



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)



2012 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 2012. 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 2012 and consolidated statement of financial position as at 30 June 2012 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 15 to 34 of this report.

BUSINESS REVIEW

Overall review

In 2011, the Group disposed of its electric and steam power supply business by disposing 53% out of its 56% equity interest in Zhejiang Sealand Thermoelectric Share-Holding Co. ("Zhejiang Sealand"). The details of the disposal were set out in the circular of the Company dated 7 December 2011. Upon the disposal, the electric and steam power supply segment became discontinued. The profit from the discontinued operation was presented separately on the condensed consolidated income statement.

On 28 December 2011, the Group acquired a 51% equity interest in 浙江東陽金牛針織製衣有限公司 ("Zhejiang Dongyang Jinniu") which is engaged in the production and distribution of knitting and textile products, knitted fabrics and clothing in Zhejiang Province, the PRC. As such, the knitting and textile segment becomes a new reportable operating segment of the Group.

For the first half of 2012, the Group recorded turnover of HK\$41,319,000 (2011: Nil (excluding the discontinued operation)) and profit attributable to equity holders of HK\$371,489,000 (2011: HK\$14,569,000). Basic earnings per share amounted to HK¢7.82 (2011: HK¢0.31).



Knitting and textile

For the first half of 2012, the turnover of Zhejiang Dongyang Jinniu was HK\$41,319,000. The overall gross profit rate was 17%. The sales volume of knitting and textile products for the period was 1,351 tonnes. The knitting and textile segment recorded loss of HK\$610,000 for the period.

Aero-technology related business

No EC120 helicopters were sold in the first half of 2012. A loss was incurred by AVIC International Holding Corporation, a substantial shareholder of the Company, from the operations of Project EC120 of which the Group shares 80%. The aero-technology related business segment recorded loss of HK\$765,000 (2011: HK\$503,000) for the period.

Others

During the six months ended 30 June 2012, the Group completed its disposal of its entire 47.91% equity interest in Fidelity Finance Leasing Limited (“Fidelity Finance”) and its subsidiary, and the assignment of the shareholder’s loan due and owing to the Group by Fidelity Finance, to Sino Gas Finance Limited, a wholly-owned subsidiary of China Environmental Investment Holdings Limited (“CEIH”), an associate of the Group, at an aggregate consideration of HK\$51,776,000 which was satisfied by convertible bonds issued by CEIH. As a result, a gain on disposal of associates of HK\$19,958,000 (2011: Nil) was recorded by the Group.

During the six months ended 30 June 2012, the Group disposed of certain listed investments and recorded gain on disposal of available-for-sale investments of HK\$241,265,000 (2011: Nil). In addition, the Group recorded share of profits of jointly-controlled entity and associates of HK\$208,911,000 (2011: HK\$13,730,000). The increase was mainly attributable to the satisfactory results achieved by the jointly-controlled entity as it recorded a substantial gain on disposal of its available-for-sale investments. The Group also recorded dividend income from an available-for-sale listed investment of HK\$4,323,000 (2011: HK\$5,218,000) for the period.

Administrative and other operating expenses increased from HK\$10,863,000 to HK\$51,052,000 which was due to the inclusion of expenses of Zhejiang Dongyang Jinniu in 2012 as well as the increase in legal and professional fee incurred as a result of the acquisition of Zhejiang Dongyang Jinniu and disposal of Zhejiang Sealand.



As disclosed in the announcements of the Company dated 11 May 2012 and 1 June 2012, the Group entered into a subscription agreement and a subscription supplemental agreement to subscribe for 2,452 shares of Sinbo Investment Limited (“Sinbo”) at a cash consideration of HK\$60 million (the “Subscription”); as well as a disposal agreement and a disposal supplemental agreement to dispose of its entire equity interest in Sinbo to Mongolia Investment Group Limited at a consideration of HK\$339,900,000 by way of shares and convertible notes (the “Disposal”). On 29 June 2012, the Subscription was completed and the investment in Sinbo was accounted for as asset classified as held for sale. Subsequent to the end of the reporting period, on 21 August 2012, the Disposal lapsed and the details of which were contained in the announcement of the Company dated 21 August 2012.

