in coal price. The electric and steam power supply segment recorded profit of HK\$7,562,000 (2009: HK\$618,000) for the period.

#### ***Project EC120***

Totally 16 EC120 helicopters were sold in the first half of 2010. Turnover amounted to HK\$569,000 (2009: HK\$1,381,000). Having considered the profit and cashflow forecast of Project EC120, the Group made a provision for impairment of HK\$2,000,000 (2009: HK\$2,000,000) against the financial assets thereunder. As a result, Project EC120 segment recorded loss of HK\$2,397,000 (2009: HK\$1,419,000) for the period.

## **Others**

For the six months ended 30 June 2010, the Group recorded fair value loss on derivative financial instruments of HK\$3,042,000 (2009: fair value gain of HK\$5,070,000). The fair value of the derivative financial instruments was determined basing on the valuation performed by independent professionally qualified valuers using the Partial Differential Equation. The fair value loss represented a decrease in the fair value of the derivative financial instruments as at 30 June 2010 as compared with the fair value as at 31 December 2009 according to the valuation.

For the first half of 2010, the turnover of Sino Gas Group Limited (“Sino Gas”), an associate of the Group principally engaging in the operation of CNG and LPG refueling stations, increased by 98% from HK\$241,434,000 to HK\$477,784,000. The loss attributable to owners of its parent amounted to HK\$4,405,000 (2009: HK\$5,884,000).

The Group recorded an increase in the value of the investments (after tax) of approximately HK\$1,433,000,000 as at 30 June 2010 mainly due to change in the fair value measurement of these investments upon their publicly listing. Such increase had no impact on the condensed consolidated income statement.

## **PROSPECTS**

Looking forward, with the economy in Mainland China has stabilised and the sign of recovery has been shown, Zhejiang Sealand will continue to implement strict cost control measures and to reinforce internal management so as to strive for better results.

It is the long term strategy of the Group to further develop and diversify its aero-related business. The Group will closely monitor projects in aviation industry and aero-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 2010, the Group had current assets of HK\$548,642,000 (31 December 2009: HK\$577,641,000), including cash and bank balances and time deposits in an aggregate of HK\$369,525,000 (31 December 2009: HK\$375,530,000). The Group's current liabilities as at 30 June 2010 were HK\$187,968,000 (31 December 2009: HK\$171,074,000).

As at 30 June 2010, the Group's equity attributable to equity holders of the parent amounted to HK\$2,387,955,000 (31 December 2009: HK\$955,455,000), comprising issued capital of HK\$475,440,000 (31 December 2009: HK\$475,440,000) and reserves of HK\$1,912,515,000 (31 December 2009: HK\$480,015,000). The Group's outstanding bank borrowing as at 30 June 2010 amounted to HK\$77,586,000 (31 December 2009: HK\$28,409,000). 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 3% (31 December 2009: 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 2010, 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\$27,111,000 (31 December 2009: HK\$22,119,000);
- (b) certain of the Group's leasehold land with an aggregate net book value of approximately HK\$27,803,000 (31 December 2009: HK\$27,798,000); and
- (c) certain of the Group's short term time deposits amounting to HK\$37,729,000 (31 December 2009: HK\$45,051,000).



### ***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**

The Group had no 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.

### **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2010, there were 269 (31 December 2009: 272) 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

**Wu Guangquan**

*Chairman*

Hong Kong, 26 August 2010

## ADDITIONAL INFORMATION

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

As at 30 June 2010, 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	Percentage of the associated corporation's issued capital
Ji Guirong	(a)	Sino Gas	Associate	14,900,000	Directly beneficially owned	0.69
Zhang Chuanjun	(b)	Sino Gas	Associate	10,000,000	Directly beneficially owned	0.46

#### 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. 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 2010, 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 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 share option scheme, no options have been granted thereunder.



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

As at 30 June 2010, 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
AVIC International (HK) Group Limited ("AVIC International (HK) Group")	Through a controlled corporation	1,895,559,000	39.87
AVIC International Holding Corporation ("AVIC International")	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 AVIC International (HK) Group. AVIC International (HK) Group is a wholly-owned subsidiary of AVIC International, which is in turn a non-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 AVIC International (HK) Group, AVIC International 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 2010, 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 2010, 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 2010.

