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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, together with the comparative figures for 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2019** *HK$'000*	2018 *HK$'000*
CONTINUING OPERATIONS			
REVENUE	*3*	**1,458,003**	1,341,223
Cost of sales		**(1,081,480)**	(1,070,262)
Gross profit		**376,523**	270,961
Other income and gains	*4*	**49,837**	51,355
Selling and distribution expenses		**(90,768)**	(83,367)
Administrative expenses		**(374,095)**	(351,248)
Finance costs	*5*	**(10,850)**	(18,854)
Share of profits and losses of:			
Joint ventures		**(38,361)**	(2,941)
Associates		**(328)**	471
Other operating expense	*6*	**(302)**	–
Reversal of impairment losses on financial assets, net	*6*	**4,511**	2,519
Gain on deemed disposal of an associate		**–**	3,561
Loss on disposal of an associate		**–**	(909)
Fair value loss on financial assets at fair value through profit or loss		**–**	(30,573)

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

	Notes	**2019** **HK$'000**	2018 HK$'000
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	*6*	**(83,833)**	(159,025)
Income tax credit	*7*	**29,817**	31,893
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(54,016)**	(127,132)
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	*8*	**–**	507,569
PROFIT/(LOSS) FOR THE YEAR		**(54,016)**	380,437
Attributable to:			
Owners of the parent		**(54,016)**	398,968
Non-controlling interests		**–**	(18,531)
		(54,016)	380,437
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic and diluted			
– For profit/(loss) for the year		**(HK0.58 cent)**	HK4.47 cents
– For loss from continuing operations		**(HK0.58 cent)**	(HK1.43 cents)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2019	2018
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE YEAR	**(54,016)**	380,437
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(3,090)**	(117,307)
Reclassification adjustment for a foreign operation disposed of during the year	**–**	114,803
Reclassification adjustment for a foreign operation deregistered during the year	**(1,721)**	–
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(4,811)**	(2,504)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Actuarial gains/(losses) on defined benefit plans	**(5,247)**	1,333
Income tax effect	**620**	(338)
	(4,627)	995
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**(19,601)**	(137,499)
Gain on property revaluation	**130,615**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**106,387**	(136,504)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**101,576**	(139,008)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**47,560**	241,429
Attributable to:		
Owners of the parent	**47,560**	279,595
Non-controlling interests	**–**	(38,166)
	47,560	241,429

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2019** **HK$'000**	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**410,880**	335,243
Investment property		**151,500**	–
Right-of-use assets	*11*	**317,688**	–
Goodwill		**399,821**	400,094
Other intangible assets		**1,765,634**	1,781,157
Investments in joint ventures		**–**	39,174
Investment in an associate		**11,781**	12,446
Equity investments designated at fair value through other comprehensive income		**34,430**	54,031
Financial assets at fair value through profit or loss		**1,938**	–
Total non-current assets		**3,093,672**	2,622,145
CURRENT ASSETS			
Inventories		**490,265**	473,753
Trade receivables	*12*	**103,672**	102,711
Due from fellow subsidiaries		**20,011**	29,566
Due from an associate		**1,093**	575
Loans to an associate		**8,889**	9,143
Prepayments, deposits and other receivables		**39,963**	84,795
Financial assets at fair value through profit or loss		**–**	–
Cash and cash equivalents		**990,386**	1,191,575
Total current assets		**1,654,279**	1,892,118
CURRENT LIABILITIES			
Due to intermediate holding companies		**27,846**	28,815
Trade payables	*13*	**85,219**	90,152
Other payables and accruals		**94,030**	114,727
Provisions and other liabilities		**42,633**	49,445
Tax payable		**46,560**	137,389
Interest-bearing bank borrowings		**225,161**	120,218
Lease liabilities		**5,906**	–
Total current liabilities		**527,355**	540,746
NET CURRENT ASSETS		**1,126,924**	1,351,372
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,220,596**	3,973,517

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

	Note	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals		**31,109**	29,520
Provisions and other liabilities		**35,526**	47,539
Interest-bearing bank borrowings		**–**	1,031
Lease liabilities		**314,704**	–
Defined benefit obligation		**15,756**	6,905
Deferred tax liabilities		**249,807**	269,354
Total non-current liabilities		**646,902**	354,349
Net assets		**3,573,694**	3,619,168
EQUITY			
Issued capital	*14*	**930,337**	930,337
Reserves		**2,643,357**	2,688,831
Total equity		**3,573,694**	3,619,168

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 property, equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss 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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised HKFRSs has had no significant financial effect on these financial statements.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property and motor vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedient when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase
	HK$'000
Assets	
Increase in right-of-use assets	**35,091**
Increase in total assets	**35,091**
Liabilities	
Increase in lease liabilities	**35,091**
Increase in total liabilities	**35,091**