PROSPECTS

Looking forward, the Group is optimistic about the prospects of the knitting and textile business in light of (i) the continuing economic development in the PRC; (ii) the increasing per capita disposable income in the PRC; and (iii) the extensive industrial experience and established customer base of Zhejiang Dongyang Jinniu. At the same time, the Group will keep reviewing the business portfolio from time to time, and will continue to identify possible acquisition opportunities in businesses in other industries with good prospects, with the aim to optimise its business portfolio and to increase shareholders’ value.

FINANCIAL REVIEW

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 30 June 2012, the Group had current assets of HK\$1,200,488,000 (31 December 2011: HK\$1,245,575,000), including cash and bank balances and time deposits in an aggregate of HK\$737,566,000 (31 December 2011: HK\$796,308,000). The Group’s current liabilities as at 30 June 2012 were HK\$160,680,000 (31 December 2011: HK\$268,209,000).

During the six months ended 30 June 2012, the Company repurchased a total of 19,454,000 shares of the Company on The Stock Exchange of Hong Kong Limited at prices ranged from HK\$0.227 to HK\$0.250 per share for an aggregate consideration of HK\$4,657,000.



As at 30 June 2012, the Group's equity attributable to equity holders of the parent amounted to HK\$1,948,980,000 (31 December 2011: HK\$2,150,907,000), comprising issued capital of HK\$468,085,000 (31 December 2011: HK\$468,085,000) and reserves of HK\$1,480,895,000 (31 December 2011: HK\$1,682,822,000). The Group's outstanding bank borrowing as at 30 June 2012 amounted to HK\$39,512,000 (31 December 2011: HK\$37,073,000). 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 2011: 2%).

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

Charges on the Group's assets

As at 30 June 2012, 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\$3,839,000 (31 December 2011: HK\$3,964,000); and
- (b) certain of the Group's leasehold land with an aggregate net book value of approximately HK\$3,169,000 (31 December 2011: HK\$3,205,000).

As at 31 December 2011, certain of the Group's short term time deposits amounting to HK\$366,000 had been pledged to secure the Group's banking facilities.

Exposure to fluctuations in exchange rates

The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the unit's functional currency. 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

Save for the transactions described elsewhere in this interim report, 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 13 to the interim financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2012, there were 104 (31 December 2011: 97) 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, 23 August 2012



ADDITIONAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2012, 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") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), 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 2012
Ji Guirong	(a)	China Environmental Investment Holdings Limited ("CEIH")	Associate	52,350,000	Beneficial owner	1.43
Zhang Chuanjun	(b)	CEIH	Associate	40,000,000	Beneficial owner	1.09

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 CEIH at an exercise price of HK\$0.35 per share. With effect from 23 February 2012, the number and the exercise price of the share options granted were adjusted from 14,900,000 to 22,350,000 and HK\$0.35 per share to HK\$0.233 per share respectively.
- (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 CEIH at an exercise price of HK\$0.341 per share. With effect from 23 February 2012, the number and the exercise price of the share options granted were adjusted from 20,000,000 to 30,000,000 and HK\$0.341 per share to HK\$0.227 per share respectively.



The exercise periods of the options are as follows:

Number of share options	Exercise period
7,450,000	1/10/2007 to 31/1/2015
7,450,000	1/1/2008 to 31/1/2015
7,450,000	1/7/2008 to 31/1/2015
30,000,000	31/8/2010 to 30/8/2020
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52,350,000	

No options have been exercised, cancelled or lapsed during the period. All the above options remained outstanding as at 30 June 2012.

- (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 CEIH 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 CEIH at an exercise price of HK\$0.341 per share. With effect from 23 February 2012, the number and the exercise price of the share options granted were adjusted from 20,000,000 to 30,000,000 and HK\$0.341 per share to HK\$0.227 per share respectively.

The exercise periods of the options 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
30,000,000	31/8/2010 to 30/8/2020
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40,000,000	

No options have been exercised, cancelled or lapsed during the period. All the above options remained outstanding as at 30 June 2012.



