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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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "Board") of directors (the "Directors") of AVIC International Holding (HK) Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017, together with the comparative figures for 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2017** **HK$'000**	2016 HK$'000
CONTINUING OPERATIONS			
REVENUE	3	**1,520,710**	102,786
Cost of sales		**(1,706,522)**	(74,269)
Gross profit/(loss)		**(185,812)**	28,517
Other income and gains	4	**41,681**	12,765
Selling and distribution expenses		**(26,130)**	(31,694)
Administrative expenses		**(73,718)**	(41,611)
Other operating expenses	6	**(21,463)**	(54,633)
Finance costs	5	**(38,761)**	(77)
Gain on disposal of convertible loans		**87,151**	–
Net gain on deemed disposal of associates		**–**	3,386
Share of profits and losses of:			
Joint venture		**(19,043)**	(215,369)
Associates		**222**	(3,013)
Impairment of available-for-sale investments (transfer from available-for-sale investment revaluation reserve)		**(67,280)**	(134,107)
Fair value loss of available-for-sale investments (transfer from equity on derecognition)		**–**	(490)
Fair value loss on derivative financial instruments		**(11,337)**	(108,558)
Fair value loss on an equity investment at fair value through profit or loss		**(6,857)**	(198,094)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

	Notes	**2017** **HK$'000**	2016 HK$'000
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	*6*	**(321,347)**	(742,978)
Income tax credit/(expense)	*7*	**(15,196)**	6,685
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(336,543)**	(736,293)
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	*8*	**–**	27,362
LOSS FOR THE YEAR		**(336,543)**	(708,931)
Attributable to:			
Owners of the parent		**(288,481)**	(685,842)
Non-controlling interests		**(48,062)**	(23,089)
		(336,543)	(708,931)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic and diluted			
– For loss for the year		**(HK5.23 cents)**	(HK12.43 cents)
– For loss from continuing operations		**(HK5.23 cents)**	(HK12.97 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2017 *HK$'000*	2016 *HK$'000*
LOSS FOR THE YEAR	**(336,543)**	(708,931)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**(86,017)**	(119,876)
Reclassification adjustments for losses included in the consolidated statement of profit or loss		
– Loss on derecognition	**–**	490
– Impairment loss	**67,280**	134,107
	(18,737)	14,721
Exchange differences:		
Exchange differences on translation of foreign operations	**97,554**	(125,145)
Reclassification adjustment for a foreign operation disposed of during the year	**–**	(1,223)
	97,554	(126,368)
Share of other comprehensive income of a joint venture	**2,905**	(8,905)
NET OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**81,722**	(120,552)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(254,821)**	(829,483)
Attributable to:		
Owners of the parent	**(240,767)**	(764,262)
Non-controlling interests	**(14,054)**	(65,221)
	(254,821)	(829,483)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**2017** **HK$'000**	2016 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**22,444**	24,975
Investment properties		**368,639**	315,866
Investment in a joint venture		**42,464**	58,602
Investments in associates		**14,385**	13,378
Financial asset under Project EC120		**–**	–
Available-for-sale investments		**110,380**	278,745
Derivative financial instruments		**–**	11,338
Trade receivable	*10*	**–**	20,178
Deferred tax assets		**–**	10,025
Total non-current assets		**558,312**	733,107
CURRENT ASSETS			
Properties under development and completed properties held for sale		**2,937,160**	4,105,317
Trade receivables	*10*	**76,977**	69,442
Due from fellow subsidiaries		**1,664**	10,960
Due from an intermediate holding company		**–**	5,282
Due from an associate		**10,441**	–
Loans to associates		**–**	9,497
Loan to a related company		**–**	16,760
Prepayments, deposits and other receivables		**5,095**	42,978
Available-for-sale investments		**82,348**	–
Equity investment at fair value through profit or loss		**80,761**	87,619
Derivative financial instruments		**1**	–
Prepaid taxes		**4,176**	16,186
Cash and cash equivalents		**627,140**	605,925
Total current assets		**3,825,763**	4,969,966

