



2014 Interim Report



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)



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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 2014. The consolidated statement of profit or loss, 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 2014 and consolidated statement of financial position as at 30 June 2014 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 14 to 38 of this report.

BUSINESS REVIEW

Overall review

For the first half of 2014, the Group recorded turnover of HK\$34,886,000 (2013: HK\$16,529,000). During the period, the Group commenced to engage in the trading business which contributed HK\$8,464,000 to the Group's turnover for the period. Nevertheless, the loss attributable to owners of the parent increased substantially from HK\$26,943,000 of 2013 to HK\$134,836,000 of 2014, which was mainly resulted from a fair value loss on derivative financial instruments of HK\$91,191,000 recorded for the period as compared to the fair value gain of HK\$7,796,000 for the corresponding period in 2013. Basic losses per share amounted to HK¢2.92 (2013: HK¢0.58).

Knitting and textile business

For the first half of 2014, the turnover of 浙江東陽金牛針織製衣有限公司 ("Zhejiang Dongyang Jinniu") was HK\$26,422,000 (2013: HK\$16,529,000) and the sales volume was approximately 1,193 tonnes (2013: 714 tonnes). The gross profit rate dropped from 19% to 10% because several purchase orders with high gross profit rate were received in 2013. The knitting and textile business segment recorded loss of HK\$1,051,000 (2013: HK\$522,000) for the period.

***Trading business***

During the period, the Group commenced to engage in the trading of raw materials and auxiliary materials such as electronic components, electronic products and metal materials in Zhejiang Province. The turnover and gross profit rate for the period was HK\$8,464,000 and 1% respectively. The trading business segment recorded profit of HK\$62,000 for the period.

Aero-technology related business

The Group is entitled to share 80% of the net income in relation to Project EC120 operated by AVIC International Holding Corporation (“AVIC International”), a substantial shareholder of the Company. 3 EC120 helicopters were sold in the first half of 2014. No turnover (2013: Nil) was recorded by the Group for the period as a breakeven was recorded by AVIC International from the operations of Project EC120 which was because AVIC International agreed that its indirect expenses allocated to Project EC120, if any, shall not exceed its share of income net of direct costs and expenses from the operations of Project EC120. As a result, the aero-technology related business segment did not contribute any profit to the Group for the period (2013: Nil).

Others

During the six months ended 30 June 2014, the Group recorded a fair value loss on derivative financial instruments of HK\$91,191,000 (2013: fair value gain of HK\$7,796,000). The fair values of the derivative financial instruments were determined based on the valuation performed by an independent professionally qualified valuer. The fair value loss represented the decrease in the fair values of the derivative financial instruments as at 30 June 2014 as compared with those as at 31 December 2013, which was mainly due to the substantial drop in the share prices of the underlying securities. The Group also recorded a loss of HK\$19,410,000 (2013: Nil) on derecognition of an available-for-sale investment. In addition, the Group recorded share of losses of the joint venture and associates in an aggregate of HK\$19,513,000 (2013: HK\$20,843,000).



PROSPECTS

The Group, as an investment holding company, is committed to making investments in the aero-technology related business and other fields, and aims to enhance its value and create long-term return for its shareholders in terms of returns on investments and operating profits. Given that China is encouraging the development of its aviation industry, particularly the reform of low-altitude airspace management, the aero-technology related business will have a golden opportunity for development in the future. Zhejiang Dongyang Jinniu owns extensive industry experience and established customer base. Nevertheless, as the prosperity of the knitting and textile business declines as a result of the condition of the macro economy, the Group is cautiously optimistic about the prospect of the business. In respect of the Group's new trading business, it is possible that further development can be attained after more experience has been accumulated. The Group will identify the projects with a bright development prospect, and will continue to review and optimise its business portfolios.

FINANCIAL REVIEW

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 30 June 2014, the Group had current assets of HK\$1,275,269,000 (31 December 2013: HK\$1,243,325,000), including cash and bank balances and time deposits in an aggregate of HK\$966,998,000 (31 December 2013: HK\$1,079,390,000). The Group's current liabilities as at 30 June 2014 were HK\$105,301,000 (31 December 2013: HK\$117,059,000).

