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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

The board (the “Board”) of directors (the “Directors”) of AVIC International Holding (HK) Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2015, together with the comparative figures for the corresponding period of last year.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
		2015	2014
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	3	18,843	34,886
Cost of sales		(17,636)	(32,159)
Gross profit		1,207	2,727
Other income	4	12,248	17,312
Selling and marketing expenses		(7,967)	–
Administrative expenses		(25,300)	(20,168)
Other operating expenses, net	6	(17,156)	(765)
Finance costs	5	(44,827)	(1,367)
Gain on deemed disposal of an associate		433,380	–
Share of profits and losses of:			
Joint venture		(13,129)	(8,796)
Associates		(48,202)	(10,717)
Gain/(loss) on derecognition of available-for-sale investments		224	(24,678)
Fair value gain of available-for-sale investments (transfer from equity on derecognition)		19,091	5,268
Fair value gain/(loss) on derivative financial instruments		121,510	(91,191)
Fair value gain/(loss) on equity investment at fair value through profit or loss		71,177	(1,136)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (*cont'd*)

		For the six months ended 30 June	
		2015	2014
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
PROFIT/(LOSS) BEFORE TAX	6	502,256	(133,511)
Income tax credit/(expense)	7	5,906	(1,840)
		<hr/>	<hr/>
PROFIT/(LOSS) FOR THE PERIOD		508,162	(135,351)
		<hr/> <hr/>	<hr/> <hr/>
ATTRIBUTABLE TO:			
Owners of the parent		517,802	(134,836)
Non-controlling interests		(9,640)	(515)
		<hr/>	<hr/>
		508,162	(135,351)
		<hr/> <hr/>	<hr/> <hr/>
EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– Basic and diluted		HK9.38 cents	(HK2.92 cents)
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT/(LOSS) FOR THE PERIOD	508,162	(135,351)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value	(25,757)	9,793
Reclassification adjustment for gains included in the condensed consolidated statement of profit or loss – Gain on derecognition	(19,091)	(5,268)
	(44,848)	4,525
Share of other comprehensive income of associates	16,028	–
Exchange differences on translation of foreign operations	–	(23,744)
Release of share of an associate's other comprehensive income upon deemed disposal of the associate	(38,241)	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods and other comprehensive income for the period, net of tax	(67,061)	(19,219)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	441,101	(154,570)
ATTRIBUTABLE TO:		
Owners of the parent	450,741	(153,981)
Non-controlling interests	(9,640)	(589)
	441,101	(154,570)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	30 June 2015 (Unaudited) <i>HK\$'000</i>	31 December 2014 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		33,659	41,297
Prepaid land lease payments		2,921	2,958
Intangible asset		476	570
Investment in a joint venture		304,770	317,899
Investments in associates		3,488	237,963
Financial asset under Project EC120		–	–
Available-for-sale investments		681,954	121,771
Derivative financial instruments		213,260	125,373
Loan to a related company		–	18,750
Prepayments		2,027	3,765
Deferred tax assets		9,250	–
		1,251,805	870,346
CURRENT ASSETS			
Properties under development and completed properties held for sale		6,209,782	4,950,000
Inventories		5,018	2,855
Trade and bills receivables	10	15,154	19,379
Loans to related companies		38,500	19,750
Prepayments, deposits and other receivables		168,093	1,204,613
Available-for-sale investments		–	51,071
Equity investment at fair value through profit or loss		358,093	166,797
Derivative financial instruments		–	25,497
Prepaid taxes		125,152	120,981
Time deposit with original maturity of more than three months when acquired		–	155,588
Pledged time deposits		625	375
Cash and cash equivalents		700,648	1,093,361
		7,621,065	7,810,267
CURRENT LIABILITIES			
Due to fellow subsidiaries		172,390	123,400
Due to non-controlling shareholders of subsidiaries		55,984	49,734
Loans from fellow subsidiaries		1,818,875	2,103,087
Trade and bills payables	11	9,376	8,495
Tax payable		38,149	38,912
Other payables and accruals		77,770	56,083
Customer deposits		1,928,882	1,757,152
Interest-bearing bank borrowings		39,625	39,625
		4,141,051	4,176,488

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (*cont'd*)