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	**69,022**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	**(37)**
	68,985
Weighted average incremental borrowing rate as at 1 January 2019	**4.6%**
Discounted operating lease commitments as at 1 January 2019	**35,091**
Lease liabilities as at 1 January 2019	**35,091**

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services. The Group has only one reportable operating segment, the general aviation aircraft piston engine business, which is engaged in the design, development and production of general aviation aircraft piston engines and spare parts as well as the provision of aftermarket services and support for piston engines.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource 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 gain, certain net reversal of impairment losses on financial assets, gains or losses relating to investments in joint venture and associates and financial instruments, as well as head office and corporate expenses and unallocated finance costs and 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.

	General aviation aircraft piston engine business		Total	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:				
Sales to external customers	**1,458,003**	1,341,223	**1,458,003**	1,341,223
Segment results	**(20,310)**	(84,773)	**(20,310)**	(84,773)
Reconciliation:				
Unallocated other income and gains			**16,048**	36,987
Corporate and other unallocated expenses			**(32,586)**	(31,251)
Unallocated finance costs			**–**	(15,461)
Share of profits and losses of:				
A joint venture			**(38,253)**	(2,615)
Associates			**(328)**	471
Reversal of impairment losses on financial assets, net			**2,333**	3,488
Gain on deemed disposal of an associate			**–**	3,561
Loss on disposal of an associate			**–**	(909)
Fair value loss on financial assets at fair value through profit or loss			**–**	(30,573)
Unallocated income tax credit/(expense)			**19,080**	(6,057)
Loss for the year from continuing operations			**(54,016)**	(127,132)
Other segment information:				
Depreciation of property, plant and equipment	**64,201**	57,962	**64,201**	57,962
Unallocated depreciation			**733**	827
			64,934	58,789
Depreciation of right-of-use assets	**8,219**	–	**8,219**	–
Amortisation of other intangible assets	**82,731**	75,807	**82,731**	75,807
Capital expenditure*	**247,241**	121,761	**247,241**	121,761
Unallocated capital expenditure			**–**	74
			247,241	121,835

* *Capital expenditure consists of additions to property, plant and equipment and other intangible assets.*

Geographical information

(a) Revenue from external customers

	2019	2018
	HK$'000	*HK$'000*
United States of America	**1,152,924**	1,065,749
Europe	**180,110**	154,163
Others	**124,969**	121,311
	1,458,003	1,341,223

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

(b) Non-current assets

	2019	2018
	HK$'000	*HK$'000*
United States of America	**2,322,651**	1,901,485
Europe	**571,184**	593,877
Hong Kong	**151,557**	21,673
Mainland China	**11,912**	51,079
	3,057,304	2,568,114

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

Information about major customers

Revenue from each of the major customers, which individually amounted to 10% or more of the Group's revenue from continuing operations, is set out below:

	2019	2018
	HK$'000	*HK$'000*
Customer A	**471,698**	402,855
Customer B	**234,336**	220,334
Customer C	**185,487**	159,254

4. REVENUE, OTHER INCOME AND GAINS

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

	2019	2018
	HK$'000	*HK$'000*
Revenue		
Sale of goods transferred at a point in time	**1,333,901**	1,234,677
Rendering of services transferred over time	**124,102**	106,546
	1,458,003	1,341,223
Disaggregated revenue information – Geographical markets		
USA	**1,152,924**	1,065,749
Europe	**180,110**	154,163
Others	**124,969**	121,311
	1,458,003	1,341,223
Other income		
Bank interest income	**13,832**	2,253
Interest income on financial assets at fair value through profit or loss	**78**	186
Interest income on loans to an associate	**541**	787
Compensation fee	**–**	9,680
Distributorship fee income	**775**	713
Foreign exchange differences, net	**–**	33,151
Others	**3,463**	4,364
	18,689	51,134
Gains		
Gain on deregistration of a subsidiary	**1,721**	–
Gain on disposal of other intangible assets	**28,210**	–
Gain on disposal of items of property, plant and equipment, net	**1,217**	221
	31,148	221
	49,837	51,355

5. FINANCE COSTS

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

	2019	2018
	HK$'000	*HK$'000*
Interest on interest-bearing bank borrowings	**3,766**	17,755
Increase in discounted amounts of provision and other liabilities arising from the passage of time	**70**	114
Interest on the lease liabilities	**7,014**	–
Others	**–**	985
	10,850	18,854

