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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 2016

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 2016, 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	
		2016	2015
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
CONTINUING OPERATIONS			
Revenue	3	64,587	9,721
Cost of sales		(36,028)	(7,169)
Gross profit		28,559	2,552
Other income	4	9,846	9,643
Selling and distribution expenses		(8,927)	(7,967)
Administrative expenses		(24,106)	(23,608)
Other operating expenses, net	6	(934)	(3,613)
Finance costs	5	(38)	(43,379)
Gain on deemed disposal of an associate		–	433,380
Gain on deemed disposal of interest in an associate		3,386	–
Share of profits and losses of:			
Joint venture		(43,232)	(13,129)
Associates		(2,623)	(48,202)
Impairment of an available-for-sale investment (transfer from available-for-sale investment revaluation reserve)		(94,907)	–
Gain on derecognition of available-for-sale investments		–	224
Fair value gain of available-for-sale investments (transfer from equity on derecognition)		–	19,091

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

		For the six months ended 30 June	
		2016	2015
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Fair value gain/(loss) on derivative financial instruments		(72,027)	121,510
Fair value gain/(loss) on equity investment at fair value through profit or loss		<u>(137,904)</u>	<u>71,177</u>
Profit/(loss) before tax from continuing operations	6	(342,907)	517,679
Income tax credit/(expense)	7	<u>(5,761)</u>	<u>5,754</u>
Profit/(loss) for the period from continuing operations		(348,668)	523,433
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	8	<u>(5,091)</u>	<u>(15,271)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>(353,759)</u>	<u>508,162</u>
Attributable to:			
Owners of the parent		(353,498)	517,802
Non-controlling interests		<u>(261)</u>	<u>(9,640)</u>
		<u>(353,759)</u>	<u>508,162</u>
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9		
– For profit/(loss) for the period		<u>(HK6.40 cents)</u>	<u>HK9.38 cents</u>
– For profit/(loss) from continuing operations		<u>(HK6.36 cents)</u>	<u>HK9.52 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT/(LOSS) FOR THE PERIOD	<u>(353,759)</u>	<u>508,162</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Change in fair value	(89,224)	(25,757)
Reclassification adjustment for losses/(gains) included in the condensed consolidated statement of profit or loss		
– Gain on derecognition	–	(19,091)
– Impairment loss	<u>94,907</u>	<u>–</u>
	5,683	(44,848)
Share of other comprehensive income of associates	–	16,028
Release of share of an associate's other comprehensive income upon deemed disposal of the associate	–	(38,241)
Exchange differences on translation of foreign operations	<u>(33,077)</u>	<u>–</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods and other comprehensive income for the period, net of tax	<u>(27,394)</u>	<u>(67,061)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>(381,153)</u>	<u>441,101</u>
Attributable to:		
Owners of the parent	(370,392)	450,741
Non-controlling interests	<u>(10,761)</u>	<u>(9,640)</u>
	<u>(381,153)</u>	<u>441,101</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2016 (Unaudited) <i>Notes</i> HK\$'000	31 December 2015 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	26,707	31,595
Investment properties	363,425	373,425
Prepaid land lease payments	–	2,814
Intangible asset	–	380
Investment in a joint venture	247,389	290,621
Investments in associates	24,909	24,146
Financial asset under Project EC120	–	–
Available-for-sale investments	311,197	400,421
Derivative financial instruments	47,869	119,896
Trade receivable	11 21,075	21,628
Due from a fellow subsidiary	–	3,178
Loan to a related company	11,976	11,976
Prepayments	–	278
Deferred tax assets	10,491	9,685
	1,065,038	1,290,043
CURRENT ASSETS		
Properties under development and completed properties held for sale	4,172,883	4,070,648
Inventories	–	4,564
Trade and bills receivables	11 125,379	155,450
Due from fellow subsidiaries	43,385	46,016
Due from non-controlling shareholder of a subsidiary	–	323
Loans to related companies	16,272	17,230
Prepayments, deposits and other receivables	58,445	61,714
Equity investment at fair value through profit or loss	147,809	285,713
Prepaid taxes	7,694	12,156
Pledged time deposits	–	359
Cash and cash equivalents	664,261	473,330
	5,236,128	5,127,503
Assets of a disposal group classified as held for sale	8 21,180	–
	5,257,308	5,127,503
Total current assets	5,257,308	5,127,503

