



**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)



**2011**

Interim Report

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## **CHAIRMAN'S STATEMENT**

### **RESULTS**

The board of directors (the "Board") of AVIC International Holding (HK) Limited (the "Company") presents the Interim Report which includes the unaudited interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011. The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group for the six months ended 30 June 2011 and consolidated statement of financial position as at 30 June 2011 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 13 to 32 of this report.

### **BUSINESS REVIEW**

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

For the first half of 2011, the Group recorded turnover of HK\$143,648,000 (2010: HK\$128,934,000) and profit attributable to equity holders of HK\$14,569,000 (2010: loss of HK\$3,182,000). Basic earnings per share amounted to HK¢0.31 (2010: basic losses per share of HK¢0.07).

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

For the first half of 2011, the turnover of Zhejiang Sealand Thermoelectric 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 12% from HK\$128,365,000 to HK\$143,648,000. The overall gross profit rate increased slightly from 11% to 12%. The sales volume of steam power for the period was 534,000 tonnes, a decrease of 5% from 2010. The average selling price of steam power was raised by 15%. The electric and steam power supply segment recorded profit of HK\$6,811,000 (2010: HK\$7,562,000) for the period.

### **Project EC120**

Totally 10 EC120 helicopters were sold in the first half of 2011. However, no turnover (2010: HK\$569,000) was recorded by the Group on this as a loss was incurred by AVIC International Holding Corporation (“AVIC International”), a substantial shareholder of the Company, from the operations of Project EC120 of which the Group shares 80%. The Group did not make any provision for impairment (2010: HK\$2,000,000) against the financial assets thereunder for the period as the financial assets had been fully impaired as at 31 December 2010. Project EC120 segment recorded loss of HK\$503,000 (2010: HK\$2,397,000) for the period.

### **Others**

During the six months ended 30 June 2011, the convertible bonds held by the Group and issued by Sino Gas Group Limited (“Sino Gas”), an associate of the Group, became mature and were converted into 137,500,000 ordinary shares of Sino Gas at an exercise price of HK\$0.2 per share. As a result, the Group recorded a loss on derecognition of derivative financial instrument of HK\$3,913,000 (2010: Nil) and at the same time a gain on bargain purchase of HK\$6,056,000 (2010: Nil) representing an excess of the Group’s additional interest arisen from the aforesaid conversion in the fair value of Sino Gas’ net assets over the cost of acquisition. In addition, the Group recorded share of profits of jointly-controlled entity and associates of HK\$13,730,000 (2010: HK\$2,528,000) and dividend income from an available-for-sale listed investment of HK\$5,218,000 (2010: Nil) for the period.

### **PROSPECTS**

Looking forward, the Group is optimistic on the outlook of its business. Zhejiang Sealand will continue to implement technical innovation to out-dated steam boilers so as to further boost the production capacity. Furthermore, high-quality internal management will continue to be adopted so as to improve the operational efficiency. With the mature management team, conservative company culture and strong financial position, the Group will continue to closely monitor projects in aviation industry and aero-related industry in China with good prospects so as to further develop and diversify its aero-related business.

## **FINANCIAL REVIEW**

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

The Group has consistently maintained sufficient working capital. As at 30 June 2011, the Group had current assets of HK\$566,892,000 (31 December 2010: HK\$580,674,000), including cash and bank balances and time deposits in an aggregate of HK\$311,050,000 (31 December 2010: HK\$374,448,000). The Group's current liabilities as at 30 June 2011 were HK\$172,845,000 (31 December 2010: HK\$166,217,000).

As at 30 June 2011, the Group's equity attributable to equity holders of the parent amounted to HK\$2,627,514,000 (31 December 2010: HK\$3,362,078,000), comprising issued capital of HK\$475,440,000 (31 December 2010: HK\$475,440,000) and reserves of HK\$2,152,074,000 (31 December 2010: HK\$2,886,638,000). The Group's outstanding bank borrowing as at 30 June 2011 amounted to HK\$84,940,000 (31 December 2010: HK\$55,882,000). 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 2010: 2%).

