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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 2017

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 2017, 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	
		2017	2016
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
CONTINUING OPERATIONS			
Revenue	3	29,740	64,587
Cost of sales		(20,980)	(36,028)
Gross profit		8,760	28,559
Other income	4	4,570	9,846
Selling and distribution expenses		(14,716)	(8,927)
Administrative expenses		(31,511)	(24,106)
Other operating expenses	6	(347)	(934)
Finance costs	5	(22,089)	(38)
Gain on disposal of convertible loans		87,151	–
Gain on deemed disposal of interest in an associate		–	3,386
Share of profits and losses of:			
Joint venture		(9,934)	(43,232)
Associates		(1,113)	(2,623)
Impairment of an available-for-sale investment (transfer from available-for-sale investment revaluation reserve)		(48,485)	(94,907)
Fair value loss on derivative financial instruments		(11,086)	(72,027)
Fair value loss on equity investment at fair value through profit or loss		(25,905)	(137,904)

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

		For the six months ended 30 June	
		2017	2016
	<i>Notes</i>	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Loss before tax from continuing operations	6	(64,705)	(342,907)
Income tax expense	7	<u>(2,302)</u>	<u>(5,761)</u>
Loss for the period from continuing operations		(67,007)	(348,668)
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	8	<u>–</u>	<u>(5,091)</u>
LOSS FOR THE PERIOD		<u>(67,007)</u>	<u>(353,759)</u>
Attributable to:			
Owners of the parent		(57,374)	(353,498)
Non-controlling interests		<u>(9,633)</u>	<u>(261)</u>
		<u>(67,007)</u>	<u>(353,759)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted			
– For loss for the period		<u>(HK1.04 cents)</u>	<u>(HK6.40 cents)</u>
– For loss from continuing operations		<u>(HK1.04 cents)</u>	<u>(HK6.36 cents)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
LOSS FOR THE PERIOD	<u>(67,007)</u>	<u>(353,759)</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(37,212)	(89,224)
Reclassification adjustment for losses included in the condensed consolidated statement of profit or loss – Impairment loss	<u>48,485</u>	<u>94,907</u>
	11,273	5,683
Share of other comprehensive income of a joint venture	1,468	–
Exchange differences on translation of foreign operations	<u>59,570</u>	<u>(33,077)</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>72,311</u>	<u>(27,394)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>5,304</u>	<u>(381,153)</u>
Attributable to:		
Owners of the parent	(5,040)	(370,392)
Non-controlling interests	<u>10,344</u>	<u>(10,761)</u>
	<u>5,304</u>	<u>(381,153)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017	31 December 2016
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		23,425	24,975
Investment properties		325,391	315,866
Investment in a joint venture		50,137	58,602
Investments in associates		12,265	13,378
Financial asset under Project EC120		–	–
Available-for-sale investments		192,897	278,745
Derivative financial instruments		68	11,338
Trade receivable	<i>11</i>	–	20,178
Deferred tax assets		10,327	10,025
		<hr/>	<hr/>
Total non-current assets		614,510	733,107
CURRENT ASSETS			
Properties under development and completed properties held for sale		4,326,947	4,105,317
Trade receivables	<i>11</i>	88,307	69,442
Due from fellow subsidiaries		2,646	10,960
Due from an intermediate holding company		–	5,282
Loans to associates		9,783	9,497
Loan to a related company		17,265	16,760
Prepayments, deposits and other receivables		45,575	42,978
Available-for-sale investments		48,636	–
Derivative financial instruments		184	–
Equity investment at fair value through profit or loss		61,714	87,619
Prepaid taxes		23,078	16,186
Cash and cash equivalents		670,377	605,925
		<hr/>	<hr/>
Total current assets		5,294,512	4,969,966