## **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 2010 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	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>REVENUE</b>	3	<b>128,934</b>	108,448
Cost of sales		<b>(114,339)</b>	(101,139)
Gross profit		<b>14,595</b>	7,309
Other income and gains	4	<b>8,118</b>	16,064
Administrative and other operating expenses, net		<b>(17,574)</b>	(18,815)
Finance costs	5	<b>(2,012)</b>	(1,112)
Deficit on revaluation of an investment property		–	(700)
Gain on deemed disposal of an associate		<b>1,600</b>	–
Share of profits and losses of:			
Jointly-controlled entity		<b>4,855</b>	2,351
Associates		<b>(2,327)</b>	(2,368)
Impairment of a financial asset under Project EC120		<b>(2,000)</b>	(2,000)
Gain on disposal of an available-for-sale investment		–	1,314
Fair value gain/(loss) on derivative financial instruments		<b>(3,042)</b>	5,070
PROFIT BEFORE TAX	6	<b>2,213</b>	7,113
Income tax expense	7	<b>(2,893)</b>	(2,087)
PROFIT/(LOSS) FOR THE PERIOD		<b>(680)</b>	5,026

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

**For the six months  
ended 30 June**

		<b>2010</b>	2009
		<b>(Unaudited)</b>	(Unaudited)
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the parent		<b>(3,182)</b>	4,777
Non-controlling interests		<b>2,502</b>	249
		<b>(680)</b>	5,026
<b>EARNINGS/(LOSSES) PER SHARE</b>			
<b>ATTRIBUTABLE TO ORDINARY EQUITY</b>			
<b>HOLDERS OF THE PARENT</b>			
- Basic and diluted	8	<b>(HK0.07 cent)</b>	HK0.10 cent

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	(680)	5,026
OTHER COMPREHENSIVE INCOME		
Available-for-sale investments:		
Change in fair value	1,084,367	9,698
Reclassification adjustment for gain included in the consolidated income statement		
– Gain on disposal	–	(1,314)
Income tax effect	(270,305)	–
	814,062	8,384
Share of other comprehensive income of a jointly-controlled entity	618,945	–
Exchange difference on translation of foreign operations	3,956	1,860
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	1,436,963	10,244
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,436,283	15,270
ATTRIBUTABLE TO:		
Equity holders of the parent	1,432,500	14,277
Non-controlling interests	3,783	993
	1,436,283	15,270

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>287,057</b>	281,865
Prepaid land lease payments		<b>28,478</b>	28,507
Goodwill		<b>30,493</b>	30,493
Interest in a jointly-controlled entity		<b>667,119</b>	43,319
Interests in associates		<b>230,772</b>	170,042
Financial asset under Project EC120		<b>1,459</b>	3,459
Available-for-sale investments	<i>10</i>	<b>1,119,410</b>	63,285
<b>Total non-current assets</b>		<b>2,364,788</b>	620,970
<b>CURRENT ASSETS</b>			
Inventories		<b>18,549</b>	13,945
Trade and bills receivables	<i>11</i>	<b>32,651</b>	32,488
Loans to associates		–	50,139
Loan to a related company		<b>17,241</b>	–
Prepayments, deposits and other receivables		<b>61,573</b>	81,745
Derivative financial instrument	<i>12</i>	<b>20,753</b>	23,794
Available-for-sale investment	<i>10</i>	<b>28,350</b>	–
Pledged time deposits		<b>37,729</b>	45,051
Cash and cash equivalents		<b>331,796</b>	330,479
<b>Total current assets</b>		<b>548,642</b>	577,641

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

		<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
	<i>Note</i>		
<b>CURRENT LIABILITIES</b>			
Due to non-controlling shareholders of a subsidiary		<b>311</b>	–
Trade and bills payables	13	<b>83,588</b>	112,698
Tax payable		<b>7,349</b>	8,779
Other payables and accruals		<b>19,134</b>	21,188
Interest-bearing bank borrowings		<b>77,586</b>	28,409
<b>Total current liabilities</b>		<b>187,968</b>	171,074
<b>NET CURRENT ASSETS</b>		<b>360,674</b>	406,567
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,725,462</b>	1,027,537



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

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Deferred tax liabilities	<b>277,295</b>	6,654
Net assets	<b>2,448,167</b>	1,020,883
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	<b>475,440</b>	475,440
Reserves	<b>1,912,515</b>	480,015
Non-controlling interests	<b>2,387,955</b>	955,455
	<b>60,212</b>	65,428
Total equity	<b>2,448,167</b>	1,020,883