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

	Note	2017 HK$'000	2016 HK$'000
CURRENT LIABILITIES			
Due to non-controlling shareholders of subsidiaries		**138,852**	88,444
Due to an intermediate holding company		**16,681**	–
Due to fellow subsidiaries		**5,492**	1,643
Loans from a fellow subsidiary		**366,864**	586,592
Trade payables	*11*	**122,511**	41,213
Other payables and accruals		**34,198**	17,223
Customer deposits		**217,981**	920,238
Tax payable		**78,403**	37,449
Total current liabilities		**980,982**	1,692,802
NET CURRENT ASSETS		**2,844,781**	3,277,164
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,403,093**	4,010,271
NON-CURRENT LIABILITIES			
Loans from an intermediate holding company		**503,550**	475,419
Loans from a fellow subsidiary		**556,213**	648,045
Interest-bearing bank borrowings		**–**	230,134
Deferred tax liabilities		**71,398**	129,920
Total non-current liabilities		**1,131,161**	1,483,518
Net assets		**2,271,932**	2,526,753
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**551,959**	551,959
Reserves		**1,180,546**	1,421,313
		1,732,505	1,973,272
Non-controlling interests		**539,427**	553,481
Total equity		**2,271,932**	2,526,753

Notes:

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, an equity investment at fair value through profit or loss, certain available-for-sale investments, and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements.

Relevant disclosure has been made in the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has one (2016: two) reportable operating segment, the property development and investment business segment, which engages in the property development of residential and commercial projects. The trading business is not identified as a reportable operating segment in the current year as that business recorded no revenue and no profit or loss for both 2017 and 2016.

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 loss, which is a measure of adjusted loss for the year from continuing operations. The adjusted loss for the year from continuing operations is measured consistently with the Group's loss for the year 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.

The following is an analysis of the Group's revenue and results from continuing operations by reportable operating segment for the year ended 31 December.

	Property development and investment business		Total	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:				
Sales to external customers	**1,498,255**	85,987	**1,498,255**	85,987
Gross rental income	**22,455**	16,799	**22,455**	16,799
Revenue from continuing operations	**1,520,710**	102,786	**1,520,710**	102,786
Segment results	**(267,833)**	(47,058)	**(267,833)**	(47,058)
Reconciliation:				
Unallocated other income			**6,227**	5,985
Corporate and other unallocated expenses			**(58,517)**	(38,592)
Net gain on deemed disposal of associates			**–**	3,386
Gain on disposal of convertible loans			**87,151**	–
Share of profits and losses of:				
Joint venture			**(19,043)**	(215,369)
Associates			**222**	(3,013)
Impairment of an available-for-sale investment			**(67,280)**	(134,107)
Fair value loss of available-for-sale investments			**–**	(490)
Fair value loss on derivative financial instruments			**(11,337)**	(108,558)
Fair value loss on an equity investment at fair value through profit or loss			**(6,857)**	(198,094)
Unallocated income tax credit/(expense)			**724**	(383)
Loss for the year from continuing operations			**(336,543)**	(736,293)
Other segment information:				
Bank interest income	**2,341**	1,789	**2,341**	1,789
Unallocated bank interest income			**3,898**	385
			6,239	2,174
Finance costs	**(38,761)**	(77)	**(38,761)**	(77)

Geographical information

(a) Revenue from external customers

	2017	2016
	HK$'000	*HK$'000*
Mainland China	**1,520,710**	102,786

The revenue information of continuing operations above is based on the location of the customers.

(b) Non-current assets

	2017	2016
	HK$'000	*HK$'000*
Hong Kong	**22,424**	23,211
Mainland China	**425,508**	389,610
	447,932	412,821

The non-current asset information above is based on the locations of the assets and excludes financial assets and deferred tax assets.

4. OTHER INCOME AND GAINS

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

	2017	2016
	HK$'000	*HK$'000*
Other income		
Bank interest income	**6,239**	2,174
Interest income on a convertible bond	**1,036**	1,036
Interest income on loans to associates	**586**	577
Interest income on a loan to a related company	**536**	1,076
Government grant*	**172**	7,534
Others	**9**	146
	8,578	12,543
Gains		
Fair value gains on investment properties	**33,103**	–
Gain on disposal of items of property, plant and equipment	**–**	222
	41,681	12,765

* 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:

	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans and other loans	**109,529**	156,816
Less: Interest capitalised	**(70,768)**	(156,739)
	38,761	77

6. LOSS BEFORE TAX

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

	2017	2016
	HK$'000	*HK$'000*
Cost of properties sold*	**1,409,674**	74,269
Write-down of properties under development and completed properties held for sale to net realisable value*	**296,848**	–
Depreciation	**1,098**	2,174
Other operating expenses:		
Loss on disposal of items of property, plant and equipment	**764**	–
Fair value losses on investment properties	**–**	34,047
Impairment of an investment in a joint venture	**–**	7,745
Provision for impairment of loans to related companies	**–**	12,608
Provision for impairment of prepayments and other receivables	**20,699**	233
	21,463	54,633

* Included in "cost of sales" in the consolidated statement of profit or loss.