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 2011, 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\$27,059,000 (31 December 2010: HK\$27,116,000);
- (b) certain of the Group's leasehold land with an aggregate net book value of approximately HK\$28,508,000 (31 December 2010: HK\$28,147,000); and
- (c) certain of the Group's short term time deposits amounting to HK\$21,687,000 (31 December 2010: HK\$34,445,000).

### ***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**

It is the common practice of the electric and steam supply industry to provide mutual financial guarantees for the industry participants.

Details of the significant contingent liabilities of the Group are set out in note 13 to the interim financial statements.

## **EVENTS AFTER THE REPORTING PERIOD**

Details of the significant events of the Group after the reporting period are set out in note 15 to the interim financial statements.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2011, there were 268 (31 December 2010: 271) 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  
**AVIC International Holding (HK) Limited**  
**Wu Guangquan**  
*Chairman*

Hong Kong, 25 August 2011

## ADDITIONAL INFORMATION

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

As at 30 June 2011, the interests and short positions of the directors in the shares 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 share capital as at 30 June 2011
Ji Guirong	(a)	Sino Gas	Associate	34,900,000	Directly beneficially owned	1.14
Zhang Chuanjun	(b)	Sino Gas	Associate	30,000,000	Directly beneficially owned	1.23

#### Notes:

- (a) (i) On 23 August 2007, Mr. Ji was granted options to subscribe for an aggregate of 14,900,000 ordinary shares of HK\$0.20 each in Sino Gas at an exercise price of HK\$0.35 per share.
- (ii) On 31 August 2010, Mr. Ji was granted options to subscribe for an aggregate of 20,000,000 ordinary shares of HK\$0.20 each in Sino Gas at an exercise price of HK\$0.341 per share.



The exercise periods of the options are as follows:

<b>Number of share options</b>	<b>Exercise period</b>
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
20,000,000	31/8/2010 to 30/8/2020
<hr/>	
34,900,000	

No options have been exercised, cancelled or lapsed during the period. All the above options are remaining outstanding as at 30 June 2011.

- (b) (i) On 3 January 2006, Mr. Zhang was granted options to subscribe for an aggregate of 10,000,000 ordinary shares of HK\$0.20 each in Sino Gas at an exercise price of HK\$0.20 per share.
- (ii) On 31 August 2010, Mr. Zhang was granted options to subscribe for an aggregate of 20,000,000 ordinary shares of HK\$0.20 each in Sino Gas at an exercise price of HK\$0.341 per share.

The exercise periods of the options are as follows:

<b>Number of share options</b>	<b>Exercise period</b>
5,000,000	1/7/2006 to 31/1/2015
5,000,000	1/1/2007 to 31/1/2015
20,000,000	31/8/2010 to 30/8/2020
<hr/>	
30,000,000	

No options have been exercised, cancelled or lapsed during the period. All the above options are remaining outstanding as at 30 June 2011.

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 2011, none of the directors of the Company had registered an interest or short position in the shares, underlying shares or debentures 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 spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow 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 2011, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

Name of shareholders	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as at 30 June 2011
Speed Profit Enterprises Limited ("Speed Profit")	(a)	Beneficial owner	508,616,000	10.70
Tacko International Limited ("Tacko")	(a)	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")	(a)	Through a controlled corporation	1,895,559,000	39.87
AVIC International	(a)	Through a controlled corporation	1,895,559,000	39.87
Aviation Industry Corporation of China ("AVIC")	(a)	Through a controlled corporation	1,895,559,000	39.87
Atlantis Investment Management (Hong Kong) Limited ("Atlantis")	(b)	Investment manager	430,000,000	9.04
Liu Yang	(b)	Through a controlled corporation	430,000,000	9.04

## Notes:

- (a) 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 wholly-owned subsidiary of AVIC. Accordingly, 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.
- (b) Atlantis is wholly-owned by Ms. Liu Yang and therefore Ms. Liu Yang is deemed to be interested in the shares held by Atlantis.