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 2012, none of the Directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section Directors' Interests and Short Positions in Shares and Underlying Shares above and in the section Share Option Scheme below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Directors 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 2012, 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 2012
Speed Profit Enterprises Limited ("Speed Profit")	(a)	Beneficial owner	508,616,000	10.86
Tacko International Limited ("Tacko")	(a)	Beneficial owner Through a controlled corporation	1,386,943,000 508,616,000	29.63 10.86
AVIC International (HK) Group Limited ("AVIC International (HK) Group")	(a)	Through a controlled corporation	1,895,559,000	40.49
AVIC International Holding Corporation ("AVIC International")	(a)	Through a controlled corporation	1,895,559,000	40.49
Aviation Industry Corporation of China ("AVIC")	(a)	Through a controlled corporation	1,895,559,000	40.49
Atlantis Capital Holdings Limited ("Atlantis Capital")	(b)	Through a controlled corporation	370,284,000	7.91
Liu Yang	(b)	Through a controlled corporation	370,284,000	7.91

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 non 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) Pursuant to the disclosure of interests notices filed by each of Atlantis Capital and Ms. Liu Yang on 17 May 2012, Atlantis Investment Management (Hong Kong) Limited ("Atlantis Investment") was disclosed as having direct interest in 370,284,000 shares and was wholly-owned by Atlantis Capital, which in turn was wholly-owned by Ms. Liu Yang. Therefore, Atlantis Capital and Ms. Liu Yang are deemed to be interested in the shares held by Atlantis Investment.

Save as disclosed above, as at 30 June 2012, 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

During the period, the Company purchased certain of its shares on the Stock Exchange as follows:

Month	No. of shares repurchased	Price per share		Total price paid HK\$'000
		Highest HK\$	Lowest HK\$	
June 2012	19,454,000	0.250	0.227	4,644

The purchased shares were subsequently cancelled and the issued share capital of the Company was reduced by the par value thereof. The premium together with the relevant expenses paid on the repurchase of the shares in an aggregate of HK\$2,712,000 has been charged to the share premium account.

The repurchase of the Company's shares during the period was effected by the Directors, pursuant to the mandate from shareholders approved at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed above, 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 2011 annual report of the Company, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules, are set out below:

Name of Director	Details of changes
Mr. Wu Guangquan	<ul style="list-style-type: none">– Ceased to be the Chairman of the remuneration committee of CATIC Shenzhen Holdings Limited ("CATIC Shenzhen"), a company listed on the Stock Exchange, but remained as its member with effect from 19 March 2012– Appointed as a member of the nomination committee of CATIC Shenzhen with effect from 19 June 2012
Mr. Jiang Wei	<ul style="list-style-type: none">– Ceased to be a vice president of AVIC International– Appointed as the Chairman of the supervisory committee of AVIC International with effect from 12 April 2012
Mr. Liu Rongchun	<ul style="list-style-type: none">– Appointed as a senior assistant president of AVIC International and ceased to be its vice president
Mr. Pan Linwu	<ul style="list-style-type: none">– Appointed as an executive director of CATIC Shenzhen with effect from 19 June 2012
Mr. Zhang Chuanjun	<ul style="list-style-type: none">– Appointed as an executive director of CEIH, a company listed on the Stock Exchange, with effect from 3 May 2012
Mr. Ip Tak Chuen, Edmond	<ul style="list-style-type: none">– Resigned as a non-executive director of Excel Technology International Holdings Limited, a company listed on the Stock Exchange, with effect from 3 July 2012

Saved as disclosed above, the Company is not aware of other changes in the Directors' information which are 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 2012, 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 (effective until 31 March 2012) and the Corporate Governance Code (the “New Code”) (effective from 1 April 2012) as set out in Appendix 14 of the Listing Rules, except as noted hereunder.

All Non-executive Directors (including Independent Non-executive Directors) are appointed without specific terms as provided for in code provision A.4.1. In accordance with the Bye-laws of the Company, 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 does not have a nomination committee as provided for in code provision A.5 of the New Code. At present, the Company does not consider it necessary to have a nomination committee as the Board is responsible for reviewing the structure, size and composition of the Board and the appointment of new Directors from time to time to ensure that it has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company, and the Board is also responsible for assessing the independence of each Independent Non-executive Director and reviewing the succession plan for the Directors, in particular the Chairman and the Chief Executive Officer.

Due to other business commitments, the Non-executive Director, Mr. Ip Tak Chuen Edmond and an Independent Non-executive Director, Mr. Li Zhaoxi, were unable to attend the annual general meeting of the Company held in May 2012 as provided for in code provision A.6.7 of the New Code.