As at 30 June 2014, the Group's equity attributable to owners of the parent amounted to HK\$2,071,249,000 (31 December 2013: HK\$2,225,230,000), comprising issued capital of HK\$461,959,000 (31 December 2013: HK\$461,959,000) and reserves of HK\$1,609,290,000 (31 December 2013: HK\$1,763,271,000). The Group's outstanding bank borrowings as at 30 June 2014 amounted to HK\$39,379,000 (31 December 2013: HK\$40,382,000). The Group's gearing ratio, calculated on the basis of total bank borrowings as a percentage of equity attributable to owners of the parent, was 2% (31 December 2013: 2%).

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



Charges on the Group's assets

As at 30 June 2014, 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\$3,663,000 (31 December 2013: HK\$3,879,000);
- (b) the Group's leasehold land with a net book value of approximately HK\$3,057,000 (31 December 2013: HK\$3,140,000); and
- (c) certain of the Group's short term time deposits amounting to approximately HK\$373,000 (31 December 2013: HK\$382,000).

Exposure to fluctuations in exchange rates

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

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions or disposals during the period.

CONTINGENT LIABILITIES

Details of the significant contingent liabilities of the Group are set out in note 14 to the interim financial statements.



EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2014, there were 92 (31 December 2013: 68) 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, 26 August 2014

OTHER INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, the interests and short positions of the Directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") 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 2014
Ji Guirong	(a)	China Environmental Investment Holdings Limited ("CEIH")	Associate	52,350,000	Beneficial owner/ Personal interest	1.19
Zhang Chuanjun	(b)	CEIH	Associate	40,000,000	Beneficial owner/ Personal interest	0.91

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.



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (cont'd)

Long positions in share options of associated corporation of the Company: (cont'd)

Notes: (cont'd)

- (a) (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
52,350,000	

No options have been exercised, cancelled or lapsed during the period. All the above options remained outstanding as at 30 June 2014.

- (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
40,000,000	

No options have been exercised, cancelled or lapsed during the period. All the above options remained outstanding as at 30 June 2014.



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(cont'd)*

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 2014, none of the Directors of the Company had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES" above and in the section "SHARE OPTION SCHEME" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of 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 28 May 2014, the Company adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the business development and growth of the Group. 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 2014, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name of shareholders	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital as at 30 June 2014
Speed Profit Enterprises Limited ("Speed Profit")	Beneficial owner/ Beneficial interest	508,616,000	11.01
Tacko International Limited ("Tacko")	Beneficial owner/ Beneficial interest	1,386,943,000	30.02
	Through a controlled corporation/ Corporate interest	508,616,000	11.01
AVIC International (HK) Group Limited ("AVIC International (HK) Group")	Through a controlled corporation/ Corporate interest	1,895,559,000	41.03
AVIC International	Through a controlled corporation/ Corporate interest	1,895,559,000	41.03
Aviation Industry Corporation of China ("AVIC")	Through a controlled corporation/ Corporate interest	1,895,559,000	41.03

Note:

Speed Profit is a wholly-owned subsidiary of Tacko, which in turn is a wholly-owned subsidiary of AVIC International (HK) Group. AVIC International (HK) Group is a wholly-owned subsidiary of AVIC International, which in turn is a non wholly-owned subsidiary of AVIC (62.52% interest controlled by AVIC as at 30 June 2014). 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.



SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(cont'd)*

Save as disclosed above, as at 30 June 2014, 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 2013 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
Zhang Chuanjun	- Appointment of the deputy chairman of the board of directors of Peace Map Holding Limited, a company listed on the Stock Exchange, was taken effect from 6 August 2014
Li Zhaoxi	- Appointment of independent director of Liaoning Hongyang Energy Resource Invest Co. Ltd, a company listed on Shanghai Stock Exchange, was ended on 18 April 2014

Saved as disclosed above, the Company is not aware of other changes in the Directors' biographical details which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.