Save as disclosed above, as at 30 June 2011, no person 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.

## CHANGES IN DIRECTORS' BIOGRAPHICAL DETAILS

Changes in directors' biographical details since the date of the 2010 annual report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), are set out below:

Name of director	Details of changes
Mr. LI Ka Fai David	<ul style="list-style-type: none"> <li data-bbox="415 1107 1005 1254">– Appointment as independent director and the chairman of the audit committee of China Vanke Co., Ltd, a company listed on the Shenzhen Stock Exchange, were ended with effect from 31 March 2011.</li> <li data-bbox="415 1294 1005 1374">– Appointed as advisor of China Vanke Co., Ltd, a company listed on the Shenzhen Stock Exchange, with effect from 31 March 2011.</li> </ul>

Saved as disclosed above, there is no other changes in the directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## **CORPORATE GOVERNANCE PRACTICES**

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

Throughout the six months ended 30 June 2011, 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. In accordance with the Company’s Bye-laws, one-third of the directors (including non-executive directors) for the time being shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement by rotation at least once every three years. The retiring directors shall be eligible for re-election. 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 2011.

## **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 2011 have been reviewed by the Audit Committee, and have also been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

## INTERIM FINANCIAL STATEMENTS

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>REVENUE</b>	3	<b>143,648</b>	128,934
Cost of sales		<b>(126,806)</b>	(114,339)
Gross profit		<b>16,842</b>	14,595
Other income	4	<b>12,070</b>	8,118
Administrative and other operating expenses, net		<b>(18,784)</b>	(17,574)
Finance costs	5	<b>(3,861)</b>	(2,012)
Gain/(loss) on deemed disposal of an associate		<b>(3,082)</b>	1,600
Gain on bargain purchase of additional investment in an associate		<b>6,056</b>	–
Share of profits and losses of:			
Jointly-controlled entity		<b>13,388</b>	4,855
Associates		<b>342</b>	(2,327)
Impairment of a financial asset under Project EC120		–	(2,000)
Loss on derecognition of derivative financial instrument		<b>(3,913)</b>	–
Fair value loss on derivative financial instrument		–	(3,042)
PROFIT BEFORE TAX	6	<b>19,058</b>	2,213
Income tax expense	7	<b>(2,498)</b>	(2,893)
PROFIT/(LOSS) FOR THE PERIOD		<b>16,560</b>	(680)

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

		<b>For the six months ended 30 June</b>	
		<b>2011</b>	2010
		<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
	<i>Note</i>		
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the parent		<b>14,569</b>	(3,182)
Non-controlling interests		<b>1,991</b>	2,502
		<b>16,560</b>	(680)
<b>EARNINGS/(LOSSES) PER SHARE</b>			
<b>ATTRIBUTABLE TO ORDINARY EQUITY</b>			
<b>HOLDERS OF THE PARENT</b>			
– Basic and diluted	8	<b>HK0.31 cent</b>	(HK0.07 cent)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	16,560	(680)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Available-for-sale investments:		
Change in fair value	(559,990)	1,084,367
Release upon conversion of the convertible bonds	(13,962)	–
Income tax effect	139,998	(270,305)
	(433,954)	814,062
Share of other comprehensive income of a jointly-controlled entity	(324,120)	618,945
Share of other comprehensive income of an associate	2,612	–
Exchange differences on translation of foreign operations	9,326	3,956
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(746,136)	1,436,963
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	(729,576)	1,436,283
ATTRIBUTABLE TO:		
Equity holders of the parent	(734,564)	1,432,500
Non-controlling interests	4,988	3,783
	(729,576)	1,436,283