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
NET CURRENT ASSETS	<u>3,480,014</u>	<u>3,633,779</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>4,731,819</u>	<u>4,504,125</u>
NON-CURRENT LIABILITIES		
Loans from a fellow subsidiary	43,750	258,750
Interest-bearing bank borrowings	664,953	665,061
Deferred tax liabilities	<u>220,254</u>	<u>218,553</u>
Total non-current liabilities	<u>928,957</u>	<u>1,142,364</u>
Net assets	<u><u>3,802,862</u></u>	<u><u>3,361,761</u></u>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	551,959	551,959
Reserves	<u>2,682,153</u>	<u>2,231,412</u>
Non-controlling interests	<u>3,234,112</u>	<u>2,783,371</u>
	<u>568,750</u>	<u>578,390</u>
Total equity	<u><u>3,802,862</u></u>	<u><u>3,361,761</u></u>

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 (the “Listing Rules”) 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 2014, except for the adoption of certain 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 revised HKFRSs for the first time for the current period’s financial statements.

Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i>
<i>Annual Improvements 2010-2012 Cycle</i>	Amendments to a number of HKFRSs
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of HKFRSs

The adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four (2014: three) 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;
- (c) the property development and sale business segment engages in the property development of residential and commercial projects (new in 2015); and
- (d) 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 profit/(loss) for the period except that certain income and gains or losses relating to investments in a joint venture and associates and financial instruments, as well as head office and corporate expenses and unallocated income tax are excluded from such measurement.

3. OPERATING SEGMENT INFORMATION *(cont'd)*

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

	Revenue		Results	
	For the six months ended 30 June			
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Knitting and textile business	11,546	26,422	(15,271)	(1,051)
Trading business	7,297	8,464	(868)	62
Property development and sale business	–	–	(46,746)	–
Aero-technology related business	–	–	–	–
Segment revenue and results	<u>18,843</u>	<u>34,886</u>	<u>(62,885)</u>	<u>(989)</u>
<i>Reconciliation:</i>				
Unallocated other income			2,913	17,270
Corporate and other unallocated expenses			(15,917)	(18,525)
Gain on deemed disposal of an associate			433,380	–
Share of profits and losses of:				
Joint venture			(13,129)	(8,796)
Associates			(48,202)	(10,717)
Gain/(loss) on derecognition of available-for-sale investments			224	(24,678)
Fair value gain of available-for-sale investments (transfer from equity on derecognition)			19,091	5,268
Fair value gain/(loss) on derivative financial instruments			121,510	(91,191)
Fair value gain/(loss) on equity investment at fair value through profit or loss			71,177	(1,136)
Unallocated income tax expense			–	(1,857)
Profit/(loss) for the period			<u>508,162</u>	<u>(135,351)</u>

4. OTHER INCOME

	For the six months ended 30 June	
	2015	2014
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Bank interest income	7,320	13,490
Rental income	2,424	–
Interest income on a convertible bond issued by an associate	518	332
Interest income on loans to associates	350	2,373
Interest income on other receivables	–	500
Interest income on loans to related companies	1,144	579
Others	492	38
	<u>12,248</u>	<u>17,312</u>

5. FINANCE COSTS

	For the six months ended 30 June	
	2015	2014
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on bank loans	39,851	1,367
Interest on loans from fellow subsidiaries	48,990	–
	<u>88,841</u>	<u>1,367</u>
Less: Interest capitalised under property development projects	<u>(44,014)</u>	<u>–</u>
	<u>44,827</u>	<u>1,367</u>

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	For the six months ended 30 June	
	2015	2014
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Cost of goods sold	17,636	32,159
Loss on disposal of items of property, plant and equipment	104	–
Depreciation	2,369	2,567
Recognition of prepaid land lease payments	37	37
Amortisation of customer relationship	95	95
	<u>17,636</u>	<u>32,159</u>
Other operating expenses, net:		
Provision for impairment of property, plant and equipment	6,924	–
Impairment of investment in an associate	3,613	765
Provision for impairment of trade and bills receivables	6,572	–
Provision for impairment of prepayments and other receivables	47	–
	<u>17,156</u>	<u>765</u>

7. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2015 and 2014 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	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Current – Elsewhere	1,644	1,902
Deferred	(7,550)	(62)
Total tax charge/(credit) for the period	<u>(5,906)</u>	<u>1,840</u>

The deferred tax credited to profit or loss during the six months ended 30 June 2015 arose mainly from the tax losses available for offsetting against future taxable profits.

