



# AVIC INTERNATIONAL INVESTMENTS LIMITED

(Company Registration No. 201024137N)

## UNAUDITED FINANCIAL STATEMENTS AND ANNOUNCEMENT FOR THE SECOND QUARTER ENDED 30 JUNE 2012

### PART 1 - INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR ANNOUNCEMENTS

1 (a) An income statement and statement of comprehensive income, or a statement of comprehensive income for the group, together with a comparative statement for the corresponding period of the immediate preceding financial year.

1(a)(i) Consolidated Statement of Comprehensive Income for the Second Quarter ended 30 June 2012

	Group 1 Apr 12 to 30 Jun 12	Group 1 Apr 11 to 30 Jun 11	Change	Group 1 <sup>st</sup> Half 2012	Group 1 <sup>st</sup> Half 2011	Change
	(RMB'000)	(RMB'000)	%	(RMB'000)	(RMB'000)	%
Revenue	19,230	9,997	92.4	26,005	23,462	10.8
Other operating income	196	359	(45.4)	428	599	(28.5)
Employee benefits expense	(3,151)	(1,781)	76.9	(5,285)	(3,206)	64.8
Travelling and entertainment expenses	(775)	(823)	(5.8)	(1,331)	(1,297)	2.6
Office rental and office expenses	(1,594)	(597)	167.0	(3,057)	(1,192)	156.5
Listing expenses	-	(170)	N/M	-	(9,337)	N/M
Other operating expenses	(2,738)	(633)	332.5	(4,749)	(786)	504.2
Profit from operations	11,168	6,352	75.8	12,011	8,243	45.7
Finance costs	(376)	-	N/M	(705)	-	N/M
Profit before income tax	10,792	6,352	69.9	11,306	8,243	37.2
Income tax expense	(3,607)	(1,670)	116.0	(4,475)	(4,434)	0.9
Profit for the period, attributable to owners of the Company	7,185	4,682	53.5	6,831	3,809	79.3
<u>Other comprehensive income</u>						
Exchange differences arising on translation	(133)	73	N/M	2,065	(9)	N/M
Total comprehensive income for the period	7,052	4,755	48.3	8,896	3,800	134.1

**1(a)(ii) Notes to the Consolidated Statement of Comprehensive Income for the Second Quarter ended 30 June 2012**

	<b>Group 1 Apr 12 to 30 Jun 12</b>	<b>Group 1 Apr 11 to 31 Jun 11</b>	<b>Change</b>	<b>Group 1<sup>st</sup> Half 2012</b>	<b>Group 1<sup>st</sup> Half 2011</b>	<b>Change</b>
	(RMB'000)	(RMB'000)	%	(RMB'000)	(RMB'000)	%
Interest income	211	359	(41.2)	317	599	(47.1)
Net foreign exchange gain/(loss)	(15)	(155)	(90.3)	112	(155)	N/M
Interest expenses on bank loan	(369)	-	N/M	(694)	-	N/M
Operating lease expenses	(1,353)	(565)	139.5	(2,703)	(1,131)	139.0
Depreciation of plant and equipment	(335)	-	N/M	(656)	-	N/M

N/M – Not meaningful

Note: The Company was incorporated on 11 November 2010 under the laws of Singapore and became the holding company of our Group pursuant to the Restructuring Exercise as described in our Information Memorandum dated 10 August 2011. The Group did not record any business activities from 11 November 2010 to 31 December 2010.