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>308,100</b>	303,726
Prepaid land lease payments		<b>29,126</b>	28,794
Goodwill		<b>30,493</b>	30,493
Investment in a jointly-controlled entity		<b>755,823</b>	1,008,487
Investments in associates		<b>245,996</b>	242,081
Financial asset under Project EC120		–	–
Available-for-sale investments		<b>1,246,090</b>	1,877,310
<b>Total non-current assets</b>		<b>2,615,628</b>	3,490,891
<b>CURRENT ASSETS</b>			
Inventories		<b>31,680</b>	21,873
Trade and bills receivables	10	<b>35,765</b>	40,368
Loans to a jointly-controlled entity		<b>36,145</b>	23,530
Loans to associates		<b>37,072</b>	5,882
Loan to a related company		<b>18,072</b>	17,647
Prepayments, deposits and other receivables		<b>97,108</b>	50,017
Derivative financial instrument		–	17,875
Available-for-sale investments		–	29,034
Pledged time deposits		<b>21,687</b>	34,445
Cash and cash equivalents		<b>289,363</b>	340,003
<b>Total current assets</b>		<b>566,892</b>	580,674

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

	<i>Note</i>	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
<b>CURRENT LIABILITIES</b>			
Due to non-controlling shareholders of a subsidiary		<b>287</b>	–
Trade and bills payables	<i>11</i>	<b>37,581</b>	75,376
Tax payable		<b>5,181</b>	9,766
Other payables and accruals		<b>44,856</b>	25,193
Interest-bearing bank borrowings		<b>84,940</b>	55,882
<b>Total current liabilities</b>		<b>172,845</b>	166,217
<b>NET CURRENT ASSETS</b>		<b>394,047</b>	414,457
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,009,675</b>	3,905,348

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

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	<b>314,777</b>	471,624
<b>Net assets</b>	<b>2,694,898</b>	3,433,724
<b>EQUITY</b>		
Equity attributable to equity holders of the parent		
Issued capital	<b>475,440</b>	475,440
Reserves	<b>2,152,074</b>	2,886,638
	<b>2,627,514</b>	3,362,078
Non-controlling interests	<b>67,384</b>	71,646
<b>Total equity</b>	<b>2,694,898</b>	3,433,724

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	Share equipment revaluation reserve HK\$'000	Share investment revaluation reserve HK\$'000	Available-for-sale investment HK\$'000	Reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000
At 1 January 2011 (unaudited)	475,440	193,970	5,100	13,149	2,358,448	7,512	33,589	274,870	3,362,078	71,646	3,433,724
Profit for the period	-	-	-	-	-	-	-	14,569	14,569	1,991	16,560
Other comprehensive income/(loss) for the period	-	-	-	-	(758,074)	-	8,941	-	(749,133)	2,997	(746,136)
Total comprehensive income/(loss) for the period	-	-	-	-	(758,074)	-	8,941	14,569	(734,564)	4,988	(729,576)
Transfer to reserve fund	-	-	-	-	-	294	-	(294)	-	-	-
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(9,250)	(9,250)
<b>At 30 June 2011 (unaudited)</b>	<b>475,440</b>	<b>193,970</b>	<b>5,100</b>	<b>13,149</b>	<b>1,600,374</b>	<b>7,806</b>	<b>42,530</b>	<b>289,145</b>	<b>2,627,514</b>	<b>67,384</b>	<b>2,694,898</b>
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
Profit/(Loss) for the period	-	-	-	-	-	-	-	(3,182)	(3,182)	2,502	(680)
Other comprehensive income for the period	-	-	-	-	1,433,007	-	2,675	-	1,435,682	1,281	1,436,963
Total comprehensive income/(loss) 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>-</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>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Net cash flows used in operating activities	(65,425)	(26,766)
Net cash flows used in investing activities	(5,753)	(13,019)
Net cash flows from financing activities	18,747	40,162
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(52,431)</b>	377
Cash and cash equivalents at 1 January	340,003	330,479
Effect of foreign exchange rate changes, net	1,791	940
<b>Cash and cash equivalents at 30 June</b>	<b>289,363</b>	331,796
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	90,548	63,162
Non-pledged time deposits with original maturity of less than three months when acquired	198,815	268,634
	<b>289,363</b>	331,796