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2016: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2017	2016
	HK$'000	*HK$'000*
Current – Hong Kong:		
Overprovision in prior years	**(277)**	–
Current – Elsewhere:		
Charge for the year	**25,361**	1,155
Deferred	**(55,505)**	(15,225)
Land appreciation tax in Mainland China	**45,617**	7,385
Total tax charge/(credit) for the year from continuing operations	**15,196**	(6,685)

8. DISCONTINUED OPERATION

In the prior year, the Group disposed of 浙江東陽金牛針織製衣有限公司 ("Zhejiang Dongyang Jinniu"), a 51%-owned subsidiary, to an independent third party. 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 consolidated statement of profit or loss as a discontinued operation are presented below:

	2017	2016
	HK$'000	*HK$'000*
Revenue	–	18,616
Cost of sales	–	(17,621)
Gross profit	–	995
Other income	–	112
Administrative expenses	–	(882)
Other operating expenses	–	(4,112)
Finance costs	–	(1,188)
Loss before tax from the discontinued operation	–	(5,075)
Income tax expense	–	(16)
Loss after tax from the discontinued operation	–	(5,091)
Pre-tax gain on disposal of a subsidiary	–	32,453
Tax expense	–	–
After-tax gain on disposal of a subsidiary	–	32,453
Profit for the year from the discontinued operation	–	27,362
Attributable to:		
Owners of the parent	–	29,857
Non-controlling interests	–	(2,495)
	–	27,362
Earnings per share:		
Basic and diluted, from the discontinued operation	–	HK0.54 cent

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

	2017	2016
Profit attributable to ordinary equity holders of the parent from the discontinued operation	–	HK$29,857,000
Weighted average number of ordinary shares in issue during the year	**5,519,591,000**	5,519,591,000

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 year 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 year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

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

	2017 ***HK$'000***	2016 *HK$'000*
Profit/(loss) attributable to ordinary equity holders of the parent:		
From continuing operations	**(288,481)**	(715,699)
From a discontinued operation	**–**	29,857
	(288,481)	(685,842)

	Number of shares **2017**	 2016
Weighted average number of ordinary shares in issue during the year	**5,519,591,000**	5,519,591,000

10. TRADE RECEIVABLES

	2017 ***HK$'000***	2016 *HK$'000*
Trade receivables	**76,977**	89,620
Less: Non-current portion	**–**	(20,178)
Current portion	**76,977**	69,442

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 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 ageing 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:

	2017	2016
	HK$'000	*HK$'000*
Within 1 month	**–**	2,089
1 to 2 months	**–**	–
2 to 3 months	**–**	–
Over 3 months	**76,977**	87,531
	76,977	89,620

11. TRADE PAYABLES

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

	2017	2016
	HK$'000	*HK$'000*
Within 1 month	**85,604**	10,249
1 to 2 months	**–**	28,005
2 to 3 months	**–**	–
Over 3 months	**36,907**	2,959
	122,511	41,213

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

DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2017.

OVERALL REVIEW

In 2017, the Group recorded revenue from continuing operations of HK$1,520,710,000 (2016: HK$102,786,000) and loss attributable to owners of the parent of HK$288,481,000 (2016: HK$685,842,000). Basic loss per share amounted to HK¢5.23 (2016: HK¢12.43). The return on equity, calculated on the basis of profit/loss attributable to owners of the parent as a percentage of equity attributable to owners of the parent as of 31 December 2017, was -17% (2016: -35%).

The improvement in loss position was mainly attributable to: (1) the decrease in the share of losses of the joint venture and associates by HK$199,561,000 from HK$218,382,000 in 2016 to HK$18,821,000 in 2017, (2) the decrease in the fair value loss on an equity investment at fair value through profit or loss by HK$191,237,000 from HK$198,094,000 in 2016 to HK$6,857,000 in 2017, (3) the decrease in the fair value loss on derivative financial instruments by HK$97,221,000 from HK$108,558,000 in 2016 to HK$11,337,000 in 2017, (4) a one-off gain on disposal of convertible loans of HK$87,151,000 recorded, and (5) the decrease in the impairment of available-for-sale investments by HK$66,827,000 from HK$134,107,000 in 2016 to HK$67,280,000 in 2017, even though properties under development and completed properties held for sale have been written down to net realisable value and resulted in a loss of HK$296,848,000 (2016: Nil) which was included in the cost of sales.