CORPORATE GOVERNANCE

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

Throughout the six months ended 30 June 2014, the Company applied the principles of, and complied with all the code provisions and, where applicable, the recommended best practices of the “Corporate Governance Code” (the “CG Code”) 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 of the CG Code. 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 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 provisions A.5.1 to A.5.4 of the CG 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, diversity 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.

Mr. Wu Guangquan, the Chairman of the Board, was unable to attend the annual general meeting of the Company held in May 2014 as provided for in code provision E.1.2 of the CG Code 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 regarding securities transactions by the Directors. Having made specific enquiry of all the Directors, all of them confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2014.

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 2014 interim report. It currently comprises three Independent Non-executive Directors, namely, Mr. Chu Yu Lin, David (as Chairman), 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 2014 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 (the "HKICPA").



INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
	Notes	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
REVENUE	3	34,886	16,529
Cost of sales		(32,159)	(13,439)
Gross profit		2,727	3,090
Other income	4	17,312	12,772
Administrative and other operating expenses, net		(20,933)	(18,466)
Finance costs	5	(1,367)	(1,201)
Loss on deemed disposal of interest in an associate		-	(10,189)
Share of profits and losses of:			
Joint venture		(8,796)	(7,252)
Associates		(10,717)	(13,591)
Fair value loss on equity investment at fair value through profit or loss		(1,136)	-
Loss on derecognition of an available-for-sale investment (including reclassification from equity of HK\$5,268,000)		(19,410)	-
Fair value gain/(loss) on derivative financial instruments	6	(91,191)	7,796
LOSS BEFORE TAX	7	(133,511)	(27,041)
Income tax expense	8	(1,840)	(158)
LOSS FOR THE PERIOD		(135,351)	(27,199)
ATTRIBUTABLE TO:			
Owners of the parent		(134,836)	(26,943)
Non-controlling interests		(515)	(256)
		(135,351)	(27,199)
LOSSES PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
– Basic and diluted		(HK2.92 cents)	(HK0.58 cent)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(135,351)	(27,199)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value	9,793	65,924
Reclassification adjustment for loss included in the condensed consolidated statement of profit or loss – arising from derecognition of an available-for-sale investment	(5,268)	–
Income tax effect	–	(16,196)
	4,525	49,728
Share of other comprehensive income of a joint venture	–	33,199
Share of other comprehensive income of associates	–	(111)
Exchange differences on translation of foreign operations	(23,744)	8,896
Net other comprehensive income to be reclassified to profit or loss in subsequent periods and other comprehensive income for the period, net of tax	(19,219)	91,712
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(154,570)	64,513
ATTRIBUTABLE TO:		
Owners of the parent	(153,981)	64,725
Non-controlling interests	(589)	(212)
	(154,570)	64,513


CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>Notes</i>	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
NON-CURRENT ASSETS		
	42,676	43,606
Property, plant and equipment		
	2,984	3,065
Prepaid land lease payments		
	666	761
Intangible asset		
Investment in a joint venture	330,354	339,150
Interests in associates	316,690	302,364
Loans to related companies	38,261	20,127
Financial asset under Project EC120	–	–
Available-for-sale investments	112,927	204,524
Derivative financial instruments	62,135	191,430
Total non-current assets	906,693	1,105,027
CURRENT ASSETS		
	5,699	3,026
Inventories		
Trade and bills receivables	27,886	14,863
Loans to an associate	11,801	12,102
Prepayments, deposits and other receivables		
	106,253	90,931
Available-for-sale investments	49,946	–
Equity investment at fair value through profit or loss	100,576	8,381
Derivative financial instruments	6,110	34,632
Pledged time deposits	373	382
Cash and cash equivalents	966,625	1,079,008
Total current assets	1,275,269	1,243,325
CURRENT LIABILITIES		
	1,118	161
Due to a non-controlling shareholder of a subsidiary		
Trade and bills payables	9,255	6,572
Tax payable	40,331	58,849
Other payables and accruals	15,218	11,095
Interest-bearing bank borrowings	39,379	40,382
Total current liabilities	105,301	117,059
NET CURRENT ASSETS	1,169,968	1,126,266