**1(b) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediate preceding financial year**

**1(b)(i) Unaudited Statements of Financial Position as at 30 June 2012**

	<b>Group</b>		<b>Company</b>	
	<b>30 Jun 2012</b> (RMB'000)	<b>31 Dec 2011</b> (RMB'000)	<b>30 Jun 2012</b> (RMB'000)	<b>31 Dec 2011</b> (RMB'000)
<b>Assets</b>				
<u>Current assets</u>				
Cash and cash equivalents	213,398	145,196	1,991	66,906
Trade receivables	-	11,065	-	-
Other receivables	2,534	21,631	-	-
Advanced payments for construction contracts	52,709	-	-	-
Amount due from a subsidiary	-	-	11,340	13,397
	<b>268,641</b>	<b>177,892</b>	<b>13,331</b>	<b>80,303</b>
<u>Non-current assets</u>				
Plant and equipment	3,943	4,364	119	-
Investment in subsidiaries	-	-	63,473	*
	<b>3,943</b>	<b>4,364</b>	<b>63,592</b>	<b>*</b>
<b>Total assets</b>	<b>272,584</b>	<b>182,256</b>	<b>76,923</b>	<b>80,303</b>
<u>Current liabilities</u>				
Bank loan	20,000	20,000	-	-
Trade payables	23,916	-	-	-
Other payables and accruals	4,045	7,004	131	2,064
Advances received from customer for a construction contract	70,848	-	-	-
Income tax payable	2,552	12,925	-	-
	<b>121,361</b>	<b>39,929</b>	<b>131</b>	<b>2,064</b>
<b>Total liabilities</b>	<b>121,361</b>	<b>39,929</b>	<b>131</b>	<b>2,064</b>
<b>Net assets</b>	<b>151,223</b>	<b>142,327</b>	<b>76,792</b>	<b>78,239</b>
<b>Capital and reserves</b>				
Share capital	101,237	101,237	101,237	101,237
Statutory reserve	6,489	6,489	-	-
Translation reserve	(5)	(2,070)	(175)	(2,462)
Accumulated profits/(losses)	43,502	36,671	(24,270)	(20,536)
<b>Total equity</b>	<b>151,223</b>	<b>142,327</b>	<b>76,792</b>	<b>78,239</b>

\* Denotes amount less than RMB1,000.

**1(b)(ii)** Aggregate amount of group's borrowings and debt securities.

**(A)** Amount repayable in one year or less, or on demand

As at 30 Jun 2012	
Secured (RMB'000)	Unsecured (RMB'000)
Nil	20,000

As at 31 Dec 2011	
Secured (RMB'000)	Unsecured (RMB'000)
Nil	20,000

**(B)** Amount repayable after one year

As at 30 Jun 2012	
Secured (RMB'000)	Unsecured (RMB'000)
Nil	Nil

As at 31 Dec 2011	
Secured (RMB'000)	Unsecured (RMB'000)
Nil	Nil

**(C)** Details of any collaterals

As at 30 June 2012, the Group had a bank loan of RMB20 million (30 Jun 2011: nil) secured by a corporate guarantee from an intermediate holding company. The loan was advanced on 31 December 2011 and is due for repayment on 30 December 2012.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated Cash Flow Statements for the Second Quarter ended 30 Jun 2012

	<b>Group</b>	<b>Group</b>	<b>Group</b>	<b>Group</b>
	<b>1 Apr 12 to 30 Jun 12 (RMB'000)</b>	<b>1 Apr 11 to 30 Jun 11 (RMB'000)</b>	<b>1<sup>st</sup> Half 2012 (RMB'000)</b>	<b>1<sup>st</sup> Half 2011 (RMB'000)</b>
<b>Operating activities</b>				
Profit before income tax	10,792	6,352	11,306	8,243
Adjustments for:				
Interest income	(211)	(359)	(317)	(599)
Interest expenses	369	-	694	-
Depreciation of plant and equipment	335	-	656	-
Listing expenses	-	170	-	9,337
Net foreign exchange (gain)/loss	(70)	228	1,882	146
Operating cash flows before movements in working capital	11,215	6,391	14,221	17,127
Trade receivables	1,154	(7,259)	11,065	(19,101)
Advanced payments for construction contracts	(52,709)	-	(52,709)	-
Other receivables	(290)	(1,947)	(904)	(1,947)
Trade payables	(4,097)	-	23,916	-
Advances received from customer for a construction contract	(189)	-	70,821	-
Other payables and accruals	(1,070)	2,536	(2,959)	12,569
Cash (used in)/generated from operations	(45,986)	(279)	63,451	8,648
Income taxes paid	(4,184)	-	(14,848)	-
Interest received	211	359	317	599
Interest paid	(369)	-	(694)	-
Net cash (used in)/from operating activities	(50,328)	80	48,226	9,247
<b>Investing activity</b>				
Purchase of plant and equipment representing net cash used in investing activity	(158)	-	(167)	-
<b>Financing activities</b>				
Proceeds on issue of shares	-	4,700	-	4,700
Payments of share issue expenses	-	(170)	-	(9,337)
Other receivables	-	-	20,000	-
Net cash from/(used in) financing activities	-	4,530	20,000	(4,637)
Net (decrease)/increase in cash and cash equivalents	(50,486)	4,610	68,059	4,610
Effect of exchange rate changes on the balance of cash held in foreign currencies	10	(87)	143	(87)
Cash and cash equivalents at beginning of the financial period	263,874	-	145,196	-
<b>Cash and cash equivalents at end of the financial period</b>	<b>213,398</b>	<b>4,523</b>	<b>213,398</b>	<b>4,523</b>