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

		30 June 2017	31 December 2016
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	HK\$'000
CURRENT LIABILITIES			
Due to non-controlling shareholders of subsidiaries		117,783	88,444
Due to an intermediate holding company		7,535	–
Due to fellow subsidiaries		2,969	1,643
Loans from a fellow subsidiary		621,547	586,592
Trade payables	12	35,178	41,213
Other payables and accruals		22,217	17,223
Customer deposits		1,367,722	920,238
Tax payable		36,954	37,449
		<hr/>	<hr/>
Total current liabilities		2,211,905	1,692,802
		<hr/>	<hr/>
NET CURRENT ASSETS		3,082,607	3,277,164
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,697,117	4,010,271
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Loans from an intermediate holding company		489,756	475,419
Loans from a fellow subsidiary		540,976	648,045
Interest-bearing bank borrowings		–	230,134
Deferred tax liabilities		134,328	129,920
		<hr/>	<hr/>
Total non-current liabilities		1,165,060	1,483,518
		<hr/>	<hr/>
Net assets		2,532,057	2,526,753
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		551,959	551,959
Reserves		1,416,273	1,421,313
		<hr/>	<hr/>
		1,968,232	1,973,272
Non-controlling interests		563,825	553,481
		<hr/>	<hr/>
Total equity		2,532,057	2,526,753
		<hr/> <hr/>	<hr/> <hr/>

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 2016, 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 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
<i>Annual Improvements</i>	<i>Amendments to HKFRS 12 Clarification of the scope of</i>
<i>2014-2016 Cycle</i>	<i>disclosure requirements in HKFRS 12</i>

The adoption of the revised HKFRSs has had no significant financial effect on these condensed consolidated interim 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.

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, the gain on disposal of convertible loans, 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 is an analysis of the Group's revenue and results from continuing operations by reportable operating segments.

For the six months ended 30 June 2017

	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	19,760	–	19,760
Gross rental income	9,980	–	9,980
	<hr/>	<hr/>	<hr/>
Revenue from continuing operations	29,740	–	29,740
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Segment results	(46,841)	–	(46,841)
	<hr/> <hr/>	<hr/> <hr/>	
<i>Reconciliation:</i>			
Unallocated other income			3,311
Corporate and other unallocated expenses			(14,105)
Gain on disposal of convertible loans			87,151
Share of profits and losses of:			
Joint venture			(9,934)
Associates			(1,113)
Impairment of an available-for-sale investment			(48,485)
Fair value loss on derivative financial instruments			(11,086)
Fair value loss on equity investment at fair value through profit or loss			(25,905)
			<hr/>
Loss for the period from continuing operations			(67,007)
			<hr/> <hr/>

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

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>

4. OTHER INCOME

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	3,091	816
Interest income on a convertible bond	518	518
Interest income on loans to associates	282	284
Interest income on loans to related companies	511	833
Government grant*	168	7,245
Others	–	150
	<u>4,570</u>	<u>9,846</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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and other loans	60,772	97,139
Less: Interest capitalised	(38,683)	(97,101)
	<u>22,089</u>	<u>38</u>

6. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of properties sold*	20,980	36,028
Depreciation	681	1,150
Other operating expenses:		
Loss on disposal of items of property, plant and equipment	347	–
Provision for impairment of a loan to a related company	–	934
	<u>347</u>	<u>934</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 2017 and 2016 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Elsewhere	1,714	1,471
Deferred	(25)	(989)
Land Appreciation Tax in Mainland China	613	5,279
Total tax charge for the period	<u>2,302</u>	<u>5,761</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 engaged in the production and distribution of knitting and textile products, knitted fabrics and clothing. The Group decided to dispose of this subsidiary and cease its knitting and textile business because it had been loss-making in recent years.

The results of Zhejiang Dongyang Jinniu included in the Group’s condensed consolidated statement of profit or loss as a discontinued operation are presented below:

	For the six months ended 30 June	
	2017 (Unaudited) HK\$’000	2016 (Unaudited) HK\$’000
Revenue	–	18,616
Cost of sales	–	(17,621)
	<u>–</u>	<u>(17,621)</u>
Gross profit	–	995
Other income	–	112
Administrative expenses	–	(882)
Other operating expenses, net	–	(4,112)
Finance costs	–	(1,188)
	<u>–</u>	<u>(1,188)</u>
Loss before tax from the discontinued operation	–	(5,075)
Income tax expense	–	(16)
	<u>–</u>	<u>(16)</u>
Loss after tax from the discontinued operation	<u>–</u>	<u>(5,091)</u>
Attributable to:		
Owners of the parent	–	(2,596)
Non-controlling interests	–	(2,495)
	<u>–</u>	<u>(2,495)</u>
	<u>–</u>	<u>(5,091)</u>
Loss per share:		
Basic and diluted, from the discontinued operation	<u>–</u>	<u>(HK0.04 cent)</u>