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES	2,076,661	2,231,293
NON-CURRENT LIABILITIES		
Deferred tax liabilities	919	981
Net assets	2,075,742	2,230,312
EQUITY		
Equity attributable to owners of the parent		
Issued capital	461,959	461,959
Reserves	1,609,290	1,763,271
Non-controlling interests	2,071,249	2,225,230
	4,493	5,082
Total equity	2,075,742	2,230,312



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent							Total equity HK\$'000		
	Issued capital HK\$'000	Share premium account 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			
At 1 January 2014	461,959	164,476	5,193	11,331	7,618	62,328	1,512,325	2,225,230	5,082	2,230,312
Loss for the period	-	-	-	-	-	-	(134,836)	(134,836)	(615)	(135,351)
Other comprehensive income for the period:										
Changes in fair value of available-for-sale investments, net of tax	-	-	-	4,525	-	-	-	-	-	4,525
Exchange differences on translation of foreign operations	-	-	-	-	-	(23,670)	-	(23,670)	(74)	(23,744)
Total comprehensive income for the period	-	-	-	4,525	-	(23,670)	(134,836)	(153,981)	(689)	(154,570)
At 30 June 2014 (unaudited)	461,959	164,476*	5,193*	15,856*	7,618*	38,658*	1,377,489*	2,071,249	4,493	2,075,742

* These reserve accounts comprise the consolidated reserves of HK\$1,609,290,000 in the condensed consolidated statement of financial position as at 30 June 2014.

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

	Attributable to owners of the parent										
	Issued capital HK\$'000	Share premium account HK\$'000	Treasury shares reserve HK\$'000	Share option reserve HK\$'000	Share investment revaluation reserve HK\$'000	Reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2013	466,140	173,526	(2,631)	5,193	142,062	5,279	45,626	1,117,422	1,952,617	5,582	1,958,199
Loss for the period	-	-	-	-	-	-	-	(26,943)	(26,943)	(256)	(27,199)
Other comprehensive income for the period:											
Changes in fair value of available-for-sale investments, net of tax	-	-	-	-	49,728	-	-	-	49,728	-	49,728
Share of other comprehensive income of a joint venture	-	-	-	-	33,199	-	-	-	33,199	-	33,199
Share of other comprehensive income of associates	-	-	-	-	-	-	(111)	-	(111)	-	(111)
Exchange differences on translation of foreign operations	-	-	-	-	-	-	8,852	-	8,852	44	8,896
Total comprehensive income for the period	-	-	-	-	82,927	-	8,741	(26,943)	64,725	(212)	64,513
Transfer to reserve fund	-	-	-	-	-	1,875	-	(1,875)	-	-	-
Cancellation of shares repurchased in 2012	(1,062)	(1,569)	2,631	-	-	-	-	-	-	-	-
Repurchase of shares	(802)	(1,774)	(2,806)	-	-	-	-	-	(5,384)	-	(5,384)
At 30 June 2013 (unaudited)	464,276	170,183	(2,806)	5,193	224,989	7,154	54,367	1,088,604	2,011,958	5,370	2,017,328