The Company does not have formal letters of appointment for Directors (except Mr. Ji Guirong had a service agreement with the Company) setting out the key terms and conditions of their appointment as provided in code provision D.1.4 of the New Code. However, the Directors are required to refer to the relevant key terms and conditions as set out in the Bye-laws of the Company and the guidelines set out in A Guide on Directors' Duties issued by the Companies Registry and Guidelines for Directors and Guide for Independent Non-executive Directors (if applicable) published by the Hong Kong Institute of Directors.

Mr. Wu Guangquan, the Chairman of the Board, was unable to attend the annual general meeting held in May 2012 as provided for in code provision E.1.2 as he was on an overseas engagement.

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 Directors, the Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2012.

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 including the review of 2012 interim report. It currently comprises three Independent Non-executive Directors, namely, Mr. Chu Yu Lin, David (Chairman of the Audit Committee), Mr. Li Ka Fai, David and Mr. Li Zhaoxi.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 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	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
CONTINUING OPERATIONS			
REVENUE	3	41,319	–
Cost of sales		(34,361)	–
Gross profit		6,958	–
Other income	4	10,300	7,595
Administrative and other operating expenses, net		(51,052)	(10,863)
Finance costs	5	(1,608)	–
Loss on deemed disposal of an associate		–	(3,082)
Gain on disposal of associates		19,958	–
Gain on additional investment in an associate		–	2,143
Share of profits and losses of:			
Jointly-controlled entity		211,015	13,388
Associates		(2,104)	342
Gain on disposal of available-for-sale investments		241,265	–
Fair value loss on derivative financial instrument		(2,541)	–
Gain on disposal of subsidiaries		19	–
PROFIT BEFORE TAX	6	432,210	9,523
Income tax expense	7	(61,021)	(95)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		371,189	9,428
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation		–	7,132
PROFIT FOR THE PERIOD		371,189	16,560



CONDENSED CONSOLIDATED INCOME STATEMENT (cont'd)

		For the six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
	<i>Note</i>		
ATTRIBUTABLE TO:			
Equity holders of the parent		371,489	14,569
Non-controlling interests		(300)	1,991
		371,189	16,560
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8		
– For profit for the period		HK7.82 cents	HK0.31 cent
– For profit from continuing operations		HK7.82 cents	HK0.20 cent
– For profit from the discontinued operation		N/A	HK0.11 cent



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
PROFIT FOR THE PERIOD	371,189	16,560
OTHER COMPREHENSIVE INCOME		
Available-for-sale investments:		
Change in fair value	(123,971)	(559,990)
Reclassification adjustments for gain included in the condensed consolidated income statement		
– gain on disposal	(241,265)	–
– conversion of convertible bonds into interest in an associate	–	(13,962)
Income tax effect	91,684	139,998
	(273,552)	(433,954)
Share of other comprehensive income of a jointly-controlled entity	(295,323)	(324,120)
Share of other comprehensive income of an associate	(162)	2,612
Exchange differences on translation of foreign operations	278	9,326
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(568,759)	(746,136)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(197,570)	(729,576)
ATTRIBUTABLE TO:		
Equity holders of the parent	(197,270)	(734,564)
Non-controlling interests	(300)	4,988
	(197,570)	(729,576)



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>Notes</i>	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
NON-CURRENT ASSETS		
	47,631	49,961
Property, plant and equipment		
	3,097	3,127
Prepaid land lease payments		
	4,194	4,194
Goodwill		
	1,046	1,141
Intangible asset		
	425,853	510,161
Investment in a jointly-controlled entity		
	269,531	202,786
Interests in associates		
	–	–
Financial asset under Project EC120		
	198,569	534,905
Available-for-sale investments		
Total non-current assets	949,921	1,306,275
CURRENT ASSETS		
	6,255	4,541
Inventories		
	17,192	10,965
Trade and bills receivables	10	
	31,243	53,243
Loans to associates		
	18,293	18,293
Loan to a related company		
	310,794	305,944
Prepayments, deposits and other receivables		
	19,145	–
Derivative financial instrument		
	164,634	164,634
Time deposit		
	–	366
Pledged time deposits		
	572,932	631,308
Cash and cash equivalents		
Assets classified as held for sale	1,140,488	1,189,294
	60,000	56,281
Total current assets	1,200,488	1,245,575
CURRENT LIABILITIES		
	313	95
Due to non-controlling shareholder of a subsidiary		
	21,133	24,600
Trade and bills payables	11	
	19,807	38,762
Tax payable		
	79,915	167,679
Other payables and accruals		
	39,512	37,073
Interest-bearing bank borrowings		
Total current liabilities	160,680	268,209
NET CURRENT ASSETS	1,039,808	977,366