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

The calculation of the basic earnings/(losses) per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$517,802,000 (2014: loss of HK\$134,836,000) and the weighted average number of ordinary shares of 5,519,591,000 (2014: 4,619,591,000) in issue during the period.

No adjustment has been made to the basic earnings/(losses) per share amounts presented for the six months ended 30 June 2015 and 2014 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

9. DIVIDEND

The Directors do not declare an interim dividend for the six months ended 30 June 2015 (2014: Nil).

10. TRADE AND BILLS RECEIVABLES

	30 June 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Trade and bills receivables	27,019	24,740
Impairment	(11,865)	(5,361)
	<u>15,154</u>	<u>19,379</u>

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.

10. TRADE AND BILLS RECEIVABLES *(cont'd)*

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 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Current	6,130	13,973
31 to 60 days	2,022	1,535
61 to 90 days	1,812	561
Over 90 days	5,190	3,310
	<hr/> 15,154 <hr/>	<hr/> 19,379 <hr/>

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 2015 (Unaudited) HK\$'000	31 December 2014 (Audited) HK\$'000
Current	2,108	3,016
31 to 60 days	1,915	1,620
61 to 90 days	640	1,000
Over 90 days	4,713	2,859
	<hr/> 9,376 <hr/>	<hr/> 8,495 <hr/>

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

BUSINESS REVIEW

Overall review

For the first half of 2015, the Group recorded turnover of HK\$18,843,000 (2014: HK\$34,886,000). The drop in turnover was mainly attributable to the drop in turnover of the knitting and textile business segment. Nevertheless, the Group recorded profit attributable to owners of the parent of HK\$517,802,000 (2014: loss attributable to owners of the parent of HK\$134,836,000), which arose mainly from a one-off gain on deemed disposal of an associate of HK\$433,380,000, as well as the fair value gain on derivative financial instruments and equity investment at fair value through profit or loss in an aggregate of HK\$192,687,000 recorded for the period as compared to the fair value loss of HK\$92,327,000 for the corresponding period in 2014. Basic earnings per share amounted to HK¢9.38 (2014: Basic losses per share amounted to HK2.92).

Knitting and textile business

For the first half of 2015, the operating condition of 浙江東陽金牛針織製衣有限公司 (“Zhejiang Dongyang Jinniu”), a 51%-owned subsidiary, was unfavourable. Its turnover was only HK\$11,546,000, a drop of 56% from HK\$26,422,000 for the corresponding period in 2014. The sales volume was approximately 880 tonnes (2014: 1,193 tonnes). It was mainly attributable to a significant drop in orders from a large customer in 2015. In addition, orders from other customers also dropped in light of the weak economic condition as a result of the influence of macro economy. In addition, the average selling price dropped by 10%-20%. The gross profit rate was 9% (2014: 10%). A provision for impairment of property, plant and equipment of HK\$6,924,000 (2014: Nil) was made due to a reduced future cash inflow estimated. Moreover, a provision for impairment of trade and bills receivables of HK\$6,572,000 (2014: Nil) was also made. The knitting and textile business segment recorded loss of HK\$15,271,000 (2014: HK\$1,051,000) for the period.

Trading business

During the period, the Group continued 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\$7,297,000 (2014: HK\$8,464,000) and 2% (2014: 1%) respectively. The trading business segment recorded loss of HK\$868,000 (2014: profit of HK\$62,000) for the period.

Property development and sale business

During the period, the property development and sale business acquired on 30 December 2014 became one of the Group’s principal activities. Currently, two projects are in progress. One is located at the Southern side of Zhongshan Road of the Shahekou District of the Dalian City (“Dalian Project”), and another is situated in a newly developed residential area with communal facilities in the Liangjiangxin District of Chongqing (“Chongqing Project”).

Property development and sale business *(cont'd)*

Dalian Project comprises four parcels of land having a total site area of approximately 46,938 square meter (excluding communal site area). A large scale development project, the International Square, is being constructed comprising offices, retail shops and residential buildings. The total planned gross floor area of the development upon completion is approximately 434,461 square meter. Dalian Project is currently in the normal development and construction phase, and pre-sale of certain residential and office space of the International Square has commenced since June 2013. For the first half of 2015, gross floor area of 6,012 square meter was pre-sold. As at 30 June 2015, the customer deposits, which represented the proceeds of the pre-sale of properties, amounted to HK\$1,928,882,000 (31 December 2014: HK\$1,757,152,000).