6. LOSS BEFORE TAX

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

	2019	2018
	HK$'000	*HK$'000*
Cost of inventories sold*	**993,441**	978,304
Cost of services provided*	**102,377**	94,293
Reversal of write-down of inventories to net realisable value*	**(14,338)**	(2,335)
Research and development costs:		
Current period expenditure	**38,208**	45,090
Depreciation of property, plant and equipment	**64,934**	58,789
Depreciation of right-of-use assets	**8,219**	–
Amortisation of other intangible assets	**82,731**	75,807
Foreign exchange differences, net	**16,437**	(33,151)
Other operating expense:		
Loss on dissolution of a joint venture	**302**	–
Reversal of impairment losses on financial assets, net:		
Impairment/(reversal of impairment) of trade receivables, net	**(2,178)**	969
Recovery of an other receivable previously written off	**(252)**	–
Reversal of impairment of other receivables, net	**(3,781)**	(3,488)
Impairment of an amount due from a joint venture	**1,700**	–
	(4,511)	(2,519)

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

7. INCOME TAX

During the year, no provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong. In the prior year, Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during that year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2019	2018
	HK$'000	*HK$'000*
Current – Hong Kong:		
Charge for the year	**–**	6,060
Current – Elsewhere:		
Charge for the year	**5,967**	10,931
Overprovision in prior years	**(19,080)**	–
Deferred	**(16,704)**	(48,884)
Total tax credit for the year from continuing operations	**(29,817)**	(31,893)
Total tax charge for the year from the discontinued operation	**–**	94,585
	(29,817)	62,692

8. DISCONTINUED OPERATION

In the prior year, the Group had disposed of the entire issued share capital of Ease Triumph International Limited ("Ease Triumph") and the outstanding shareholder's loans and interests owed by Ease Triumph to the Company, to Shengtong Holding Limited. Ease Triumph and its subsidiaries ("Ease Triumph Group") were engaged in the property development and investment business. The disposal of the property development and investment business was part of a wider restructuring campaign being implemented by the state-owned Assets Supervision and Administration Commission of the State Council.

The results of Ease Triumph Group included in the Group's consolidated statement of profit or loss as a discontinued operation are presented below:

	2019	2018
	HK$'000	*HK$'000*
Revenue	–	41,095
Cost of sales	–	(19,358)
Gross profit	–	21,737
Other income and gains	–	2,285
Selling and distribution expenses	–	(2,333)
Administrative expenses	–	(30,962)
Other operating expense	–	(12)
Finance costs	–	(49,111)
Loss before tax from the discontinued operation	–	(58,396)
Income tax expense	–	(2,585)
Loss after tax from the discontinued operation	–	(60,981)
Pre-tax gain on disposal of subsidiaries	–	660,550
Tax expense	–	(92,000)
After-tax gain on disposal of subsidiaries	–	568,550
Profit for the year from the discontinued operation	–	507,569
Attributable to:		
Owners of the parent	–	526,100
Non-controlling interests	–	(18,531)
	–	507,569
Earnings per share:		
Basic and diluted, from the discontinued operation	**N/A**	HK5.90 cents

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

	2019	2018
Profit attributable to ordinary equity holders of the parent from the discontinued operation	**N/A**	HK$526,100,000
Weighted average number of ordinary shares in issue during the year	**N/A**	8,919,813,140

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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 9,303,374,783 (2018: 8,919,813,140) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2019 and 2018 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 earnings/(loss) per share is based on:

	2019	2018
	HK$'000	*HK$'000*
Profit/(loss) attributable to ordinary equity holders of the parent:		
From continuing operations	**(54,016)**	(127,132)
From a discontinued operation	**–**	526,100
	(54,016)	398,968

	Number of shares	
	2019	2018
Weighted average number of ordinary shares in issue during the year	**9,303,374,783**	8,919,813,140

10. DIVIDEND

	2019	2018
	HK$'000	*HK$'000*
Special – Nil (2018: HK1 cent per ordinary share)	**–**	93,034

The special dividend declared subsequent to 31 December 2018 was not recognised as a liability as at 31 December 2018.

11. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the year ended 31 December 2019, the Group has additions of items of property, plant and equipment of HK$171,608,000 (2018: HK$66,973,000) and disposal of items of property, plant and equipment with net book value of HK$3,139,000 (2018: HK$7,525,000).

During the year, the Group entered into a new lease agreement for land and buildings for 25 years. On lease commencement, the Group recognised right-of-use assets and lease liabilities of HK$290,824,000 and HK$290,824,000, respectively.

12. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**108,066**	109,283
Impairment	**(4,394)**	(6,572)
	103,672	102,711

The Group's trading terms with its customers are mainly on credit, where partial advanced payment is required for certain customers. The credit period is generally 30 days. 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. As at 31 December 2019, the Group had certain concentrations of credit risk as 32% (2018: 37%) of the Group's trade receivables were due from one of the Group's key customers. 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 loss allowance, is as follows:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**76,361**	76,745
1 to 2 months	**11,726**	12,241
2 to 3 months	**2,441**	3,927
Over 3 months	**13,144**	9,798
	103,672	102,711

13. 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:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**57,815**	65,839
1 to 2 months	**22,559**	19,182
2 to 3 months	**3,409**	3,844
Over 3 months	**1,436**	1,287
	85,219	90,152

The trade payables are non-interest-bearing and are normally settled on 60-to-90-day terms.