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES	1,989,729	2,283,641
NON-CURRENT LIABILITY		
Deferred tax liabilities	36,876	128,561
Net assets	1,952,853	2,155,080
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	468,085	468,085
Reserves	1,480,895	1,682,822
Non-controlling interests	1,948,980 3,873	2,150,907 4,173
Total equity	1,952,853	2,155,080

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the parent

	Issued capital HK\$/'000	Share premium account HK\$/'000	Treasury shares reserve HK\$/'000	Share option 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 equity HK\$/'000	Non-controlling interests HK\$/'000	Total equity HK\$/'000
At 1 January 2012 (unaudited)	468,085	176,238	-	5,100	715,078	-	23,356	763,050	2,150,907	4,173	2,155,080
Profit for the period	-	-	-	-	-	-	-	371,489	371,489	(300)	371,189
Other comprehensive income for the period:											
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	(273,552)	-	-	-	(273,552)	-	(273,552)
Share of other comprehensive income of a jointly-controlled entity	-	-	-	-	(295,323)	-	-	-	(295,323)	-	(295,323)
Share of other comprehensive income of an associate	-	-	-	93	-	-	(255)	-	(162)	-	(162)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	278	-	278	-	278
Total comprehensive income for the period	-	-	-	93	(568,875)	-	23	371,489	(197,270)	(300)	(197,570)
Transfer to reserve fund	-	-	-	-	-	5,214	-	(5,214)	-	-	-
Repurchase of shares	-	-	(4,657)	-	-	-	-	-	(4,657)	-	(4,657)
At 30 June 2012 (unaudited)	468,085	176,238*	(4,657)*	5,193*	146,203*	5,214*	23,379*	1,129,325*	1,948,980	3,873	1,952,853

* These reserve accounts comprise the consolidated reserves of HK\$1,480,895,000 in the condensed consolidated statement of financial position as at 30 June 2012.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

	Attributable to equity holders of the parent										
	Issued capital HK\$/'000	Share premium account HK\$/'000	Share option reserve HK\$/'000	Property, plant and equipment revaluation reserve HK\$/'000	Available-for-sale investment revaluation reserve HK\$/'000	Reserve fund HK\$/'000	Exchange fluctuation HK\$/'000	Retained profits HK\$/'000	Total HK\$/'000	Non-controlling interests HK\$/'000	Total equity 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 for the period:											
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	(433,954)	-	-	-	(433,954)	-	(433,954)
Share of other comprehensive income of a jointly-controlled entity	-	-	-	-	(324,120)	-	-	-	(324,120)	-	(324,120)
Share of other comprehensive income of an associate	-	-	-	-	-	2,612	2,612	-	2,612	-	2,612
Exchange differences on translation of foreign operations	-	-	-	-	-	6,329	6,329	-	6,329	2,997	9,326
Total comprehensive income 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)
At 30 June 2011 (unaudited)	475,440	193,970	5,100	13,149	1,600,374	7,806	42,530	289,145	2,627,514	67,384	2,694,898

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash flows used in operating activities	(233,304)	(65,425)
Net cash flows from/(used in) investing activities	176,929	(5,753)
Net cash flows from/(used in) financing activities	(2,001)	18,747
Net decrease in cash and cash equivalents	(58,376)	(52,431)
Cash and cash equivalents at 1 January	631,308	340,003
Effect of foreign exchange rate changes, net	–	1,791
Cash and cash equivalents at 30 June	572,932	289,363
Analysis of balances of cash and cash equivalents		
Cash and bank balances	273,373	90,548
Non-pledged time deposits with original maturity of less than three months when acquired	299,559	198,815
	572,932	289,363



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 2011, 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. Changes in accounting policy and disclosures

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 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the new and revised HKFRSs has 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 three reportable operating segments as follows:

- (a) the knitting and textile segment engages in the production and distribution of knitting and textile products, knitted fabrics and clothing;
- (b) the aero-technology related business segment engages in the share of profit from the development, manufacture and distribution of helicopters; and
- (c) the electric and steam power supply segment engages in the generation and sale of electric and steam power (discontinued in 2011).