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(133,511)	(27,041)
Adjustments for:		
Finance costs	1,367	1,201
Share of profits and losses of a joint venture and associates	19,513	20,843
Impairment of goodwill of an associate	765	–
Bank interest income	(13,490)	(7,592)
Interest income on a convertible bond issued by an associate	(332)	(518)
Interest income on loans to associates	(2,373)	(598)
Interest income on other receivables	(500)	(401)
Interest income on loans to a related company	(579)	(566)
Dividend income from an available-for-sale listed investment	–	(868)
Loss on deemed disposal of interest in an associate	–	10,189
Depreciation	2,567	2,538
Amortisation of customer relationship	95	95
Recognition of prepaid land lease payments	37	13
Fair value loss on equity investment at fair value through profit or loss	1,136	–
Loss on derecognition of an available-for-sale investment	19,410	–
Fair value loss/(gain) on derivative financial instruments	91,191	(7,796)
Increase in inventories	(2,748)	(5,452)
Decrease/(increase) in trade and bills receivables	(13,393)	4,483
Increase in prepayments, deposits and other receivables	(18,873)	(41,071)
Decrease in trade and bills payables	(212)	(36,100)
Increase/(decrease) in other payables and accruals	4,655	(6,990)
Cash used in operations	(45,275)	(95,631)
Interest paid	(1,367)	(1,201)
Overseas tax paid	(20,194)	(2,970)
Net cash flows used in operating activities	(66,836)	(99,802)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(1,962)	(217)
Purchase of additional equity investment in an associate	(8,599)	-
Advance of a loan to an associate	(19,108)	(18,750)
Advance of a loan to a related company	(18,633)	-
Bank interest received	12,811	7,592
Interest received on a convertible bond issued by an associate	332	518
Interest received on loans to associates	76	479
Interest received on other receivables	-	401
Interest received on loans to a related company	11	-
Refunds of a deposit paid for acquisition of a property	6,879	40,000
Decrease in pledged time deposits	-	6,329
Net cash flows from/(used in) investing activities	(28,193)	36,352
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	-	25,316
Advance from/(to) the non-controlling shareholder of a subsidiary	961	(164)
Repurchases of shares	-	(5,384)
Net cash flows from financing activities	961	19,768
NET DECREASE IN CASH AND CASH EQUIVALENTS	(94,068)	(43,682)
Cash and cash equivalents at 1 January	1,079,008	1,024,789
Effect of foreign exchange rate changes, net	(18,315)	8,017
CASH AND CASH EQUIVALENTS AT 30 JUNE	966,625	989,124
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	64,733	378,412
Non-pledged time deposits with original maturity of less than three months when acquired	901,892	610,712
	966,625	989,124



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 Listing Rules and are in compliance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by 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 2013, 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 policies and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current period’s financial statements.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</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 (2013: two) reportable operating segments as follows:

- (a) the knitting and textile business segment engages in the production and distribution of knitting and textile products, knitted fabrics and clothing;
- (b) the trading business segment engages in the trading of raw materials and auxiliary materials (new in 2014); and
- (c) the aero-technology related business 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 loss for the period except that head office's other income, loss on deemed disposal of interest in an associate, share of profits and losses of the joint venture and associates, fair value loss on equity investment at fair value through profit or loss, loss on derecognition of an available-for-sale investment, fair value gain/(loss) on derivative financial instruments as well as head office and corporate expenses and unallocated income tax are excluded from such measurement. Certain comparative amounts have been reclassified to conform with the current period's presentation.



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			
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Knitting and textile business	26,422	16,529	(1,051)	(522)
Trading business	8,464	-	62	-
Aero-technology related business	-	-	-	-
Segment revenue and results	34,886	16,529	(989)	(522)
<i>Reconciliation:</i>				
Unallocated other income			17,270	12,672
Corporate and other unallocated expenses			(18,525)	(16,126)
Loss on deemed disposal of interest in an associate			-	(10,189)
Share of profits and losses of:				
Joint venture			(8,796)	(7,252)
Associates			(10,717)	(13,591)
Fair value loss on equity investment at fair value through profit or loss			(1,136)	-
Loss on derecognition of an available-for-sale investment			(19,410)	-
Fair value gain/(loss) on derivative financial instruments			(91,191)	7,796
Unallocated income tax expense			(1,857)	13
Loss for the period			(135,351)	(27,199)



4. Other income

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Bank interest income	13,490	7,592
Interest income on a convertible bond issued by an associate	332	518
Interest income on loans to associates	2,373	598
Interest income on other receivables	500	401
Interest income on loans to a related company	579	566
Dividend income from an available-for-sale listed investment	–	868
Agency service income	–	2,229
Others	38	–
	17,312	12,772

5. Finance costs

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	1,367	1,201



6. Fair value gain/(loss) on derivative financial instruments

The Group's derivative financial instruments are managed and their performance is evaluated on a fair value basis. Any fair value gain or loss is recognised in the condensed consolidated statement of profit or loss.

