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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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE INTERIM REPORT OF THE COMPANY FOR THE SIX MONTH ENDED 30 JUNE 2014

Reference is made to the interim report (the “**Interim Report**”) of AVIC International Holding (HK) Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) for the six month ended 30 June 2014 published on 5 September 2014.

The board of directors (the “**Board**”) of the Company would like to provide the following additional information regarding the derivative financial instruments and derecognition of an available-for-sale investment of the Group as disclosed in the paragraph headed “Others” under the section headed “Business Review” of the Interim Report.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group’s portfolio of derivative financial instruments as at 30 June 2014 consisted of the derivatives at fair values of HK\$62,135,000 and HK\$6,110,000 embedded in the convertible bonds issued by Peace Map Holding Limited (“**PMH**”) and by China Environmental Investment Holdings Limited (“**CEIH**”), both being listed on The Stock Exchange of Hong Kong Limited, respectively. These convertible bonds are hybrid instruments that include non-derivative host contracts and the embedded derivatives. The non-derivative host contracts, representing the bond components, have been designated as available-for-sale investments. The embedded derivatives, representing the conversion options, have been designated as derivative financial instruments. During the six months ended 30 June 2014, fair value loss in an aggregate of HK\$87,472,000 was debited to the condensed consolidated statement of profit or loss in respect of the embedded derivatives, which was mainly due to the substantial drop in the share price of PMH.

As disclosed in the annual report of the Company for the year ended 31 December 2013, the Group was to receive convertible bonds issued by PMH in 2014 (“**PMH Deferred CB**”), as a deferred consideration of the disposal of the Group’s 22.66% equity interest in Sinbo Investment Limited (“**Sinbo**”) in 2013, with a principal amount subject to the audited consolidated net profit after taxation of Sinbo and its subsidiaries for the year ended 31 December 2013 (“**PAT**”). As at 31 December 2013, PMH Deferred CB had been recorded as a derivative financial instrument by the Group. In March 2014, the Group received convertible bonds issued by PMH after PAT was confirmed. PMH Deferred CB was derecognised accordingly. A fair value loss in respect of PMH Deferred CB amounting to HK\$734,000 for the period from 31 December 2013 to the date of derecognition was debited to the condensed consolidated statement of profit or loss based on a valuation performed by an independent professionally qualified valuer.

On 25 November 2013, the Group entered into a borrowing agreement with Broadlink Enterprises Limited (“**Broadlink**”), an independent third party and a former shareholder of Sinbo, pursuant to which the Group lent to Broadlink the convertible bonds issued by PMH held by the Group with a principal amount of HK\$22,531,000. It was also agreed that on 31 July 2014, Broadlink may elect to return to the Group either (i) the convertible bonds issued by PMH with a principal amount of HK\$22,531,000 together with interest at 2.5% per annum in cash; or (ii) a lump sum of HK\$33,000,000 in cash. As at 31 December 2013, this consideration receivable from Broadlink had been recorded as a derivative financial instrument (“**Broadlink Derivative**”) by the Group. During the six months ended 30 June 2014, Broadlink returned the convertible bonds issued by PMH with a principal amount of HK\$22,531,000 to the Group together with the cash interest of HK\$313,000 on a date earlier than the agreed maturity date. Broadlink Derivative was derecognised accordingly. A fair value loss in respect of Broadlink Derivative amounting to HK\$2,985,000 for the period from 31 December 2013 to the date of derecognition was debited to the condensed consolidated statement of profit or loss based on a valuation performed by an independent professionally qualified valuer.

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 consolidated statement of profit or loss. Fair values are stated based on valuations performed by independent professionally qualified valuers, which are mainly influenced by the prices of the underlying securities (shares of PMH and CEIH) and the time value of the derivative financial instruments.

DERECOGNITION OF AN AVAILABLE-FOR-SALE INVESTMENT

During the six months ended 30 June 2014, due to the commercial consideration of increasing the influence over PMH, the Group converted the convertible bonds issued by PMH with a principal amount of HK\$117,250,000 into 469,000,000 shares of PMH at the conversion price of HK\$0.25 per share. On the date of the conversion, the market value of the shares of PMH received at conversion was HK\$93,331,000 while the fair value of the convertible bonds converted was stated at HK\$118,009,000 based on a valuation performed by an independent professionally qualified valuer. At the same time, the corresponding fair value gain of HK\$5,268,000 previously recorded in the statement of other comprehensive income was released from the available-for-sale investment revaluation reserve. As a result, a loss on derecognition of an available-for-sale investment of HK\$19,410,000 (including reclassification from equity of HK\$5,268,000) was recorded in the condensed consolidated statement of profit or loss by the Group during the period.

The above additional information does not affect other information contained in the Interim Report and, save as disclosed in this announcement, the remaining contents of the Interim Report remain unchanged.

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

Hong Kong, 23 September 2014

As at the date of this announcement, the Board of the Company comprises Mr. Wu Guangquan, Mr. Pan Linwu, Mr. You Lei, Mr. Ji Guirong 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.