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 for the period except that head office's other income, loss on deemed disposal of an associate, gain on disposal of associates, gain on additional investment in an associate, share of profits and losses of jointly-controlled entity and associates, gain on disposal of available-for-sale investments, fair value loss on derivative financial instrument, gain on disposal of subsidiaries 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			
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Continuing operations				
Knitting and textile	41,319	-	(610)	-
Aero-technology related business	-	-	(765)	(503)
Segment revenue and results	41,319	-	(1,375)	(503)
<i>Reconciliation:</i>				
Unallocated other income			7,871	6,591
Corporate and other unallocated expenses			(41,490)	(9,451)
Loss on deemed disposal of an associate			-	(3,082)
Gain on disposal of associates			19,958	-
Gain on additional investment in an associate			-	2,143
Share of profits and losses of:				
Jointly-controlled entity			211,015	13,388
Associates			(2,104)	342
Gain on disposal of available-for-sale investments			241,265	-
Fair value loss on derivative financial instrument			(2,541)	-
Gain on disposal of subsidiaries			19	-
Unallocated income tax expense			(61,429)	-
Profit for the period from continuing operations			371,189	9,428



3. Operating segment information (cont'd)

	Revenue		Results	
	For the six months ended 30 June			
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Discontinued operation				
Electric and steam power supply	-	143,648	-	6,811
<i>Reconciliation:</i>				
Corporate and other unallocated income			-	79
Unallocated income tax credit			-	242
Profit for the period from a discontinued operation			-	7,132
Profit for the period			371,189	16,560



4. Other income

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Bank interest income	3,939	1,435
Interest income on a loan to a related company	–	643
Interest income on convertible bonds issued by an associate	332	156
Interest income on loans to associates	1,435	562
Interest income on other receivable	75	–
Income from installation of infrastructure for steam supply	–	1,908
Government grants	–	959
Income from sale of coal residues	–	1,121
Dividend income from an available-for-sale listed investment	4,323	5,218
Others	196	68
	10,300	12,070
Attributable to continuing operations	10,300	7,595
Attributable to the discontinued operation	–	4,475
	10,300	12,070

5. Finance costs

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	1,608	3,861
Attributable to continuing operations	1,608	–
Attributable to the discontinued operation	–	3,861
	1,608	3,861



6. Profit before tax

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

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Cost of inventories sold	34,361	–
Cost of electric and steam power supply	–	126,806
Depreciation	2,914	11,878
Amortisation of intangible asset	95	–
Recognition of prepaid land lease payments	36	382
Provision for impairment of trade and bills receivables, net	942	–
Write-off of other receivables	2,035	–

The disclosure presented in this note include all amounts charged in respect of the continuing operations and the discontinued operation.

7. Income tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2012 and 2011 as the Group did not generate any assessable profits arising in Hong Kong during these periods. 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	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current – Hong Kong	–	–
– Elsewhere	61,021	2,001
Deferred	–	497
Total tax charge for the period	61,021	2,498
Attributable to continuing operations	61,021	95
Attributable to the discontinued operation	–	2,403
	61,021	2,498



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

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$371,489,000 (2011: HK\$14,569,000) and the weighted average number of ordinary shares of 4,753,107,000 (2011: 4,754,397,000) in issue during the period.

The calculation of basic earnings per share from continuing operations is based on the profit for the period from continuing operations attributable to ordinary equity holders of the parent of HK\$371,489,000 (2011: HK\$9,428,000) and the weighted average number of ordinary shares of 4,753,107,000 (2011: 4,754,397,000) in issue during the period.

The calculation of basic earnings per share from the discontinued operation for the six months ended 30 June 2011 was based on the profit for the period from the discontinued operation attributable to ordinary equity holders of the parent of HK\$5,141,000 and the weighted average number of ordinary shares of 4,754,397,000 in issue during that period.

The Group had 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 2012 (2011: Nil).