1(d) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Changes in Equity

	Share capital	Statutory reserve	Translation reserve	Accumulated profits/ (losses)	Total equity
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
<b><u>The Group</u></b>					
<b>Balance at 1 Jan 2012</b>	101,237	6,489	(2,070)	36,671	<b>142,327</b>
Total comprehensive income/(loss) for the period	-	-	2,198	(354)	<b>1,844</b>
<b>Balance at 31 Mar 2012</b>	101,237	6,489	128	36,317	<b>144,171</b>
Total comprehensive income/(loss) for the period	-	-	(133)	7,185	<b>7,052</b>
<b>Balance at 30 Jun 2012</b>	<u>101,237</u>	<u>6,489</u>	<u>(5)</u>	<u>43,502</u>	<u><b>151,223</b></u>
<b>Balance at 1 Jan 2011</b>	*	-	-	-	*
Total comprehensive loss for the period	-	-	(82)	(873)	<b>(955)</b>
<b>Balance at 31 Mar 2011</b>	*	-	(82)	(873)	<b>(955)</b>
Total comprehensive income for the period	-	-	73	4,682	<b>4,755</b>
Issue of ordinary shares	31,456	-	-	-	<b>31,456</b>
<b>Balance at 30 Jun 2011</b>	<u>31,456</u>	<u>-</u>	<u>(9)</u>	<u>3,809</u>	<u><b>35,256</b></u>
<b><u>The Company</u></b>					
<b>Balance at 1 Jan 2012</b>	101,237	-	(2,462)	(20,536)	<b>78,239</b>
Total comprehensive income/(loss) for the period	-	-	2,452	(1,664)	<b>788</b>
<b>Balance at 31 Mar 2012</b>	101,237	-	(10)	(22,200)	<b>79,027</b>
Total comprehensive loss for the period	-	-	(165)	(2,070)	<b>(2,235)</b>
<b>Balance at 30 Jun 2012</b>	<u>101,237</u>	<u>-</u>	<u>(175)</u>	<u>(24,270)</u>	<u><b>76,792</b></u>
<b>Balance at 1 Jan 2011</b>	*	-	-	-	*
Total comprehensive loss for the period	-	-	(82)	(9,167)	<b>(9,249)</b>
<b>Balance at 31 Mar 2011</b>	*	-	(82)	(9,167)	<b>(9,249)</b>
Total comprehensive income/(loss) for the period	-	-	4	(185)	<b>(181)</b>
Issue of ordinary shares	31,456	-	-	-	<b>31,456</b>
<b>Balance at 30 Jun 2011</b>	<u>31,456</u>	<u>-</u>	<u>(78)</u>	<u>(9,352)</u>	<u><b>(22,026)</b></u>

\* Denotes amount less than RMB1,000.

- 1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on.**

State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There have been no changes to the issued share capital of the Company since 31 December 2011. As at 30 June 2012, the issued share capital of the Company was RMB 101,237,000 comprising 285,576,000 ordinary shares.

There were no outstanding convertibles as well as number of shares held as treasury shares of the Company as at 30 June 2012 (30 June 2011: Nil).

- 1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

As at 31 December 2011 and 30 June 2012, the share capital of the Company comprised 285,576,000 ordinary shares.

- 1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

The Company did not hold any treasury shares as at 30 June 2012. There were no sale, transfer, disposal, cancellation and/or use of treasury shares as at 30 June 2012.

- 2 Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.**

The interim financial information of the Group prepared by the management for the six months financial period ended 30 June 2012 has been reviewed by the Group's auditors in accordance with the Singapore Standard on Review Engagement 2410.

Please refer to Appendix A for the review report and the interim financial information.

The financial information of the Group prepared by the management for the financial period from 1 April 2012 to 30 June 2012 and 1 April 2011 to 30 June 2012 was not audited nor reviewed.

- 3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Please refer to Appendix A for the review report.

- 4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

There were no changes in accounting policies and methods of computation adopted in the financial statements for the current reporting period as compared to the most recent audited financial statements for the financial year ended 31 December 2011, except for the adoption of the new and revised Financial Reporting Standards ("FRS") which came into effect of this financial year from 1 January 2012. The adoption of the new and revised FRSs is assessed to have no material impact to the financial statements of the Group and of the Company in the period of their initial adoption.