The fair values of the derivative financial instruments have been estimated using valuation techniques based on assumptions that are supported by observable market prices or rates. The valuations require the Directors to make estimates, including expected cash flows and volatility of the underlying securities. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair value, which are recorded in the condensed consolidated statement of profit or loss, are reasonable, and that they are the most appropriate values at the end of the reporting period.

During the period, the fair value loss in respect of the Group's derivative financial instruments recognised in the condensed consolidated statement of profit or loss amounted to HK\$91,191,000 (2013: fair value gain of HK\$7,796,000).

7. Loss before tax

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

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Cost of inventories sold	32,159	13,439
Depreciation	2,567	2,538
Amortisation of customer relationship	95	95
Recognition of prepaid land lease payments	37	13
Impairment of goodwill of an associate	765	–

8. Income tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2014 and 2013 as the Group did not generate any assessable profits arising in Hong Kong during those 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	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Current – Elsewhere	1,902	220
Deferred	(62)	(62)
Total tax charge for the period	1,840	158



9. Losses per share attributable to ordinary equity holders of the parent

The calculation of the basic losses per share amount is based on the loss for the period attributable to owners of the parent of HK\$134,836,000 (2013: HK\$26,943,000) and the weighted average number of ordinary shares of 4,619,591,000 (2013: 4,647,568,000) in issue during the period.

No adjustment has been made to the basic losses per share amount presented for the six months ended 30 June 2014 and 2013 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

10. Dividend

The Directors do not declare an interim dividend for the six months ended 30 June 2014 (2013: Nil).

11. Trade and bills receivables

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Trade and bills receivables	28,804	15,804
Impairment	(918)	(941)
	27,886	14,863

11. 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 three 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 and bills 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 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Current	15,340	10,600
31 to 60 days	6,154	2,108
61 to 90 days	239	1,039
Over 90 days	6,153	1,116
	27,886	14,863



12. 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 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Current	1,216	2,677
31 to 60 days	2,839	341
61 to 90 days	2,365	839
Over 90 days	2,835	2,715
	9,255	6,572

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



13. Commitments

	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Contracted, but not provided for:		
Establishment of a joint venture (<i>Note</i>)	49,689	50,955

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, 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 is RMB100 million (equivalent to approximately HK\$124 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 2014, the JV Agreement has not become effective as the conditions stated above have not been fulfilled.

14. Financial guarantees

As at 30 June 2014, the Company had given financial guarantees to a bank for banking facilities granted to a subsidiary of HK\$93,000,000 (31 December 2013: HK\$93,000,000) which were not utilised.



15. Related party transactions

- (a) In addition to the transactions described elsewhere in the interim report, the Group had the following material transactions with related parties during the period:

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest income on loans to a related company	579	566
Associates:		
Interest income on a convertible bond issued by an associate (<i>Note</i>)	332	518
Interest income on loans to associates	2,373	598

Note:

The interest income represented interest income on the convertible bond issued by CEIH on 6 March 2012 with a principal amount of HK\$51,776,000. The convertible bond bears interest at 2% per annum and will mature in three years from its date of issuance.

15. Related party transactions (cont'd)

(b) Outstanding balances with related parties:

- (i) As at 30 June 2014, the Group had loans to an associate included in the Group's current assets amounting to HK\$11,801,000 (31 December 2013: HK\$12,102,000) which are unsecured, bear interest at 6% (31 December 2013: 6%) per annum and are repayable within one year; and loans to associates, after impairment of HK\$19,000,000 (31 December 2013: HK\$19,000,000), included in the Group's non-current assets amounting to HK\$55,534,000 (31 December 2013: HK\$38,325,000) which are unsecured, bear interest at 4.5% to 6.15% (31 December 2013: 4.5% to 6.15%) per annum and are not repayable within one year.
- (ii) As at 30 June 2014, the Group had loans to related companies included in the Group's non-current assets amounting to HK\$38,261,000 (31 December 2013: HK\$20,127,000) which are unsecured, bear interest at 6.15% (31 December 2013: 6.15%) per annum and are not repayable within one year.
- (iii) The amount due to a non-controlling shareholder of a subsidiary is unsecured, non-interest-bearing and has no fixed terms of repayment.