## 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 (the “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 2010, 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 Group has adopted the following new and revised HKFRSs for the first time for the current period’s financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</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 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

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 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 the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) for the period. The adjusted profit/(loss) for the period is measured consistently with the Group's profit/(loss) for the period except that head office's other income, gain/(loss) on deemed disposal of an associate, gain on bargain purchase of additional investment in an associate, share of profits and losses of jointly-controlled entity and associates, loss on derecognition of derivative financial instrument, fair value loss on derivative financial instrument 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			
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Electric and steam power supply	143,648	128,365	6,811	7,562
Project EC120	-	569	(503)	(2,397)
Segment revenue and results	143,648	128,934	6,308	5,165
Unallocated other income			6,591	1,770
Corporate and other unallocated expenses			(9,372)	(8,627)
Gain/(loss) on deemed disposal of an associate			(3,082)	1,600
Gain on bargain purchase of additional investment in an associate			6,056	-
Share of profits and losses of:				
Jointly-controlled entity			13,388	4,855
Associates			342	(2,327)
Loss on derecognition of derivative financial instrument			(3,913)	-
Fair value loss on derivative financial instrument			-	(3,042)
Unallocated income tax			242	(74)
Profit/(loss) for the period			16,560	(680)



4. Other income

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Bank interest income	1,435	1,159
Interest income on a loan to a related company	643	–
Interest income on convertible bonds issued by an associate	156	273
Interest income on loans to an associate	562	562
Interest income on other receivable	–	451
Income from installation of infrastructure for steam supply	1,908	4,757
Government grants	959	223
Income from sale of coal residues	1,121	620
Dividend income from an available-for-sale listed investment	5,218	–
Others	68	73
	<b>12,070</b>	<b>8,118</b>

5. Finance costs

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	3,861	2,012

## 6. Profit before tax

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

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Cost of electric and steam power supply	126,806	114,339
Depreciation	11,878	9,339
Recognition of prepaid land lease payments	382	368

## 7. Income tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2011 as the Group did not generate any assessable profits arising in Hong Kong during that period. Hong Kong profits tax had been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2010. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Current – Hong Kong	–	74
– Elsewhere	2,001	2,483
Deferred	497	336
Total tax charge for the period	2,498	2,893

## 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 profit for the period attributable to ordinary equity holders of the parent of HK\$14,569,000 (2010: loss of HK\$3,182,000) and the weighted average number of ordinary shares of 4,754,397,000 (2010: 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 2011 and 2010 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 2011 (2010: Nil).

## 10. Trade and bills receivables

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Trade and bills receivables	<b>37,416</b>	41,943
Impairment	<b>(1,651)</b>	(1,575)
	<b>35,765</b>	40,368

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

The Group's trade receivables mainly represent the receivables 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 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Current	<b>22,605</b>	31,695
31 to 60 days	<b>5,978</b>	5,487
61 to 90 days	<b>3,676</b>	1,048
Over 90 days	<b>3,506</b>	2,138
	<b>35,765</b>	40,368

## 11. 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 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Current	<b>33,938</b>	75,146
31 to 60 days	<b>1,945</b>	219
61 to 90 days	<b>–</b>	–
Over 90 days	<b>1,698</b>	11
	<b>37,581</b>	75,376

## 12. Commitments

	<b>30 June 2011 (Unaudited) HK\$'000</b>	31 December 2010 (Audited) HK\$'000
Contracted, but not provided for:		
Acquisition of plant and machinery	<b>488</b>	2,976
Establishment of a joint venture ( <i>note</i> )	<b>48,193</b>	47,059
	<b>48,681</b>	50,035

## 12. 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\$120 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 approval from the relevant PRC authorities. As at 30 June 2011, the JV Agreement has not become effective as the conditions stated above have not been fulfilled.