- 5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

See answer to item 4.

- 6 Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	1 Apr 2012 to 30 Jun 2012	1 Apr 2011 to 30 Jun 2011 Note 1	1 <sup>st</sup> Half 2012	1 <sup>st</sup> Half 2011 Note 1
Earnings per ordinary share attributable to owners of the Company				
(a) Based on the weighted average number of ordinary shares in issue (RMB cents)	2.52	20.41	2.39	33.02
Weighted average number of ordinary shares	285,576,000	22,945,055	285,576,000	11,535,913
(b) On a fully diluted basis (RMB cents)	2.52	20.41	2.39	33.02
Weighted average number of ordinary shares	285,576,000	22,945,055	285,576,000	11,535,913

Earnings per ordinary share is calculated by dividing the consolidated profit after tax attributable to owners of the Company over the weighted average number of ordinary shares in issue during the period. There is no difference between the basic and diluted earnings per share.

As at 30 June 2011, the share capital of the Company comprised 232,000,000 ordinary shares of which 231,999,999 was issued on 22 June 2011.

Note 1

The earnings per ordinary share for three months and six months period ended 30 June 2011 would be 1.64 RMB cents and 1.33 RMB cents respectively, based on 285,576,000 weighted average number of ordinary shares, if the Compliance Placement as described in Company's announcement dated 6 October 2011 had been completed since 1 January 2011.

- 7 Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year.

	Group		Company	
	30 Jun 2012	31 Dec 2011	30 Jun 2012	31 Dec 2011
Net asset value per share based on issued share capital (RMB cents)	52.95	49.84	26.89	27.40
Number of ordinary shares issued at the end of period / year	285,576,000	285,576,000	285,576,000	285,576,000



- 8 **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:**
- a) **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
- b) **any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

<b>The Group</b>	<b>1 Apr 12 to 30 Jun 12 ("2Q2012")</b>		<b>1 Apr 11 to 30 Jun 11 ("2Q2011")</b>		<b>1 Jan 12 to 30 Jun 12 ("1H2012")</b>		<b>1 Jan 11 to 30 Jun 11 ("1H2011")</b>	
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Revenue by type of services:								
Service fee income	7,902	41.1	4,415	44.2	14,677	56.4	12,299	52.4
Management service fee	11,328	58.9	5,582	55.8	11,328	43.6	11,163	47.6
Total revenue	19,230	100.0	9,997	100.0	26,005	100.0	23,462	100.0

### **Consolidated Statement of Comprehensive Income**

#### Revenue

Revenue increased by RMB9.23 million or 92.4% from RMB10.00 million in 2Q2011 to RMB19.23 million in 2Q2012 mainly due to (1) higher management service fee income of RMB11.33 million in 2Q2012 compared to RMB5.58 million in 2Q2011 derived from the provision of marketing and consultancy services to shipyards, and (2) increase in service fee income derived from the provision of shipbuilding project management and consultancy services ("M&C Services") in line with milestones of projects achieved. The Group completed the M&C Services with respect to three units of 28,000 DWT MPP Ship in 2Q2012, compared to one unit of 92,500 DWT bulk carrier and one unit of 118,000 DWT bulk carrier in 2Q2011.

All of our revenue in both 2Q2012 and 2Q2011 was derived from Asia.

Higher revenue in 1H2012 compared to 1H2011 was mainly due to higher service fee income and management service fee income derived in 2Q2012 for the reasons outlined above.

#### Other operating income

The decrease in other operating income in 2Q2012 as compared to the corresponding period in FY2011 was mainly due to the decrease in interest income as a result of lower interest rates. Similarly, other operating income decreased by RMB0.17 million or 28.5% from RMB0.60 million in 1H2011 to RMB0.43 million in 1H2012.

#### Employee benefits expense

Employee benefits expense increased by RMB1.37 million or 76.9% from RMB1.78 million in 2Q2011 to RMB3.15 million in 2Q2012 mainly due to increases in headcounts and salary adjustments. The same reason applied to the increase in employee benefits expense for 1H2012 compared to the same financial period last year.