Chongqing Project comprises twelve parcels of land with a total site area of approximately 375,252 square meter. As at 31 December 2014, payment of HK\$1,025,000,000 had been made for the acquisition of land for Chongqing Project which was included in prepayments, deposits and other receivables in current assets. During the period, the certificate of real estate ownership relating to the site have been obtained and thus the prepayment was reclassified to properties under development. Chongqing Project is currently in the early planning and design phase.

As at 30 June 2015, the properties under development and completed properties held for sale amounted to HK\$6,209,782,000 (31 December 2014: HK\$4,950,000,000). For the first half of 2015, as Dalian Project and Chongqing Project were still under development, no turnover was yet recorded by the property development and sale business segment. A loss for the period of HK\$46,746,000 was recorded which arose mainly from the administrative expenses of HK\$13,908,000 and the finance costs of HK\$43,379,000.

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. 2 EC120 helicopters were sold in the first half of 2015. No turnover was recorded by the Group for both 2015 and 2014 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 (2014: Nil).

Others

Joint venture and associates

As at 31 December 2014, the carrying amount of the Group’s interest in an associate, AVIC Joy Holdings (HK) Limited (“AVIC Joy”), a listed company in Hong Kong, was approximately HK\$231,292,000. During the six months ended 30 June 2015, the Group’s percentage of ownership interest in AVIC Joy was diluted and the Group no longer had significant influence over it. As such, the Group’s investment in AVIC Joy was reclassified from an investment in an associate to an available-for-sale investment, and the Group discontinued to apply the equity method to share the results and other comprehensive income of AVIC Joy. This reclassification was accounted for as a disposal of the entire interest in AVIC Joy and a re-acquisition of the retained interest at its fair value. As a result, a gain on deemed disposal of an associate of HK\$433,380,000 (2014: Nil) was recorded and the Group’s interest in AVIC Joy was stated at its fair value of HK\$567,377,000 as at 30 June 2015 as an available-for-sale investment.

Joint venture and associates (cont'd)

In addition, the Group recorded share of losses of the joint venture and associates in an aggregate of HK\$61,331,000 (2014: HK\$19,513,000) for the period, and made provision for impairment of investment in an associate of HK\$3,613,000 (2014: HK\$765,000).

Convertible bonds

The Group held convertible bonds issued by Peace Map Holding Limited (“PMH”) and AVIC Joy, respectively, both are listed companies in Hong Kong. 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 period, the Group converted certain of the convertible bonds issued by PMH (“PMH Convertible Bonds”) with a principal amount of HK\$66,000,000 into 264,000,000 shares of PMH at the conversion price of HK\$0.25 per share. The number of shares of PMH held by the Group increased from 497,900,000 shares as at 31 December 2014 to 761,900,000 shares as at 30 June 2015. A loss on derecognition of HK\$3,760,000 was calculated which was the difference between the fair value of the shares of PMH received and that of PMH Convertible Bonds converted. At the same time, the corresponding fair value gain of HK\$8,573,000 previously recorded in the statement of other comprehensive income was released from the available-for-sale investment revaluation reserve. As a result, a net gain on derecognition of an available-for-sale investment of HK\$4,813,000 in respect of PMH Convertible Bonds was recorded in the condensed consolidated statement of profit or loss for the period.

Furthermore, during the period, the maturity date of the convertible bond issued by AVIC Joy (“AVIC Joy Convertible Bond”) was extended from 6 March 2015 to 6 March 2018 as agreed by the Group and AVIC Joy. A gain on derecognition of the original AVIC Joy Convertible Bond of HK\$3,984,000 was calculated which was the difference between the fair values of the original and the new AVIC Joy Convertible Bonds. At the same time, the corresponding fair value gain of HK\$10,518,000 previously recorded in the statement of other comprehensive income was released from the available-for-sale investment revaluation reserve. As a result, a net gain on derecognition of an available-for-sale investment of HK\$14,502,000 in respect of AVIC Joy Convertible Bond was recorded in the condensed consolidated statement of profit or loss for the period.

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 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 and the time value of the derivative financial instruments.