## 13. Financial guarantees

As at 30 June 2011, the Group had given financial guarantees to banks for banking facilities granted to major suppliers of HK\$55,422,000 (31 December 2010: HK\$54,118,000) which were utilised to the extent of HK\$55,422,000 (31 December 2010: HK\$54,118,000).

## 14. 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	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Minimum lease payments under operating lease on land and building paid to a shareholder	(i)	(12)	(72)
Net income/(loss) from Project EC120	(ii)	(200)	569
Interest income on a loan to a related company		643	–
Associates:			
Interest income on convertible bonds issued by an associate	(iii)	156	273
Interest income on loans to an associate		562	562

Notes:

- (i) The Company leased from AVIC International (HK) Group Limited its property at a monthly rental of HK\$12,000 (inclusive of rates and management fees) until 31 January 2011. The rental was determined with reference to open market rentals.
- (ii) The balance represented the Group's 80% share of net income/(loss) of AVIC International from the operations of Project EC120.
- (iii) The interest income represented interest income on convertible bonds issued by Sino Gas Group Limited ("Sino Gas") and purchased by the Group on 3 March 2009 with an aggregated principal amount of HK\$27,500,000. The convertible bonds bear interest at 2% per annum and mature in two years from their date of issuance.

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

(b) Other transactions with related parties:

During the period, the Group converted the convertible bonds issued by Sino Gas into 137,500,000 ordinary shares of Sino Gas at an exercise price of HK\$0.2 per share.

During the six months ended 30 June 2010, 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.

(c) Outstanding balances with related parties:

- (i) As at 30 June 2011, the Group had a loan to an associate included in the Group's non-current assets amounting to HK\$45,139,000 (31 December 2010: HK\$45,139,000) which is unsecured, interest-free and is not repayable within one year; loans to associates included in the Group's current assets amounting to HK\$37,072,000 (31 December 2010: HK\$5,882,000) which are unsecured, bear interest at 3.65% to 6% (31 December 2010: 6%) per annum and are repayable within one year.

As at 30 June 2010, the Group had loans to an associate included in the Group's non-current assets amounting to HK\$31,048,000 which were unsecured, bore interest at 3.65% per annum and were not repayable within one year.

- (ii) As at 30 June 2011, the Group had loans to a jointly-controlled entity included in the Group's current assets amounting to HK\$36,145,000 (31 December 2010: HK\$23,529,000) which are unsecured, bear interest at 5.56% to 6.06% (31 December 2010: 5.56%) per annum and are repayable within one year.



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

- (c) Outstanding balances with related parties: (cont'd)
- (iii) As at 30 June 2011, the Group had a loan to a related company, Peace Map Co., Ltd., which is an associate of a jointly-controlled entity of the Group, included in the Group's current assets amounting to HK\$18,072,000 (31 December 2010: HK\$17,647,000) which is unsecured, bears interest at 6.31% (31 December 2010: 5.31%) per annum and is repayable within one year.
- (iv) 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:

	For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Short term employee benefits	2,869	3,590
Post-employment benefits	192	180
Total compensation paid to key management personnel	3,061	3,770

#### 15. Events after the reporting period

During the period from 5 July 2011 to 22 July 2011, the Company repurchased a total of 57,106,000 shares of the Company on the Stock Exchange at prices ranged from HK\$0.345 to HK\$0.395 per share for an aggregate consideration of HK\$21,246,000. As at the date of the interim report, all the relevant share certificates in respect of the repurchased shares have been duly cancelled.

## 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 13 to 32 which comprises the condensed consolidated statement of financial position of AVIC International Holding (HK) Limited as at 30 June 2011 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

25 August 2011