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent									
	Issued capital	Share premium account	Property, equipment revaluation reserve	Available-for-sale investment revaluation reserve	Reserve fund	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010 (unaudited)	475,440	193,970	7,274	10,129	6,486	22,322	239,834	955,455	65,428	1,020,883
Total comprehensive income for the period	-	-	-	1,433,007	-	2,675	(3,182)	1,432,500	3,783	1,436,283
Transfer to reserve fund	-	-	-	-	337	-	(337)	-	-	-
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	(8,999)	(8,999)
<b>At 30 June 2010 (unaudited)</b>	<b>475,440</b>	<b>193,970</b>	<b>7,274</b>	<b>1,443,136</b>	<b>6,823</b>	<b>24,997</b>	<b>236,315</b>	<b>2,387,955</b>	<b>60,212</b>	<b>2,448,167</b>
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	-	1,116	4,777	14,277	993	15,270
Dividend paid to non-controlling 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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>For the six months ended 30 June</b>	
	<b>2010 (Unaudited) HK\$'000</b>	2009 (Unaudited) HK\$'000
Net cash flows from/(used in) operating activities	<b>(26,766)</b>	31,992
Net cash flows used in investing activities	<b>(13,019)</b>	(51,668)
Net cash flows from/(used in) financing activities	<b>40,162</b>	(15,190)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>377</b>	(34,866)
Cash and cash equivalents at 1 January	<b>330,479</b>	350,734
Effect of foreign exchange rate changes, net	<b>940</b>	855
<b>Cash and cash equivalents at 30 June</b>	<b>331,796</b>	316,723
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b>63,162</b>	80,255
Non-pledged time deposits with original maturity of less than three months when acquired	<b>268,634</b>	236,468
	<b>331,796</b>	316,723

## 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 2009, 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 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17 Amendments to	<i>Distributions of Non-cash Assets to Owners</i>
HKFRS 5 included in Improvements to HKFRSs issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>

## 2. Impact of new and revised Hong Kong Financial Reporting Standards (cont'd)

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after 1 July 2009, or for annual periods beginning on or after 1 January 2010, although there are separate transitional provisions for each standard or interpretation.

The adoption of the new and revised HKFRSs had no material impact on the results and financial position for the current or prior accounting periods which have been prepared and presented.

## 3. Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has identified two reportable operating segments as follows:

- (a) the electric and steam power supply segment engages in the generation and sale of electric and steam power; and
- (b) Project EC120 segment engages in the share of profit from the development, manufacture and distribution of helicopters.

Management monitors the results of its operating segments separately for the purposes of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable profit/(loss), which is a measure of adjusted profit/(loss) for the period except that head office's other income and gains, gain on deemed disposal of an associate, share of profits and losses of a jointly-controlled entity and associates, gain on disposal of an available-for-sale investment, fair value gain/(loss) on derivative financial instruments as well as head office and corporate expenses and unallocated income tax are excluded from such measurement.

### 3. Operating segment information (cont'd)

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

	Revenue		Results	
	For the six months ended 30 June			
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Electric and steam power supply	128,365	107,067	7,562	618
Project EC120	569	1,381	(2,397)	(1,419)
Segment revenue and results	128,934	108,448	5,165	(801)
Unallocated other income and gains			1,770	8,579
Corporate and other unallocated expenses			(8,627)	(9,119)
Gain on deemed disposal of an associate			1,600	-
Share of profits and losses of:				
Jointly-controlled entity			4,855	2,351
Associates			(2,327)	(2,368)
Gain on disposal of an available- for-sale investment			-	1,314
Fair value gain/(loss) on derivative financial instruments			(3,042)	5,070
Profit/(loss) before tax			(606)	5,026
Unallocated income tax expense			(74)	-
Profit/(loss) for the period			(680)	5,026

#### 4. Other income and gains

	<b>For the six months ended 30 June</b>	
	<b>2010 (Unaudited) HK\$'000</b>	2009 (Unaudited) HK\$'000
<b>Other income</b>		
Bank interest income	<b>1,159</b>	1,227
Interest income on convertible bonds issued by an associate	<b>273</b>	209
Interest income on loans to an associate	<b>562</b>	553
Interest income on other receivables	<b>451</b>	474
Income from installation of infrastructure for steam supply	<b>3,968</b>	2,323
Government grants	<b>1,012</b>	2,366
Income from sale of coal residues	<b>620</b>	1,530
Dividend income from an available-for-sale investment	–	6,938
Gross rental income	–	134
Others	<b>73</b>	70
	<b>8,118</b>	15,824
<b>Gains</b>		
Gains on disposal of items of property, plant and equipment	–	240
	<b>8,118</b>	16,064



