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)

ANNOUNCEMENT OF THE RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

The board of directors (the "Board") of AVIC International Holding (HK) Limited (the "Company") announces that the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011, together with the comparative figures for the corresponding period of last year, are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
REVENUE	*3*	**143,648**	128,934
Cost of sales		**(126,806)**	(114,339)
Gross profit		**16,842**	14,595
Other income	*4*	**12,070**	8,118
Administrative and other operating expenses, net		**(18,784)**	(17,574)
Finance costs	*5*	**(3,861)**	(2,012)
Gain/(loss) on deemed disposal of an associate		**(3,082)**	1,600
Gain on bargain purchase of additional investment in an associate		**6,056**	–
Share of profits and losses of:			
Jointly-controlled entity		**13,388**	4,855
Associates		**342**	(2,327)
Impairment of a financial asset under Project EC120		**–**	(2,000)
Loss on derecognition of derivative financial instrument		**(3,913)**	–
Fair value loss on derivative financial instrument		**–**	(3,042)
PROFIT BEFORE TAX	*6*	**19,058**	2,213
Income tax expense	*7*	**(2,498)**	(2,893)
PROFIT/(LOSS) FOR THE PERIOD		**16,560**	(680)
ATTRIBUTABLE TO:			
Equity holders of the parent		**14,569**	(3,182)
Non-controlling interests		**1,991**	2,502
		16,560	(680)
EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*8*		
– Basic and diluted		**HK0.31 cent**	(HK0.07 cent)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2011 (Unaudited) *HK$'000***	31 December 2010 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**308,100**	303,726
Prepaid land lease payments		**29,126**	28,794
Goodwill		**30,493**	30,493
Investment in a jointly-controlled entity		**755,823**	1,008,487
Investments in associates		**245,996**	242,081
Financial asset under Project EC120		**–**	–
Available-for-sale investments		**1,246,090**	1,877,310
Total non-current assets		**2,615,628**	3,490,891
CURRENT ASSETS			
Inventories		**31,680**	21,873
Trade and bills receivables	*10*	**35,765**	40,368
Loans to a jointly-controlled entity		**36,145**	23,530
Loans to associates		**37,072**	5,882
Loan to a related company		**18,072**	17,647
Prepayments, deposits and other receivables		**97,108**	50,017
Derivative financial instrument		**–**	17,875
Available-for-sale investments		**–**	29,034
Pledged time deposits		**21,687**	34,445
Cash and cash equivalents		**289,363**	340,003
Total current assets		**566,892**	580,674
CURRENT LIABILITIES			
Due to non-controlling shareholders of a subsidiary		**287**	–
Trade and bills payables	*11*	**37,581**	75,376
Tax payable		**5,181**	9,766
Other payables and accruals		**44,856**	25,193
Interest-bearing bank borrowings		**84,940**	55,882
Total current liabilities		**172,845**	166,217
NET CURRENT ASSETS		**394,047**	414,457
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,009,675**	3,905,348

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

Notes:

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The condensed consolidated interim financial statements are prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and are in compliance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2010, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) for the first time in the current period as disclosed in note 2 below.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

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

3. OPERATING SEGMENT INFORMATION

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

(a) the electric and steam power supply segment engages in the generation and sale of electric and steam power; and

(b) Project EC120 segment engages in the share of profit from the development, manufacture and distribution of helicopters.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) for the period. The adjusted profit/(loss) for the period is measured consistently with the Group's profit/(loss) for the period except that head office's other income, gain/(loss) on deemed disposal of an associate, gain on bargain purchase of additional investment in an associate, share of profits and losses of jointly-controlled entity and associates, loss on derecognition of derivative financial instrument, fair value loss on derivative financial instrument as well as head office and corporate expenses and unallocated income tax are excluded from such measurement.

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

	Revenue		Results	
	For the six months ended 30 June			
	2011	2010	**2011**	2010
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Electric and steam power supply	**143,648**	128,365	**6,811**	7,562
Project EC120	**–**	569	**(503)**	(2,397)
Segment revenue and results	**143,648**	128,934	**6,308**	5,165
Unallocated other income			**6,591**	1,770
Corporate and other unallocated expenses			**(9,372)**	(8,627)
Gain/(loss) on deemed disposal of an associate			**(3,082)**	1,600
Gain on bargain purchase of additional investment in an associate			**6,056**	–
Share of profits and losses of:				
Jointly-controlled entity			**13,388**	4,855
Associates			**342**	(2,327)
Loss on derecognition of derivative financial instrument			**(3,913)**	–
Fair value loss on derivative financial instrument			**–**	(3,042)
Unallocated income tax			**242**	(74)
Profit/(loss) for the period			**16,560**	(680)

4. OTHER INCOME

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

5. FINANCE COSTS

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

6. PROFIT BEFORE TAX

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

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

7. INCOME TAX

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

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

8. EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of basic earnings/(losses) per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent of HK$14,569,000 (2010: loss of HK$3,182,000) and the weighted average number of ordinary shares of 4,754,397,000 (2010: 4,754,397,000) in issue during the period.