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").

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 244,885 square meter has been completed as at 31 December 2017, of which 172,958 square meter has been 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 31 December 2017, the total saleable area of properties under development was approximately 105,603 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 31 December 2017, the properties under development and completed properties held for sale amounted to HK$2,937,160,000 (2016: HK$4,105,317,000) and investment properties amounted to HK$368,639,000 (2016: HK$315,866,000). The customer deposits, which represent the proceeds of the pre-sale of properties, amounted to HK$217,981,000 (2016: HK$920,238,000). Property development and investment business recorded revenue of HK$1,520,710,000 (2016: HK$102,786,000) and gross loss of HK$185,812,000 (2016: gross profit of HK$28,517,000) for the year. The main reason for the gross loss was due to the loss of HK$296,848,000 (2016: Nil) arisen from writing down properties under development and completed properties held for sale to net realisable value and included in the cost of sales. The net realisable value was determined based on valuations performed by an independent professionally qualified valuer. As a result, the property development and investment business segment recorded a loss of HK$267,833,000 (2016: HK$47,058,000) for the year.

FINANCIAL REVIEW

Disposal of convertible loans

During the year, convertible loans which have been fully impaired were disposed of to an independent third party at a consideration of HK$87,151,000. 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 31 December 2017 consisted of the derivatives at fair values of Nil (2016: HK$9,277,000) and HK$1,000 (2016: HK$2,061,000) embedded in the convertible bonds issued by PMH and AVIC Joy, respectively. During the year, a fair value loss of HK$11,337,000 (2016: HK$108,558,000) was recognised in respect of the derivatives embedded in the convertible bonds issued by PMH and AVIC Joy, which was mainly due to the drop in the share prices of both companies, as well as the coming maturity of both convertible bonds.

Due to the decline in the fair value of the bond components of the convertible bonds issued by PMH and the existence of objective evidence of impairment, an impairment of HK$18,795,000 (2016: Nil) was recorded, which was included in the impairment of available-for-sale investments.

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 year, the Group recorded a fair value loss on an equity investment at fair value through profit or loss of HK$6,857,000 (2016: HK$198,094,000) due to the drop in the share price of PMH.

Impairment of a listed equity 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 year, an impairment of HK$48,485,000 (2016: HK$134,107,000) was recorded, which was included in the impairment of available-for-sale investments.

Joint venture and associates

During the year, the Group recorded share of losses of the joint venture and associates in an aggregate of HK$18,821,000 (2016: HK$218,382,000).

Administrative expenses

During the year, the Group recorded administrative expenses from continuing operations of HK$73,718,000 (2016: HK$41,611,000). The increase was mainly due to the expenses arisen from an extreme very substantial acquisition and connected transaction of the Company, amounted to HK$21,742,000.

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 December 2017, the Group had current assets of HK$3,825,763,000 (2016: HK$4,969,966,000), including cash and bank balances and time deposits in an aggregate of HK$627,140,000 (2016: HK$605,925,000). The Group's current liabilities as at 31 December 2017 were HK$980,982,000 (2016: HK$1,692,802,000).

As at 31 December 2017, the Group's equity attributable to owners of the parent amounted to HK$1,732,505,000 (2016: HK$1,973,272,000), comprising issued capital of HK$551,959,000 (2016: HK$551,959,000) and reserves of HK$1,180,546,000 (2016: HK$1,421,313,000). The Group's interest-bearing debts, including loans from a fellow subsidiary of HK$923,077,000 (2016: HK$1,234,637,000), loans from an intermediate holding company of HK$503,550,000 (2016: HK$475,419,000) and interest-bearing bank borrowings of Nil (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 45% (2016: 50%).

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

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2017, there were no charges on the Group's assets. As at 31 December 2016, certain of the Group's properties under development with an aggregate carrying value of HK$1,658,082,000 were pledged to secure the Group's banking facilities.