The calculation of basic and diluted loss per share from the discontinued operation is based on:

	For the six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Loss attributable to ordinary equity holders of the parent from the discontinued operation	–	(HK\$2,596,000)
Weighted average number of ordinary shares in issue during the period	<u>5,519,591,000</u>	<u>5,519,591,000</u>

8. DISCONTINUED OPERATION *(cont'd)*

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

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Operating activities	–	5,354
Investing activities	–	(2,814)
Financing activities	–	(962)
	<hr/>	<hr/>
Net cash inflow	–	1,578
	<hr/> <hr/>	<hr/> <hr/>

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the 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 (2016: 5,519,591,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

The calculation of basic and diluted loss per share is based on:

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Loss attributable to ordinary equity holders of the parent		
From continuing operations	(57,374)	(350,902)
From a discontinued operation	–	(2,596)
	<hr/>	<hr/>
	(57,374)	(353,498)
	<hr/> <hr/>	<hr/> <hr/>

	For the six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period	5,519,591,000	5,519,591,000
	<hr/> <hr/>	<hr/> <hr/>

10. DIVIDEND

The Directors do not declare an interim dividend for the six months ended 30 June 2017 (2016: Nil).

11. TRADE RECEIVABLES

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Trade receivables	88,307	89,620
Less: Non-current portion	—	(20,178)
	<hr/>	<hr/>
Current portion	88,307	69,442
	<hr/> <hr/>	<hr/> <hr/>

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 the trading business 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 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.

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within 1 month	1,713	2,089
1 to 2 months	—	—
2 to 3 months	—	—
Over 3 months	86,594	87,531
	<hr/>	<hr/>
	88,307	89,620
	<hr/> <hr/>	<hr/> <hr/>

12. TRADE PAYABLES

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within 1 month	5,167	10,249
1 to 2 months	–	28,005
2 to 3 months	–	–
Over 3 months	<u>30,011</u>	<u>2,959</u>
	<u><u>35,178</u></u>	<u><u>41,213</u></u>

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

OVERALL REVIEW

For the first half of 2017, the Group recorded revenue from continuing operations of HK\$29,740,000 (2016: HK\$64,587,000) and loss attributable to owners of the parent of HK\$57,374,000 (2016: HK\$353,498,000). Basic loss per share amounted to HK¢1.04 (2016: HK¢6.40). 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 –3% (2016: –15%). The improvement in loss position was mainly attributable to the decrease in the losses of certain investments held by the Group for the six months ended 30 June 2017 as compared to the same period in 2016, as well as a one-off gain on disposal of convertible loans recorded.

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”).

Property development and investment business (cont'd)

For the first half of 2017, the control policies of the Chinese government on the real estate industry continued to vary according to the segments and cities in general. On the one hand, the Chinese government continued to promote destocking in the high-inventory second-tier, third-tier and fourth-tier cities and promote property upgrade among buyers for their own use. On the other hand, the contractionary control measures featuring “purchase restriction, credit restriction, price restriction and sales restriction” were intensively introduced in the first-tier and popular second-tier and third-tier cities. At the same time, to deleverage the financial system, the Chinese government tightened the credit policies on real estate industry by stricter monitoring of banks’ credit extension to real estate industry. Affected by this external environment, the trading volume of Dalian Project showed a downward trend.

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 2017, of which 92,175 square meter was sold, 18,299 square meter was available for rent and included in investment properties, and the remaining was included in completed properties held for sale. As at 30 June 2017, 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 2017, the properties under development and completed properties held for sale amounted to HK\$4,326,947,000 (31 December 2016: HK\$4,105,317,000) and investment properties amounted to HK\$325,391,000 (31 December 2016: HK\$315,866,000). The customer deposits, which represent the proceeds of the pre-sale of properties, amounted to HK\$1,367,722,000 (31 December 2016: HK\$920,238,000). For the first half of 2017, the property development and investment business segment recognised revenue and gross profit HK\$29,740,000 (2016: HK\$64,587,000) and HK\$8,760,000 (2016: HK\$28,559,000), respectively, and recorded loss of HK\$46,841,000 (2016: profit of HK\$2,288,000).

Trading business

The trading business segment recorded no revenue (2016: Nil) and no profit or loss (2016: Nil) for the period.