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

	30 June 2016 (Unaudited) <i>Notes</i> HK\$'000	31 December 2015 (Audited) <i>HK\$'000</i>
CURRENT LIABILITIES		
Due to non-controlling shareholders of subsidiaries	122,496	64,301
Due to an intermediate holding company	–	14,164
Due to fellow subsidiaries	4,794	4
Loans from fellow subsidiaries	862,275	205,988
Trade and bills payables	12 55,961	92,358
Other payables and accruals	16,814	32,744
Customer deposits	510,830	248,310
Interest-bearing bank borrowings	–	37,964
Tax payable	36,899	68,139
	<u>1,610,069</u>	<u>763,972</u>
Liabilities directly associated with the assets classified as held for sale	8 71,338	–
	<u>1,681,407</u>	<u>763,972</u>
NET CURRENT ASSETS	<u>3,575,901</u>	<u>4,363,531</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>4,640,939</u>	<u>5,653,574</u>
NON-CURRENT LIABILITIES		
Loans from an intermediate holding company	496,581	509,581
Loans from a fellow subsidiary	695,527	1,658,683
Interest-bearing bank borrowings	345,455	–
Deferred tax liabilities	152,871	153,652
	<u>1,690,434</u>	<u>2,321,916</u>
Net assets	<u>2,950,505</u>	<u>3,331,658</u>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	551,959	551,959
Reserves	1,815,183	2,185,575
	<u>2,367,142</u>	<u>2,737,534</u>
Non-controlling interests	583,363	594,124
Total equity	<u>2,950,505</u>	<u>3,331,658</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 2015, 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 HKFRS 10, HKFRS12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 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 two reportable operating segments as follows:

- (a) the property development and investment business segment engages in the property development of residential and commercial projects; and
- (b) the trading business segment engages in the trading of raw materials and auxiliary materials.

The knitting and textile business was classified as a disposal group held-for-sale and as a discontinued operation. Accordingly, the comparative segment information related to the knitting and textile business is reclassified as “loss for the period from a discontinued operation” in the condensed consolidated statement of profit or loss. Details of which is set out in note 8 to the interim financial statements.

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

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 from continuing operations. The adjusted profit/(loss) for the period from continuing operations is measured consistently with the Group's profit/(loss) for the period from continuing operations 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 (including impairment of loans to associates, impairment of investments in associates and recovery of other receivable) and unallocated income tax are excluded from such measurement.

The followings are analyses of the Group's revenue and results from continuing operations by reportable operating segments.

For the six months ended 30 June 2016

	Property development and investment business (Unaudited) <i>HK\$'000</i>	Trading business (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue:			
Sales to external customers	56,431	–	56,431
Gross rental income	8,156	–	8,156
	<u>64,587</u>	<u>–</u>	<u>64,587</u>
Revenue from continuing operations	<u>64,587</u>	<u>–</u>	<u>64,587</u>
Segment results	<u>2,288</u>	<u>–</u>	<u>2,288</u>
<i>Reconciliation:</i>			
Unallocated other income			4,551
Corporate and other unallocated expenses			(8,195)
Gain on deemed disposal of interest in an associate			3,386
Share of profits and losses of:			
Joint venture			(43,232)
Associates			(2,623)
Impairment of an available-for-sale investment			(94,907)
Fair value loss on derivative financial instruments			(72,027)
Fair value loss on equity investment at fair value through profit or loss			(137,904)
Unallocated income tax expense			(5)
Loss for the period from continuing operations			<u>(348,668)</u>