EXPOSURE TO FOREIGN CURRENCY RISK

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

MATERIAL ACQUISITIONS AND DISPOSALS

The Company carried out an extreme very substantial acquisition and connected transaction, and continued exploring opportunities to dispose of its real estate assets. As set out in the announcement of the Company dated 19 September 2017, the Company (as purchaser) entered into an acquisition agreement with substantial shareholders of the Company, AVIC International (HK) Group Limited ("AVIC HK") (as seller) and AVIC International Holding Corporation (as seller guarantor), pursuant to which the Company agreed to acquire the entire issued share capital of Motto Investment Limited ("Motto") and the shareholder's loan notes owing by Motto to AVIC HK (the "Acquisition"), at an aggregate consideration of HK$2,400,000,000, out of which HK$1,000,000,000 was satisfied by cash and HK$1,400,000,000 was satisfied by way of allotment and issue of shares of the Company. The core businesses of Motto and its subsidiaries include: (a) the design, development and production of general aviation aircraft piston engines fueled by gasoline and diesel fuels as well as engine spare parts; and (b) aftermarket services and supports for general aviation aircraft. The Directors believe that the Acquisition will provide an opportunity for the Group to capture the prospect of aviation industry, which will enable the Group to enhance the stability of revenue and cash flows and reduce the Group's reliance on property development in China which is undergoing a downward risk and subject to tightened government regulatory requirements. Further details of the Acquisition were included in the circular of the Company dated 29 December 2017. Subsequent to the reporting period, the Acquisition was completed on 7 February 2018.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group has given guarantees of HK$104,012,000 (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.

ENVIRONMENTAL AND REGULATORY COMPLIANCE

Environmental protection and the effective use of natural resources have gradually become an important concept in modern economic growth. We follow the major trends in environmental protection around the world. Our operations are also in an effort to increasingly integrate this concept. Based on new technology and management approach, we strictly control our environmental impact and resource usage, in an effort to forge cleaner production featuring lower pollution and lower emissions toward sustainable development.

We strictly follow all applicable laws and regulations released by the relevant authorities which are material to us. Throughout the year, there was no incidence of non-compliance with the relevant laws and regulations that have a significant impact on us.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, there were 70 (2016: 73) employees in the Group. The employee wages and salaries for the continuing operations, excluding directors' remuneration, amounted to HK$31,231,000 (2016: HK$28,586,000) for the year ended 31 December 2017. 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.

EVENTS AFTER THE REPORTING PERIOD

(a) On 7 February 2018, the Company completed the Acquisition, as detailed in the section headed "MATERIAL ACQUISITIONS AND DISPOSALS" above. A total of 3,783,783,783 new shares of the Company have been issued as fully paid to AVIC HK on 7 February 2018. Accordingly, immediately after the completion of the Acquisition, the issued share capital of the Company increased to HK$930,337,478, and the total number of issued shares increased to 9,303,374,783.

(b) On 6 March 2018, the convertible bond issued by AVIC Joy with a principal amount of HK$51,776,000 matured and was redeemed by AVIC Joy.

OUTLOOK

The Company, as an investment holding company, is committed to investing in the general aviation 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 general aviation aircraft piston engine 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. Given that China is encouraging the development of general aviation industry, particularly the reform of low-altitude airspace management, the general aviation business will have a golden opportunity for development in future. Property development in China is undergoing a downward risk and subject to tightened government regulatory requirements, and the Company is continuing to explore opportunities to dispose of its real estate assets. The Group will identify the projects with a bright development prospect, and will continue to review and optimise its business portfolio.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

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

For the year ended 31 December 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 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 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.

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 of the Company 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 of the Company and reviewing the succession plan for the directors of the Company, 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 BY DIRECTORS

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 of the Company. Having made specific enquiry, all directors of the Company have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2017.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Company's auditors, Ernst & Young ("EY"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by EY on the preliminary announcement.

REVIEW BY AUDIT COMMITTEE

The final results for the year ended 31 December 2017 of the Group have been reviewed by the audit committee of the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 18 May 2018 to Thursday, 24 May 2018, both days inclusive, during which period no transfer of shares will be registered, in order to determine the entitlement to attend and vote at the forthcoming annual general meeting of the Company to be held on 24 May 2018 ("AGM"). In order to be entitled to attend and vote at the AGM, unregistered holders of shares of the Company should ensure that all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Thursday, 17 May 2018.

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 of
AVIC International Holding (HK) Limited
Liu Hongde
Chairman

Hong Kong, 14 March 2018

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.