## 5. Finance costs

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interest on bank overdrafts and bank loans wholly repayable within five years	2,012	1,112

## 6. Profit before tax

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Cost of electric and steam power supply	114,339	101,139
Depreciation	9,339	9,181
Recognition of prepaid land lease payments	368	364
Provision for impairment of trade and bills receivables, net	–	460
Write-off of other receivables	–	14

## 7. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period. No provision for Hong Kong profits tax has been made for the six months ended 30 June 2009 as the Group did not generate any assessable profits arising in Hong Kong during that period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	<b>For the six months ended 30 June</b>	
	<b>2010 (Unaudited) HK\$'000</b>	2009 (Unaudited) HK\$'000
Current – Hong Kong	<b>74</b>	–
– Elsewhere	<b>2,483</b>	2,851
Deferred	<b>336</b>	(764)
Total tax charge for the period	<b>2,893</b>	2,087

## 8. Earnings/(losses) per share attributable to ordinary equity holders of the parent

The calculations of basic earnings/(losses) per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$3,182,000 (2009: profit of HK\$4,777,000) and the weighted average number of ordinary shares of 4,754,397,000 (2009: 4,754,397,000) in issue during the period.

No adjustment has been made to the basic earnings/(losses) per share amounts presented for the periods ended 30 June 2010 and 2009 in respect of a dilution as the Group has no potentially dilutive ordinary shares in issue during those periods.

## 9. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2010 (2009: Nil).

## 10. Available-for-sale investments

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Non-current:		
Listed investments in Mainland China, at fair value ( <i>note</i> )	<b>1,114,532</b>	–
Unlisted investments, at cost ( <i>note</i> )	–	33,231
Unlisted investments, at fair value:		
Bond component of convertible bonds issued by Sino Gas Group Limited ("Sino Gas"), an associate of the Group	–	25,201
Club debentures	<b>4,878</b>	4,853
	<b>1,119,410</b>	63,285
Current:		
Unlisted investment, at fair value:		
Bond component of convertible bonds issued by Sino Gas	<b>28,350</b>	–

### Note:

During the year ended 31 December 2009, these investments consisted of investments in unlisted equity securities which were designated as available-for-sale investments and had no fixed maturity date or coupon rate. These investments were stated at cost less impairment as at 31 December 2009 because the range of reasonable fair value estimates was so significant that the directors were of the opinion that their fair values could not be measured reliably.

During the period, upon the successful listing of the equity securities in Shenzhen Stock Exchange, the directors are in the opinion that the fair values of the listed equity securities can be measured reliably based on the quoted market price and therefore these investments were stated at fair value as at 30 June 2010.

## 11. Trade and bills receivables

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Trade and bills receivables	<b>34,070</b>	33,891
Impairment	<b>(1,419)</b>	(1,403)
	<b>32,651</b>	32,488

The Group's trade receivables mainly represent the receivable from the sale of electric and steam power. The Group's trading terms with these customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 60 days, extending up to 90 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Current	<b>23,976</b>	26,910
31-60 days	<b>5,247</b>	3,619
61-90 days	<b>1,416</b>	746
Over 90 days	<b>2,012</b>	1,213
	<b>32,651</b>	32,488

## 12. Derivative financial instrument

Derivative financial instrument represents the conversion option of convertible bonds issued by Sino Gas and purchased by the Group.

## 13. Trade and bills payables

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Current	<b>76,839</b>	108,026
31-60 days	<b>523</b>	2,907
61-90 days	<b>128</b>	81
Over 90 days	<b>6,098</b>	1,684
	<b>83,588</b>	112,698

## 14. Commitments

	<b>30 June 2010 (Unaudited) HK\$'000</b>	31 December 2009 (Audited) HK\$'000
Contracted, but not provided for:		
Acquisition of plant and machinery	<b>5,829</b>	16,749
Establishment of a joint venture ( <i>note</i> )	<b>45,977</b>	45,455
	<b>51,806</b>	62,204

## **14. Commitments** *(cont'd)*

*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 International"), 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\$115 million), of which 40%, 15% and 45% respectively, will be contributed by Sino-Aviation Investments, AVIC International 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 2010, the JV Agreement has not become effective as the conditions stated above have not been fulfilled.