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

For the six months ended 30 June 2015

	Property development and investment business (Unaudited) <i>HK\$'000</i>	Trading business (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue:			
Sales to external customers	–	7,297	7,297
Gross rental income	2,424	–	2,424
	<hr/>	<hr/>	<hr/>
Revenue from continuing operations	2,424	7,297	9,721
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Segment results	(46,746)	(868)	(47,614)
	<hr/> <hr/>	<hr/> <hr/>	
<i>Reconciliation:</i>			
Unallocated other income			2,913
Corporate and other unallocated expenses			(15,917)
Gain on deemed disposal of an associate			433,380
Share of profits and losses of:			
Joint venture			(13,129)
Associates			(48,202)
Gain on derecognition of available-for-sale investments			224
Fair value gain of available-for-sale investments (transfer from equity on derecognition)			19,091
Fair value gain on derivative financial instruments			121,510
Fair value gain on equity investment at fair value through profit or loss			71,177
			<hr/>
Profit for the period from continuing operations			523,433
			<hr/> <hr/>

4. OTHER INCOME

An analysis of other income from continuing operations is as follows:

	For the six months ended 30 June	
	2016	2015
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Bank interest income	816	7,318
Interest income on a convertible bond	518	518
Interest income on loans to associates	284	350
Interest income on loans to related companies	833	1,144
Government grant*	7,245	—
Others	150	313
	<u>9,846</u>	<u>9,643</u>

* This represents subsidies from municipal government in Mainland China. There are no unfulfilled conditions or contingencies relating to these subsidies.

5. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	For the six months ended 30 June	
	2016	2015
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within five years	97,139	87,393
Less: Interest capitalised	(97,101)	(44,014)
	<u>38</u>	<u>43,379</u>

6. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Cost of properties sold*	36,028	–
Cost of goods sold*	–	7,169
Depreciation	1,150	1,237
	<u> </u>	<u> </u>
Other operating expenses, net:		
Impairment of investment in an associate	–	3,613
Provision for impairment of a loan to a related company	934	–
	<u> </u>	<u> </u>
	<u>934</u>	<u>3,613</u>

* Included in “cost of sales” in the condensed consolidated statement of profit or loss.

7. INCOME TAX

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2016 and 2015 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	
	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Current – Elsewhere:		
Charge for the period	1,471	1,586
Deferred	(989)	(7,340)
Land Appreciation Tax in Mainland China	5,279	–
	<u> </u>	<u> </u>
Total tax charge/(credit) for the period	<u>5,761</u>	<u>(5,754)</u>

8. DISCONTINUED OPERATION

On 29 June 2016, the Group signed an agreement with an independent third party to dispose of 浙江東陽金牛針織製衣有限公司 (“Zhejiang Dongyang Jinniu”), a 51%-owned subsidiary. Zhejiang Dongyang Jinniu engages in the production and distribution of knitting and textile products, knitted fabrics and clothing. The Group has decided to cease its knitting and textile business because it has been loss-making in recent years. The disposal of Zhejiang Dongyang Jinniu is due to be completed not later than 30 November 2016. As at 30 June 2016, Zhejiang Dongyang Jinniu was classified as a disposal group held for sale and as a discontinued operation. With Zhejiang Dongyang Jinniu being classified as a discontinued operation, the knitting and textile business is no longer included in the note for operating segment information.

The results of Zhejiang Dongyang Jinniu for the period are presented below:

	For the six months ended 30 June	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Revenue	18,616	11,546
Cost of sales	(17,621)	(10,467)
Gross profit	995	1,079
Other income	112	181
Administrative expenses	(882)	(1,692)
Other operating expenses, net	(4,112)	(13,543)
Finance costs	(1,188)	(1,448)
Loss before tax from the discontinued operation	(5,075)	(15,423)
Income tax credit/(expense) related to pre-tax profit/loss	(16)	152
Loss for the period from the discontinued operation	<u>(5,091)</u>	<u>(15,271)</u>
Attributable to:		
Owners of the parent	(2,596)	(7,788)
Non-controlling interests	(2,495)	(7,483)
	<u>(5,091)</u>	<u>(15,271)</u>

8. DISCONTINUED OPERATION (*cont'd*)

The major classes of assets and liabilities of Zhejiang Dongyang Jinniu classified as held for sale as at 30 June 2016 are as follows:

	30 June	31 December
	2016	2015
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Assets		
Property, plant and equipment	3,528	–
Prepaid land lease payments	2,800	–
Intangible asset	285	–
Inventories	4,062	–
Trade receivables	3,151	–
Prepayments, deposits and other receivables	2,246	–
Pledged time deposits	3,174	–
Cash and cash equivalents	1,934	–
	<hr/>	<hr/>
Assets classified as held for sale	21,180	–
	<hr/>	<hr/>
Liabilities		
Due to a non-controlling shareholder of a subsidiary	(18)	–
Trade and bills payables	(13,420)	–
Other payables and accruals	(19,017)	–
Interest-bearing bank borrowings	(37,964)	–
Tax payable	(371)	–
Deferred tax liabilities	(548)	–
	<hr/>	<hr/>
Liabilities directly associated with the assets classified as held for sale	(71,338)	–
	<hr/>	<hr/>
Net liabilities directly associated with the disposal group	(50,158)	–
	<hr/> <hr/>	<hr/> <hr/>

The net cash flows incurred by Zhejiang Dongyang Jinniu are as follows:

	For the six months	
	ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Operating activities	5,354	(141)
Investing activities	(2,814)	(248)
Financing activities	(962)	–
	<hr/>	<hr/>
Net cash inflow/(outflow)	1,578	(389)
	<hr/> <hr/>	<hr/> <hr/>

8. DISCONTINUED OPERATION (*cont'd*)

Loss per share:

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Basic and diluted, from the discontinued operation	<u>(HK0.04 cent)</u>	<u>(HK0.14 cent)</u>

The calculations of basic and diluted loss per share from the discontinued operation are based on:

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Loss attributable to ordinary equity holders of the parent from the discontinued operation	(HK\$2,596,000)	(HK\$7,788,000)
Weighted average number of ordinary shares in issue during the period	<u>5,519,591,000</u>	<u>5,519,591,000</u>

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 5,519,591,000 (2015: 5,519,591,000) in issue during the period.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the six months ended 30 June 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

The calculations of basic and diluted earnings/(loss) per share are based on:

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent:		
From continuing operations	(350,902)	525,590
From a discontinued operation	(2,596)	(7,788)
	<u>(353,498)</u>	<u>517,802</u>

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (*cont'd*)

	For the six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period	5,519,591,000	5,519,591,000

10. DIVIDEND

The Directors do not declare an interim dividend for the six months ended 30 June 2016 (2015: Nil).

11. TRADE AND BILLS RECEIVABLES

	30 June 2016	31 December 2015
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Trade and bills receivables	146,454	188,763
Impairment	–	(11,685)
	146,454	177,078
Less: Trade receivable, non-current portion	(21,075)	(21,628)
Current portion	125,379	155,450

The Group has different credit policies for different business operations depending on the requirements of the markets and businesses in which the subsidiaries operate. Trade receivables from sale of properties in respect of the property development and investment business are payable pursuant to the terms of sale and purchase agreements. The Group's trading terms with its customers in other businesses 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.

11. 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 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 month	–	168,800
1 to 2 months	15,795	1,184
2 to 3 months	–	2,858
Over 3 months	130,659	4,236
	<hr/> 146,454 <hr/>	<hr/> 177,078 <hr/>

12. TRADE AND BILLS PAYABLES

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

	30 June 2016 (Unaudited) HK\$'000	31 December 2015 (Audited) HK\$'000
Within 1 month	46,184	80,197
1 to 2 months	5,876	2,307
2 to 3 months	–	1,841
Over 3 months	3,901	8,013
	<hr/> 55,961 <hr/>	<hr/> 92,358 <hr/>

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

OVERALL REVIEW

On 29 June 2016, the Group signed an agreement with an independent third party to dispose of Zhejiang Dongyang Jinniu, a 51%-owned subsidiary. Zhejiang Dongyang Jinniu engages in the production and distribution of knitting and textile products, knitted fabrics and clothing. The Group has decided to cease its knitting and textile business because it has been loss-making in recent years. The disposal of Zhejiang Dongyang Jinniu is due to be completed not later than 30 November 2016. As at 30 June 2016, Zhejiang Dongyang Jinniu was classified as a disposal group held for sale and as a discontinued operation.