#### Office rental and office expenses

Office rental and office expenses increased by RMB1.00 million or 167.0% from RMB0.60 million in 2Q2011 to RMB1.60 million in 2Q2012. The higher office expenses in 2Q2012 were mainly due to the increase in the number of employees in Singapore and costs incurred for maintaining the Group's facilities and increased activities.

Operating lease expenses increased by RMB0.79 million or 139.5% from RMB0.57 million in 2Q2011 to RMB1.35 million in 2Q2012. The increase was mainly due to the leasing of our Singapore office premises since October 2011. The same reason applied to the increase in operating lease expenses for 1H2012 compared to 1H2011.

#### Listing expenses

There was no listing expense incurred in 1H2012.

The Group incurred listing expenses in 1H2011 including one-off professional fee and miscellaneous charges for the purpose of our Mainboard listing in FY2011. The Company was admitted to the Official List of SGX-ST on 12 September 2011.

#### Other operating expenses

Other operating expenses increased by RMB2.11 million or 332.5% from RMB0.63 million in 2Q2011 to RMB2.74 million in 2Q2012. The increase was mainly due to increased operating activities in 2Q2012, compared to the same period last year.

The Group had a depreciation charge of RMB0.34 million for plant and equipment in 2Q2012. The Group had no plant or equipment as at 30 June 2011. Accordingly, there was no depreciation charge for 2Q2011.

#### Profit from operations

Profit from operations increased in 2Q2012 and 1H2012 compared to the respective financial periods last year, mainly due to higher revenue and other factors outlined above.

#### Finance costs

Finance costs incurred in 2Q2012 and 1H2012 were mainly due to bank interest expenses of a bank loan secured on 31 December 2011.

#### Income tax expense

The operating subsidiary in China is subject to an income tax rate of 25%. The increase in income tax expense in 2Q2012 as compared to corresponding period last year was mainly due to higher profits generated by a subsidiary in China, which cannot be offset against losses incurred by other companies in the Group.

#### Profit for the period

Profit for the period increased in 2Q2012 and 1H2012 compared to the respective financial periods last year mainly due to higher profit from operations for reasons outlined above.

### **Statement of Financial Position**

#### Current assets

As at 30 June 2012, the Group's cash and cash equivalents represented 79.4% of total current assets. The higher balance of Group's cash and cash equivalents as at 30 June 2012 compared to 31 December 2011 was mainly due to receipts of management service fee from a related company, advances received in relation to shipbuilding projects, repayment from a related company and other reasons which have been explained below.

The decrease in the Company's cash and cash equivalents as at 30 June 2012 compared to 31 December 2011 was mainly due to the capital injection into Kaixin Industrial Pte Ltd ("Kaixin Industrial"), a wholly owned subsidiary of the Company by way of issuance of 12.57 million new ordinary shares of Singapore dollar ("S\$") 1 each for a total consideration of S\$12.57 million (RMB63.47 million) in February 2012.

The reduction of trade receivables as at 30 June 2012 was mainly due to a payment received from a related company.

The Group's other receivables as at 30 June 2012 comprised mainly prepayments and deposits. An amount of RMB20 million was received from a related company in January 2012.

The Group's advanced payments for construction contracts represented advances made for shipbuilding projects which have not commenced.

#### Non-current assets

The Group's plant and equipment comprised a motor vehicle, computers and software, furniture and fixtures, and office equipment.

#### Investment in subsidiaries

In February 2012, Kaixin Industrial, a wholly owned subsidiary of the Company in Singapore, increased its issued and fully paid up share capital from S\$1 (RMB5) to S\$12.57 million (RMB63.47 million).

### Current liabilities

The Group's trade payables represented accrued payment to its supplier under a shipbuilding project management and consultancy contract.

The Group's other payables comprised payable in sales tax and surcharges, accrued operating and office expenses, and amount due to an intermediate holding company which was non-trade in nature. The decrease in other payable balance was mainly due to settlement of operating and office expenses during the financial period. The lower provision for income tax payable was mainly due to payment made during the financial period.

An amount of RMB70.8 million was received for a shipbuilding project of which the construction has not begun.

### Consolidated cash flow statements

RMB50.33 million was used in operating activities in 2Q2012, mainly due to the advanced payments for construction contracts, decrease in trade payables and other payables, and income taxes paid, partially offset by profits generated from operations and decrease in trade receivables.

In 2Q2012, RMB0.16 million in net cash was used for investing activity for the purpose of acquiring some new plant and equipment.