10. Trade and bills receivables

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Trade and bills receivables	18,134	10,965
Impairment	(942)	–
	17,192	10,965



10. Trade and bills receivables (cont'd)

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to two months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. 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:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Current	9,008	4,887
31 to 60 days	6,494	1,461
61 to 90 days	466	1,158
Over 90 days	1,224	3,459
	17,192	10,965

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:

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Current	11,080	7,279
31 to 60 days	5,134	5,779
61 to 90 days	1,757	4,906
Over 90 days	3,162	6,636
	21,133	24,600

The trade payables are interest-free and are normally settled on 90-day terms.



12. Commitments

	30 June 2012 (Unaudited) HK\$'000	31 December 2011 (Audited) HK\$'000
Contracted, but not provided for:		
Establishment of a joint venture (<i>note</i>)	48,780	48,780

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\$122 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 2012, the JV Agreement has not become effective as the conditions stated above have not been fulfilled.

13. Financial guarantees

As at 30 June 2012, the Group had given financial guarantees to banks for banking facilities granted to the companies controlled by acquaintances of a director of a subsidiary of HK\$33,415,000 (31 December 2011: HK\$28,171,000) which were utilised to the extent of HK\$23,659,000 (31 December 2011: HK\$28,171,000).



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:

		For the six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Notes			
	Minimum lease payments under operating lease on land and building paid to a shareholder	–	(12)
(i)			
	Net loss from Project EC120	(1,468)	(200)
(ii)			
	Interest income on a loan to a related company	–	643
	Associates:		
	Interest income on convertible bonds issued by an associate	332	156
(iii)			
	Interest income on loans to associates	1,435	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 share of 80% of net loss of AVIC International from the operations of Project EC120.
- (iii) The interest income represented interest income on convertible bonds issued by China Environmental Investment Holdings Limited ("CEIH") on 6 March 2012 (2011: 3 March 2009) with an aggregate principal amount of HK\$51,776,000 (2011: HK\$27,500,000). The convertible bonds bear interest at 2% (2011: 2%) per annum and mature in three (2011: two) years from their date of issuance.



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

(b) Other transactions with related parties:

During the period, the Group subscribed for 343,865,000 new shares issued by CEIH at par pursuant to an open offer for a total consideration, before expense, of HK\$68,773,000. There was no change in the percentage of shareholding in CEIH subsequent to the subscription.

During the period, the Group completed its disposal of its entire 47.91% equity interest in Fidelity Finance Leasing Limited ("Fidelity Finance") and its subsidiary, and the assignment of the shareholder's loan due and owing to the Group by Fidelity Finance, to Sino Gas Finance Limited, a wholly-owned subsidiary of CEIH, at an aggregate consideration of HK\$51,776,000 which was satisfied by convertible bonds issued by CEIH. As a result, a gain on disposal of associates of HK\$19,958,000 was recorded by the Group.

During the six months ended 30 June 2011, the Group converted the convertible bonds issued by CEIH into 137,500,000 ordinary shares of CEIH at an exercise price of HK\$0.2 per share.

(c) Outstanding balances with related parties:

- (i) As at 30 June 2012, the Group had loans to associates included in the Group's current assets amounting to HK\$31,243,000 (31 December 2011: HK\$53,243,000) which are unsecured, bear interest at 3.5% to 6% (31 December 2011: 3.5% to 6%) per annum and are repayable within one year.
- (ii) As at 30 June 2012, 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\$18,293,000 (31 December 2011: HK\$18,293,000) which is unsecured, bears interest at 6.1% (31 December 2011: 6.31%) per annum and is repayable within one year.
- (iii) The amount due to non-controlling shareholder of a subsidiary is unsecured, interest-free and has no fixed term of repayment.

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

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

	For the six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Short term employee benefits	2,891	2,869
Post-employment benefits	192	192
Total compensation paid to key management personnel	3,083	3,061

15. Comparative amounts

The comparative amounts in the condensed consolidated income statement has been re-presented as if the operation discontinued during the year ended 31 December 2011 had been discontinued at the beginning of the comparative period.



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 15 to 34 which comprises the condensed consolidated statement of financial position of AVIC International Holding (HK) Limited as at 30 June 2012 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated 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

23 August 2012