For the first half of 2016, the Group recorded revenue and gross profit from continuing operations of HK\$64,587,000 (2015: HK\$9,721,000) and HK\$28,559,000 (2015: HK\$2,552,000), respectively. The rise in revenue and gross profit was because the property development and investment business segment has started to sell properties since the second half of 2015. Nevertheless, the Group recorded loss for the period from continuing operations of HK\$348,668,000 (2015: profit of HK\$523,433,000), which arose mainly from the fair value losses on derivative financial instruments and equity investment at fair value through profit or loss in an aggregate of HK\$209,931,000 (2015: gain of HK\$192,687,000), as well as an impairment of an available-for-sale investment of HK\$94,907,000 (2015: Nil) and share of losses of the joint venture and associates in an aggregate of HK\$45,855,000 (2015: HK\$61,331,000). Loss for the period from a discontinued operation amounted to HK\$5,091,000 (2015: HK\$15,271,000). Loss attributable to owners of the parent was HK\$353,498,000 (2015: profit of HK\$517,802,000) and basic loss per share was HK¢6.40 (2015: basic earnings per share of HK¢9.38). The return on equity, calculated on the basis of profit attributable to owners of the parent as a percentage of equity attributable to owners of the parent, was -15% (2015: 19%).

BUSINESS REVIEW

Property development and investment business

Currently, two projects are in progress for the property development and investment business. 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”).

For the first half of 2016, the overall keynote of the regulation and control policy of the Chinese government for the real estate industry insisted on promoting consumption and destocking, with frequent launch of supply and demand easing policies to push ahead with the steady rally of market volumes and prices. Despite the steady release of demand volume in the second and third tier cities as stimulated by such policies, the impetus was inadequate to push up the house prices due to the high inventory of real estate. Remarkably increasing prices and volumes have not yet turned up in the market of Dalian City where the Dalian Project is located.

Property development and investment 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 saleable area of Dalian Project upon completion is approximately 350,488 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. Saleable area of 142,311 square meter has been completed as at 30 June 2016, of which 88,791 square meter was sold, 18,299 square meter was leased out and included in investment properties, and the remaining was included in completed properties held for sale. As at 30 June 2016, the total saleable area of properties under development was approximately 208,177 square meter.

Chongqing Project comprises twelve parcels of land with a total site area of approximately 375,252 square meter and is currently in the early development phase.

As at 30 June 2016, the properties under development and completed properties held for sale amounted to HK\$4,172,883,000 (31 December 2015: HK\$4,070,648,000) and investment properties amounted to HK\$363,425,000 (31 December 2015: HK\$373,425,000). The customer deposits, which represent the proceeds of the pre-sale of properties, amounted to HK\$510,830,000 (31 December 2015: HK\$248,310,000). Dalian Project recorded revenue of HK\$64,587,000 (2015: HK\$2,424,000) and gross profit of HK\$28,559,000 (2015: HK\$2,424,000) for the period. The property development and investment business segment recorded profit of HK\$2,288,000 (2015: loss of HK\$46,746,000) for the period.

Trading business

The trading business segment recorded no revenue (2015: HK\$7,297,000) and no profit or loss (2015: loss of HK\$868,000) for the period.

FINANCIAL REVIEW

Convertible bonds

The Group held convertible bonds issued by Peace Map Holding Limited (“PMH”) and AVIC Joy Holdings (HK) Limited (“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.

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.

Convertible bonds (cont'd)

The Group's portfolio of derivative financial instruments as at 30 June 2016 consisted of the derivatives at fair values of HK\$32,158,000 (31 December 2015: HK\$90,444,000) and HK\$15,711,000 (31 December 2015: HK\$29,452,000) embedded in the convertible bonds issued by PMH and AVIC Joy, respectively. During the period, a fair value loss of HK\$72,027,000 (2015: gain of HK\$121,510,000) was recognised in respect of the embedded derivatives, which was mainly due to the drop in the share prices of both PMH and AVIC Joy.

Equity investment at fair value through profit or loss

The Group held shares issued by PMH and classified as an equity investment at fair value through profit or loss. During the period, the Group recorded a fair value loss on equity investment at fair value through profit or loss of HK\$137,904,000 (2015: gain of HK\$71,177,000) due to the drop in the share price of PMH.

Impairment of an available-for-sale investment

The Group held shares issued by AVIC Joy and classified as an available-for-sale investment. Due to the continuous drop in the share price of AVIC Joy since the second half of 2015, an impairment of an available-for-sale investment of HK\$94,907,000 (2015: Nil) was recorded for the period.