Cash generated from operating activities in 1H2012 was mainly due to the profits generated from operations and positive cash flows arising from working capital changes, partially offset by outflows from payment of income taxes and interest expenses.

In 1H2012, RMB20.00 million in net cash was generated from financing activities as a result of repayment received from a related company.

## **9 Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

No forecast was given in our results announcements since the date of Company's admission into Mainboard of SGX-ST ("Result Announcements"). The current 2Q2012 results are in line with the general commentary expressed in Note 10 of our Results Announcements in the past and Company's Information Memorandum dated 10 August 2011.

On 28 March 2012, the Group announced that it secured a USD60 million contract for the construction of five vessels. As at 30 June 2012, we had not recognised any income relating to this contract as we had not commenced steel cutting. We recognise our income relating to shipbuilding upon commencement of steel cutting, based on the stage-of-completion method.

## **10 A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

The global shipping industry continues to face challenges against the backdrop of a global economic slowdown, oversupply of vessels and volatile oil prices. High fuel costs and rising operating costs, coupled with dropping freight rates, have created a difficult operating environment for shipping companies in the PRC. Stricter lending criteria for banks have also contributed to a funding squeeze for the shipping industry. These factors have in turn resulted in a general consolidation of the PRC shipping industry.

However, there are several positive signs in the industry which augur well for the Group. Firstly, the PRC government has reduced interest rates twice in June and July 2012, which would help to further spur bank lending. With the Group's strong ties with the PRC domestic financial institutions, we are able to assist ship-owners to obtain financing. Secondly, the PRC government remains committed to achieve its target of becoming the largest shipbuilding nation in the world. Lastly, there continues to be a demand for offshore and LNG vessels, as well as environmentally-friendly vessels.

The Group remains focused on our multi-pronged growth strategy including establishing research and development capabilities particularly in the area of technologically-advanced vessels, as well as expanding along the ship design, shipbuilding and ship-trading related businesses value chain.

The Group is actively working on plans in relation to the proposed integration of the shipbuilding and ship-trading related businesses of AVIC International Holding Corporation (“AVIC International”) and its subsidiaries pursuant to the undertaking set out in the Company’s Information Memorandum dated 10 August 2011. On 22 May 2012, a wholly-owned subsidiary in Singapore, AVIC International Ship Development Pte Ltd, was incorporated for this purpose.

As part of the state-owned AVIC Group, the Group believes it can capitalise on the AVIC Group’s excellent business relationships, strong fundamentals and extensive business network to execute its growth strategy.

**11 Dividend**

**(a) Whether an interim (final) ordinary dividend has been declared (recommended)**

None.

**(b) Corresponding Period of the Immediately Preceding Financial Year**

None.

**(c) The date the Dividend is payable**

Not applicable.

**(d) Books closure date**

Not applicable.

**12 If no dividend has been declared (recommended), a statement to that effect.**

No interim dividend has been declared or recommended for the quarter ended 30 June 2012.

**13 Summary of Interested Person Transactions**

	<b>Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders’ mandate pursuant to Rule 920)</b>	<b>Aggregate value of all interested person transactions conducted under shareholders’ mandate pursuant to Rule 920 (excluding transactions less than \$100,000)</b>
	(RMB’000)	(RMB’000)
	Note (B)	Note (C)
<u>1 Apr 2012 to 30 Jun 2012</u>		
Service fee income from AVIC International Beijing Co., Ltd (“AVIC Beijing”)	4,274	-
Service fee income from CATIC Management service fee income from AVIC Weihai Shipyard Co., Ltd	4,097	-
		12,000
<u>1 Apr 2011 to 30 Jun 2011</u>		
Service fee income from AVIC Beijing	4,673	-
Management fee income from AVIC Beijing	5,906	-

Note:

- (A) The amounts of the transactions are before sales taxes and surcharges.
- (B) The details of the interested person transactions are disclosed on page 97 and 98 of the Information Memorandum.
- (C) AVIC Kaixin (Beijing) Ship Industry Co., Ltd (“Kaixin Beijing”), a wholly-owned subsidiary of the Company, has entered into a service agreement (the “**Service Agreement**”) with AVIC Weihai Shipyard Co., Ltd (“Weihai Shipyard”) on 03 July 2012, pursuant to which a service fee of an aggregate amount of RMB36 million (the “Management Service Fee”, before sales taxes and surcharges) is payable to Kaixin Beijing from Weihai shipyard quarterly in arrears.