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

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Short term employee benefits	2,420	2,407
Post-employment benefits	155	156
Total compensation paid to key management personnel	2,575	2,563



16. Fair value and fair value hierarchy of financial instruments

The carrying amounts and fair values of the financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000	30 June 2014 (Unaudited) HK\$'000	31 December 2013 (Audited) HK\$'000
Financial assets				
Loans to associates, non-current portion	55,534	38,325	55,361	38,049
Loans to related companies, non-current portion	38,261	20,127	38,261	20,127
Available-for-sale investments	162,873	204,524	162,873	204,524
Equity investment at fair value through profit or loss	100,576	8,381	100,576	8,381
Derivative financial instruments	68,245	226,062	68,245	226,062
	425,489	497,419	425,316	497,143

Management has assessed that the fair values of trade and bills receivables, loans to associates, current portion, loans to related companies, financial assets included in prepayments, deposits and other receivables, pledged time deposits, cash and cash equivalents, the amount due to a non-controlling shareholder of a subsidiary, trade and bills payables, other payables and accruals and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

16. Fair value and fair value hierarchy of financial instruments *(cont'd)*

The Group's finance team headed by the Deputy Chief Financial Officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance team reports directly to the Chief Financial Officer. At each reporting date, the finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the Chief Financial Officer and then reported to the Chief Executive Officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of loans to associates and loans to related companies have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of listed equity investments are based on quoted market prices. The fair values of the unlisted available-for-sale investments and derivative financial instruments have been estimated using a valuation technique based on assumptions that are supported by observable market prices or rates. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

As at 31 December 2013, certain derivative financial instruments were measured using valuation models which incorporate various market observable inputs including the credit quality of counterparties and interest rate curves. The carrying amounts of these derivative financial instruments were the same as their fair values. The marked to market value of the above derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk.



16. Fair value and fair value hierarchy of financial instruments (cont'd)

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
As at 30 June 2014 (Unaudited)				
Available-for-sale investments:				
Debt investments	5,055	157,818	-	162,873
Equity investment at fair value through profit or loss	100,576	-	-	100,576
Derivative financial instruments	-	68,245	-	68,245
	105,631	226,063	-	331,694

16. Fair value and fair value hierarchy of financial instruments (cont'd)

Assets measured at fair value: (cont'd)

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
As at 31 December 2013 (Audited)				
Available-for-sale investments:				
Debt investments	5,116	199,408	–	204,524
Equity investment at fair value through profit or loss	8,381	–	–	8,381
Derivative financial instruments	–	226,062	–	226,062
	13,497	425,470	–	438,967

The Group did not have any financial liabilities measured at fair value as at 30 June 2014 and 31 December 2013.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).



16. Fair value and fair value hierarchy of financial instruments (cont'd)

Assets for which fair values are disclosed:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) <i>HK\$'000</i>	Significant observable inputs (Level 2) <i>HK\$'000</i>	Significant unobservable inputs (Level 3) <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 June 2014 (Unaudited)				
Loans to associates, non-current portion	-	55,361	-	55,361
Loans to related companies, non-current portion	-	38,261	-	38,261
	-	93,622	-	93,622
As at 31 December 2013 (Audited)				
Loans to associates, non-current portion	-	38,049	-	38,049
Loans to related companies, non-current portion	-	20,127	-	20,127
	-	58,176	-	58,176



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



Ernst & Young

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Tel: +852 2846 9888

Fax: +852 2868 4432

www.ey.com

**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 14 to 38 which comprises the condensed consolidated statement of financial position of AVIC International Holding (HK) Limited (the “Company”) and its subsidiaries as at 30 June 2014 and the related condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the 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 “HKICPA”).

The directors of the Company 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 HKICPA. 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 as at 30 June 2014 is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

26 August 2014