## **15. Contingent liabilities**

As at 30 June 2010, the Group had contingent liabilities in respect of guarantees given to banks by the Group for banking facilities granted to major suppliers of HK\$68,966,000 (31 December 2009: HK\$68,182,000) which were utilised to the extent of approximately HK\$68,966,000 (31 December 2009: HK\$68,182,000).

## 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:

	Notes	For the six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Rental income received from a shareholder	(i)	–	134
Minimum lease payments under operating lease on land and building paid to a shareholder	(ii)	(72)	(72)
Net income from Project EC120	(iii)	569	1,381
Associates:			
Interest income on convertible bonds issued by an associate	(iv)	273	209
Interest income on loans to an associate		562	553

Notes:

- (i) The Company entered into a tenancy agreement with AVIC International (HK) Group Limited (“AVIC International (HK) Group”), a deemed shareholder of the Company, on 31 December 2007, to lease the Company’s investment property to AVIC International (HK) Group 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 AVIC International (HK) Group on 10 December 2008 to extend the above tenancy agreement to 28 February 2009.



## 16. Related party transactions *(cont'd)*

### (a) *(cont'd)*

*Notes: (cont'd)*

- (ii) The Company entered into a tenancy agreement with AVIC International (HK) Group on 25 January 2008 to lease AVIC International (HK) Group's property at a monthly rental of HK\$12,000 (inclusive of rates and management fees) for a term of two years commencing on 1 February 2008. The rental was determined with reference to open market rentals.

The tenancy agreement was renewed on 28 January 2010 at a monthly rental of HK\$12,000 (inclusive of rates and management fees) for a term of one year commencing on 1 February 2010. The rental was determined with reference to open market rentals.

- (iii) Balance represented net cash proceeds received or receivable from AVIC International generated from Project EC-120.
- (iv) The interest income represented interest income on convertible bonds issued by Sino Gas and purchased by the Group on 25 January 2007 and 3 March 2009 with an aggregated principal amount of HK\$15,600,000 and HK\$27,500,000 respectively. The convertible bonds bear interest at 2% per annum and mature in two years from their date of issuance.

### (b) Other transactions with related parties:

During the period, pursuant to a share placing and top-up subscription arrangement, the Group sold 215,000,000 ordinary shares of Sino Gas to certain independent third parties at HK\$0.377 per share, and subscribed for 215,000,000 new ordinary shares issued by Sino Gas at the same price. Besides, the Group also subscribed for an additional 80,000,000 new ordinary shares issued by Sino Gas at HK\$0.377 per share for a cash consideration of HK\$30,160,000.

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

## (c) Outstanding balances with related parties:

- (i) As at 30 June 2010, the Group had a loan to an associate included in the Group's non-current assets amounting to HK\$45,138,000 (31 December 2009: HK\$44,889,000) which is unsecured, interest-free and is not repayable within one year, and loans to an associate included in the Group's non-current assets amounting to HK\$31,048,000 (31 December 2009: Nil) which are unsecured, bear interest at 3.65% per annum and are not repayable within one year.

As at 31 December 2009, the Group had loans to associates included in the Group's current assets of HK\$50,139,000 which were unsecured, bore interest at 3.65% to 7.47% per annum and were repayable within one year.

- (ii) As at 30 June 2010, the Group had a loan to Peace Map Co., Ltd., an associate of a jointly-controlled entity of the Group, included in the Group's current assets amounting to HK\$17,242,000 (31 December 2009: Nil) which is unsecured, bears interest at 5.31% per annum and is repayable within one year.
- (iii) The amounts due to non-controlling shareholders of a subsidiary are unsecured, interest-free and have no fixed terms of repayment.

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

	<b>For the six months ended 30 June</b>	
	<b>2010 (Unaudited) HK\$'000</b>	2009 (Unaudited) HK\$'000
Short term employee benefits	<b>3,590</b>	3,589
Post-employment benefits	<b>180</b>	180
Total compensation paid to key management personnel	<b>3,770</b>	3,769



**AVIC International Holding (HK) Limited**

Interim Report 2010

## **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 2010 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

26 August 2010