The Service Agreement is for a service period of 9 months commencing on 1 April 2012 and ending on 31 December 2012 with services to be provided in respect of Weihai Shipyard’s shipbuilding business thereunder including without limitation conducting marketing activities in overseas markets, providing shipbuilding related information, assisting in the communication and negotiation with overseas ship owners, managing the progress of the construction of vessels and providing management and consultancy guidance during the construction period. The Management Service Fee payable is an estimate based on time and effort to be spent, scope of work, usual margin and past years’ experience, and was arrived at on an arm’s length basis.

Weihai Shipyard is a PRC subsidiary under the AVIC Group, with its majority equity interest owned by AVIC Beijing. AVIC Beijing is the Company’s majority shareholder, by virtue of its holding of the entire share capital of AVIC International Kairong Ltd which in turn owns 73.87% of the total interest in the Company. In light of the above, Weihai Shipyard is deemed as an interested party and the entry into the Service Agreement accordingly constitutes an interested party transaction (“**IPT**”) for the purpose of Rule 904 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

The Company had on 26 April 2012 obtained its shareholders’ approval for the adoption of the IPT Mandate in respect of certain categories of transactions that the Group may, in the ordinary course of business, enter into with any member of the AVIC Group. In this regard, the Service Agreement has been entered into pursuant to the authority conferred under the IPT Mandate in accordance with the guidelines and review procedures for interested person transactions as disclosed in the IPT Mandate.

Revenue for the Service Agreement is recognized when services are rendered over the relevant contractual period on a straight line basis. The entry into the Service Agreement is expected to contribute positively to the earnings of the Group for the financial year 2012.

As far as the Directors of the Company are aware, none of the Directors of the Company has any interest, direct or indirect, in the above transaction.

(D) Novation Arrangement

Unless otherwise defined, terms used in this section shall bear the same meaning ascribed to them in the information memorandum of the Company dated on 10 August 2011 (the “Information Memorandum”).

For AVIC Group’s internal projects/resources consolidation purposes, AVIC Kaixin (Beijing) Ship Industry Co., Ltd., a wholly-owned subsidiary of the Company, had on 6 August 2012 entered into a novation agreement (“Novation Agreement”) with CATIC and AVIC International Beijing (the majority shareholder of the Company), pursuant to which CATIC will novate all its rights and obligations under a Sale and Purchase Agreement (as disclosed on page 98 of the Information Memorandum) to AVIC International Beijing and the salient terms and conditions of the Sale and Purchase Agreement remain unchanged.

The Novation Agreement is not expected to have any material impact on the earnings per share and net tangible assets of the Company.

#### **14 Update on utilisation of Placement Proceeds**

Based on the Placement Price of S\$0.285 and the 53,576,000 Placement Shares subscribed for, the net proceeds raised from the Placement are approximately S\$10.6 million (after deducting listing expenses approximately S\$4.7 million). The net proceeds will be used for the same purposes as set out on page 19 of the Offer Information Statement in the following proportion:

- (i) approximately S\$8.0 million to partly finance acquisition; and
- (ii) the balance of approximately S\$2.6 million for our working capital purposes and any future acquisitions, joint ventures and strategic alliances.

As at 30 June 2012, the Group has not started to utilise the Placement Proceeds.

The management of the Group is in the process of negotiating with the relevant parties in relation to the proposed consolidation of the shipbuilding and ship-trading related businesses from AVIC International and its subsidiaries as disclosed in the Company's Information Memorandum dated 10 August 2011. The Company will make announcements on the matter via SGXNET as and when appropriate. As at the date of this announcement, the terms and conditions of the proposed consolidation have not been determined.

#### **15 Confirmation of the Board**

The directors of the Company have confirmed that, to the best of their knowledge, nothing has come to the attention of the board of directors which may render the unaudited financial results for the period ended 30 Jun 2012 to be false or misleading in any material aspect.

On Behalf of the Board of Directors

**Diao Weicheng**  
Executive Chairman and Interim Chief Executive

**Xiao Zheng**  
Chief Financial Officer

*DMG & Partners Securities Pte Ltd ("DMG") was the financial adviser to AVIC International Investments Limited in relation to its listing on the Singapore Exchange Securities Trading Limited. DMG assumes no responsibility for the contents of this announcement.*

On Behalf of the Board of Directors  
Diao Weicheng  
Executive Chairman and Interim Chief Executive  
8 August 2012