Joint venture and associates

During the period, the Group recorded share of losses of the joint venture and associates in an aggregate of HK\$45,855,000 (2015: HK\$61,331,000).

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 June 2016, the Group had current assets of HK\$5,257,308,000 (31 December 2015: HK\$5,127,503,000), including cash and bank balances and time deposits in an aggregate of HK\$664,261,000 (31 December 2015: HK\$473,689,000). The Group's current liabilities as at 30 June 2016 were HK\$1,681,407,000 (31 December 2015: HK\$763,972,000).

As at 30 June 2016, the Group's equity attributable to owners of the parent amounted to HK\$2,367,142,000 (31 December 2015: HK\$2,737,534,000), comprising issued capital of HK\$551,959,000 (31 December 2015: HK\$551,959,000) and reserves of HK\$1,815,183,000 (31 December 2015: HK\$2,185,575,000). The Group's interest-bearing debts, including loans from fellow subsidiaries of HK\$1,557,802,000 (31 December 2015: HK\$1,864,671,000), interest-bearing bank borrowings of HK\$345,455,000 (31 December 2015: HK\$37,964,000) and loans from an intermediate holding company of HK\$496,581,000 (31 December 2015: HK\$509,581,000) are mainly denominated in Renminbi and arranged on a fixed rate basis. The Group's gearing ratio, calculated on the basis of the interest-bearing debts as a percentage of equity attributable to owners of the parent plus the interest-bearing debts, was 50% (31 December 2015: 47%).

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

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2016, the following Group's assets were pledged to secure the Group's banking facilities:

- (a) the Group's building in Mainland China with net book value of HK\$3,004,000 (31 December 2015: HK\$3,148,000);
- (b) the Group's leasehold land in Mainland China with net book value of HK\$2,872,000 (31 December 2015: HK\$2,885,000);
- (c) certain of the Group's short term time deposits amounting to HK\$3,174,000 (31 December 2015: HK\$359,000); and
- (d) certain of the Group's properties under development and completed properties held for sale with an aggregate carrying value of HK\$1,290,868,000 (31 December 2015: Nil).

EXPOSURE TO FOREIGN CURRENCY RISK

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 2016, the Group has given guarantees of HK\$74,686,000 (31 December 2015: HK\$36,489,000) 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 2016, there were 149 (31 December 2015: 156) employees in the Group. The employee wages and salaries, excluding directors' remuneration, amounted to HK\$13,135,000 (2015: HK\$9,840,000) for the period. The Group recognises the importance of good relationship with employees. The Directors believe that the working environment and benefits offered to employees have contributed to building good staff relations and retention. The Group's remuneration policies are formulated based on the performance of individual employees and market conditions and are reviewed regularly. 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.

OUTLOOK

In 2016, the launch of favorable real estate policies in China has effectively promoted the persistent rally of property sales. The overall inventory pressure in the market has been alleviated. The first tier cities and a part of the hot-spot second tier cities have experienced good economic development with persistent population influx. They have managed to make room for demand leading to the decrease of the inventory pressure and the impetus for increasing house prices. Some second tier cities and the majority of the third and fourth tier cities are still confronted with the greater pressure of destocking. Various approaches are required to help destocking. On the whole, the real estate market will keep on developing well with house prices remaining stable or on the gentle rise.

In 2016, the Group will endeavor to closely adhere to the market trend, expedite the development, sales and the destocking of existing projects, and on the basis of consolidating the advantages of having entered into the cities, will seek to seize the opportunities of entering into the first and second tier core cities so as to further expand the market layout of the Group.

Apart from being closely concerned with the public bid invitation, auction and listing markets, attention is also paid to the possibilities of merger and acquisition. We believe that more opportunities will emerge with the industry differentiation and integration.

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 2016, 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. 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.

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 of 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 2016.

AUDIT COMMITTEE

The Company has an Audit Committee 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, risk management and internal control systems and the effectiveness of the Company's internal audit function including the review of 2016 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 RESULTS

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2016 has been reviewed by the Audit Committee, and has 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 2016 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, 26 August 2016

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.