FINANCIAL REVIEW

Assignment of convertible loans

The fully-impaired convertible loans to 上海藍沛新材料科技股份有限公司, an available-for-sale investment, were assigned to an independent third party at a consideration of HK\$87,151,000 during the period. As a result, a gain on disposal of convertible loans of HK\$87,151,000 (2016: Nil) was recognised.

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.

The Group’s portfolio of derivative financial instruments as at 30 June 2017 consisted of the derivatives at fair values of HK\$68,000 (31 December 2016: HK\$9,277,000) and HK\$184,000 (31 December 2016: HK\$2,061,000) embedded in the convertible bonds issued by PMH and AVIC Joy, respectively. During the period, a fair value loss on derivative financial instruments of HK\$11,086,000 (2016: HK\$72,027,000) was recognised in respect of the derivatives embedded in the convertible bonds issued to PMH and AVIC Joy, which was mainly due to the drop in the share prices of both companies.

Equity investment at fair value through profit or loss

The Group held shares issued by PMH and classified the investment 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\$25,905,000 (2016: HK\$137,904,000) 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 the investment as an available-for-sale investment. Due to the significant decline in the share price of AVIC Joy during the period, an impairment of an available-for-sale investment of HK\$48,485,000 (2016: HK\$94,907,000) was recorded.

Joint venture and associates

During the period, the Group recorded share of losses of the joint venture and associates in an aggregate of HK\$11,047,000 (2016: HK\$45,855,000).

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 June 2017, the Group had current assets of HK\$5,294,512,000 (31 December 2016: HK\$4,969,966,000), including cash and bank balances and time deposits in an aggregate of HK\$670,377,000 (31 December 2016: HK\$605,925,000). The Group's current liabilities as at 30 June 2017 were HK\$2,211,905,000 (31 December 2016: HK\$1,692,802,000).

As at 30 June 2017, the Group's equity attributable to owners of the parent amounted to HK\$1,968,232,000 (31 December 2016: HK\$1,973,272,000), comprising issued capital of HK\$551,959,000 (31 December 2016: HK\$551,959,000) and reserves of HK\$1,416,273,000 (31 December 2016: HK\$1,421,313,000). The Group's interest-bearing debts, including loans from a fellow subsidiary of HK\$1,162,523,000 (31 December 2016: HK\$1,234,637,000), loans from an intermediate holding company of HK\$489,756,000 (31 December 2016: HK\$475,419,000) and interest-bearing bank borrowings of Nil (31 December 2016: HK\$230,134,000) 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 46% (31 December 2016: 50%).

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

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.

As set out in the Company's announcement dated 7 September 2016, the Company is considering a series of business and asset reorganisation proposals which include the acquisition of certain assets and the disposal of the Group's real estate development business in China.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group has given guarantees of HK\$73,081,000 (31 December 2016: HK\$76,085,000) 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 2017, there were 66 (31 December 2016: 73) employees in the Group. The employee wages and salaries, excluding directors' remuneration, amounted to HK\$14,376,000 (2016: HK\$13,135,000) 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

The Group, as an investment holding company, is committed to invest in the property development and investment 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. Given that China is encouraging the development of its aviation industry, particularly the reform of low-altitude airspace management, the aero-technology related business will have a golden opportunity for development in future. The Group will identify the projects with a bright development prospect, and will continue to review and optimise its business portfolio.

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 maintaining good standards of corporate governance practices by emphasising transparency, accountability and responsibility to its shareholders.

Throughout the six months ended 30 June 2017, 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.

Other than the Non-executive Director appointed on 23 June 2015 and the Independent Non-executive Director appointed on 26 May 2017, the other two Independent Non-executive Directors are appointed without specific terms, a requirement provided by 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.

CORPORATE GOVERNANCE *(cont'd)*

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 2017.

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 2017 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. Zhang Ping.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 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 2017 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
Liu Hongde
Chairman

Hong Kong, 25 August 2017

As at the date of this announcement, the Board comprises Mr. Liu Hongde, Mr. Pan Linwu, Mr. Lai Weixuan, Ms. Zhou Chunhua and Mr. Xu Hongge as executive Directors; Mr. Chow Wai Kam as non-executive Director; Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Zhang Ping as independent non-executive Directors.