The Group’s portfolio of derivative financial instruments as at 30 June 2015 consisted of the derivatives at fair values of HK\$124,031,000 (31 December 2014: HK\$125,373,000) and HK\$89,229,000 (31 December 2014: HK\$25,497,000) embedded in PMH Convertible Bonds and AVIC Joy Convertible Bond, respectively. During the six months ended 30 June 2015, a fair value gain of HK\$121,510,000 (2014: fair value loss of HK\$91,191,000) was recognised in respect of the embedded derivatives, which was mainly due to the rise in the share prices of both PMH and AVIC Joy.

Equity investment at fair value through profit or loss

During the period, the Group recorded a fair value gain on equity investment at fair value through profit or loss of HK\$71,177,000 (2014: fair value loss of HK\$1,136,000) due to the rise in share price of the investment.

PROSPECTS

The Group, as an investment holding company, is committed to invest in the property development and sale business, 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. The newly acquired property development and sale business has a potential for return in the long run and will provide the Group with a source of revenue and profit and thus asset growth. The aero-technology related business will have a good opportunity for development in the future in view of the encouragement of the development of aviation industry made by China. The degree of prosperity of the knitting and textile business declined significantly as a result of the condition of the macro economy, and such that the prospect of the business is not cheerful. Trading business did not record further growth, and the Group has a cautious attitude to its subsequent development. The Group will identify projects with a bright development prospect, and will continue to review and optimise its business portfolio.

FINANCIAL REVIEW

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 30 June 2015, the Group had current assets of HK\$7,621,065,000 (31 December 2014: HK\$7,810,267,000), including cash and bank balances and time deposits in an aggregate of HK\$701,273,000 (31 December 2014: HK\$1,249,324,000). The Group's current liabilities as at 30 June 2015 were HK\$4,141,051,000 (31 December 2014: HK\$4,176,488,000).

As at 30 June 2015, the Group's equity attributable to owners of the parent amounted to HK\$3,234,112,000 (31 December 2014: HK\$2,783,371,000), comprising issued capital of HK\$551,959,000 (31 December 2014: HK\$551,959,000) and reserves of HK\$2,682,153,000 (31 December 2014: HK\$2,231,412,000). The Group's outstanding bank borrowings as at 30 June 2015 amounted to HK\$704,578,000 (31 December 2014: HK\$704,686,000). 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 22% (31 December 2014: 25%).

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

Charges on the Group's assets

As at 30 June 2015, the following Group's assets were pledged to secure the Group's banking facilities:

- (a) the Group's buildings in Mainland China with net book value of approximately HK\$3,398,000 (31 December 2014: HK\$3,542,000);

Charges on the Group's assets (cont'd)

- (b) the Group's leasehold land in Mainland China with net book value of approximately HK\$2,995,000 (31 December 2014: HK\$3,032,000);
- (c) certain of the Group's properties under development and completed properties held for sale with an aggregate carrying value of approximately HK\$2,510,062,000 (31 December 2014: HK\$2,450,000,000); and
- (d) certain of the Group's short term time deposits amounting to approximately HK\$625,000 (31 December 2014: HK\$375,000).

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

Save for the transactions described elsewhere in this announcement, the Group had no other material acquisitions or disposals during the period.

CONTINGENT LIABILITIES

As at 30 June 2015, the Group has given guarantees of HK\$58,060,000 (31 December 2014: HK\$56,975,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties for a period from the date of loans being granted to the purchasers up to the date of issuance of property title certificates to the purchasers.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2015, there were 170 (31 December 2014: 179) 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, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

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

Throughout the six months ended 30 June 2015, 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 to the Listing Rules, except as noted hereunder.

Except for the Non-executive Director appointed on 23 June 2015, 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. Therefore, the Company is of the view that it has adopted adequate measures to ensure the corporate governance of the Company complies with the same level to that required under the CG Code.

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 2015 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 for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules 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 2015.

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 2015 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 2015 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.

PUBLICATION OF INTERIM REPORT

The 2015 interim report will be published on the websites of the Company (www.avic.com.hk) and the Stock Exchange (www.hkexnews.hk) and dispatched to the shareholders of the Company in due course.

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, 28 August 2015

As at the date of this announcement, the Board comprises Mr. Wu Guangquan, Mr. Pan Linwu, Mr. Lai Weixuan, Mr. Xu Hongge and Mr. Xiao Nan as executive Directors; Mr. Chow Wai Kam as non-executive Director; Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Li Zhaoxi as independent non-executive Directors.