No adjustment has been made to the basic earnings/(losses) per share amounts presented for the periods ended 30 June 2011 and 2010 in respect of a dilution as the Group has no potentially dilutive ordinary shares in issue during those periods.

9. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2011 (2010: Nil).

10. TRADE AND BILLS RECEIVABLES

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

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

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

	30 June 2011 (Unaudited) *HK$'000*	31 December 2010 (Audited) *HK$'000*
Current	**22,605**	31,695
31 to 60 days	**5,978**	5,487
61 to 90 days	**3,676**	1,048
Over 90 days	**3,506**	2,138
	35,765	40,368

11. TRADE AND BILLS PAYABLES

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

	30 June 2011 (Unaudited) *HK$'000*	31 December 2010 (Audited) *HK$'000*
Current	**33,938**	75,146
31 to 60 days	**1,945**	219
61 to 90 days	**–**	–
Over 90 days	**1,698**	11
	37,581	75,376

BUSINESS REVIEW

Overall review

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

Electric and steam power supply

For the first half of 2011, the turnover of Zhejiang Sealand Thermoelectric Share-Holding Co. ("Zhejiang Sealand"), a non-wholly-owned subsidiary of the Group principally engaging in the supply of electric and steam power in the Linping industrial region of Hangzhou in China, increased by 12% from HK$128,365,000 to HK$143,648,000. The overall gross profit rate increased slightly from 11% to 12%. The sales volume of steam power for the period was 534,000 tonnes, a decrease of 5% from 2010. The average selling price of steam power was raised by 15%. The electric and steam power supply segment recorded profit of HK$6,811,000 (2010: HK$7,562,000) for the period.

Project EC120

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

Others

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

PROSPECTS

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

FINANCIAL REVIEW

Liquidity, capital structure and financial resources

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

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

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

Charges on the Group's assets

As at 30 June 2011, the following Group's assets were pledged to secure the Group's banking facilities:

(a) certain of the Group's land and buildings with an aggregate net book value of approximately HK$27,059,000 (31 December 2010: HK$27,116,000);

(b) certain of the Group's leasehold land with an aggregate net book value of approximately HK$28,508,000 (31 December 2010: HK$28,147,000); and

(c) certain of the Group's short term time deposits amounting to HK$21,687,000 (31 December 2010: HK$34,445,000).

Exposure to fluctuations in exchange rates

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

MATERIAL ACQUISITIONS AND DISPOSALS

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

CONTINGENT LIABILITIES

It is the common practice of the electric and steam supply industry to provide mutual financial guarantees for the industry participants. As at 30 June 2011, the Group had given financial guarantees to banks for banking facilities granted to major suppliers of HK$55,422,000 (31 December 2010: HK$54,118,000) which were utilised to the extent of HK$55,422,000 (31 December 2010: HK$54,118,000).

EVENTS AFTER THE REPORTING PERIOD

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2011, there were 268 (31 December 2010: 271) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

CORPORATE GOVERNANCE PRACTICES

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

Throughout the six months ended 30 June 2011, the Company applied the principles of, and complied with all the code provisions and, where applicable, the recommended best practices of the "Code on Corporate Governance Practices" as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for all non-executive directors are appointed without specific terms. In accordance with the Company's Bye-laws, one-third of the directors (including non-executive directors) for the time being shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement by rotation at least once every three years. The retiring directors shall be eligible for re-election. The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2011.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in compliance with the Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. It currently comprises three Independent Non-executive Directors of the Company.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2011 have been reviewed by the Audit Committee, and have also been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

APPRECIATION

I would like to take this opportunity to express my appreciation to my fellow directors and all our staff for their support, hard work and dedication.

By Order of the Board
AVIC International Holding (HK) Limited
Wu Guangquan
Chairman

Hong Kong, 25 August 2011

As at the date of this announcement, the Board of the Company comprises Mr. Wu Guangquan, Mr. Jiang Wei, Mr. Ji Guirong, Mr. Liu Rongchun, Mr. Pan Linwu and Mr. Zhang Chuanjun as executive directors; Mr. Ip Tak Chuen, Edmond as non-executive director; Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Li Zhaoxi as independent non-executive directors.