14. SHARE CAPITAL

Shares

	2019	2018
	HK$'000	*HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000
Issued and fully paid:		
9,303,374,783 ordinary shares of HK$0.10 each	**930,337**	930,337

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital**	**Share premium account**	**Total**
		HK$'000	***HK$'000***	***HK$'000***
At 1 January 2018	**5,519,591,000**	**551,959**	**609,080**	**1,161,039**
Issue of shares *(note)*	**3,783,783,783**	**378,378**	**1,248,649**	**1,627,027**
At 31 December 2018, 1 January 2019 and 31 December 2019	**9,303,374,783**	**930,337**	**1,857,729**	**2,788,066**

Note:

On 7 February 2018, 3,783,783,783 new shares of the Company were issued as fully paid to AVIC International (HK) Group Limited, an intermediate holding company, as part of the consideration for the acquisition of the entire issued share capital of Motto Investment Limited and the shareholder's loan notes. The fair value of these shares was HK$1,627,027,000 which had been measured based on the listed share price of HK$0.43 on that date. Accordingly, the issued share capital and share premium account of the Company had been increased by HK$378,378,000 and HK$1,248,649,000, respectively.

OVERALL REVIEW

In 2019, the Group recorded revenue from continuing operations of HK$1,458,003,000 (2018: HK$1,341,223,000) and loss from continuing operations of HK$54,016,000 (2018: HK$127,132,000). The loss attributable to owners of the parent was HK$54,016,000 compared with a profit of HK$398,968,000 for the same period of last year because a profit from the discontinued operation attributable to owners of the parent of HK$526,100,000 was recorded in the same period of last year for the property development and investment business disposed of in 2018.

The decrease in the loss from continuing operations from HK$127,132,000 to HK$54,016,000 was mainly because:

(1) the general aviation aircraft piston engine business recorded a loss of HK$20,310,000 (2018: HK$84,773,000) for the year; and

(2) fair value loss on financial assets at fair value through profit or loss of HK$30,573,000 was recorded in the same period of last year;

which were partly offset by the increase in the share of losses of joint ventures and associates from HK$2,470,000 to HK$38,689,000.

Basic loss per share amounted to HK¢0.58 (2018: basic earnings per share amounted to HK¢4.47). 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 2019, was -2% (2018: 11%).

BUSINESS REVIEW

During the year, the Group has only one reportable operating segment, the general aviation aircraft piston engine business, which is engaged in the design, development and production of general aviation aircraft piston engines and spare parts as well as the provision of aftermarket services and support for piston engines.

In 2019, the general aviation aircraft piston engine business recognised revenue of HK$1,458,003,000 (2018: HK$1,341,223,000) and gross profit of HK$376,523,000 (2018: HK$270,961,000), respectively, and recorded loss of HK$20,310,000 (2018: HK$84,773,000). Had the effect from the fair value adjustments on the identifiable assets acquired from the acquisition of the business charged to current year's profit or loss of HK$55,644,000 (2018: HK$105,065,000) been excluded, the general aviation aircraft piston engine business would have recorded profit of HK$35,334,000 (2018: HK$20,292,000).

In 2019, the sales of our traditional avgas-powered engine products dropped, while sales to original equipment manufacturers ("OEMs"), sales of aftermarket spare parts as well as maintenance, repair and overhaul ("MRO") sales rose.

Like other competitors, we started to face some major supply chain issues in the United States of America (the "USA") in the second quarter of 2019 which have had a negative impact on our capacity performance. We are working closely with key suppliers on a restoration plan and anticipate that the supply chain issues can be resolved by the second quarter of 2020.

The construction of the factory under the Blue Marlin factory modernisation program ("Blue Marlin Program") completed on schedule in the third quarter of 2019. Most of the workers as well as some major manufacturing and distribution operations have already been relocated to the new factory. The overall progress remains on schedule currently and it is expected that a full relocation of the production lines will be completed by the end of 2020.

Our research and development projects aimed at bringing new engine variants to the market. In 2019, our focus was on the certification of new engines including the IO-370, CD-170, CD-300, and GTSIO. These projects have completed major milestones and entered into an installation and flight-testing phase.

FINANCIAL REVIEW

Convertible bonds

As at 31 December 2019, the Group held convertible bonds issued by Peace Map Holding Limited ("PMH") (stock code: 402) which is listed on The Stock Exchange of Hong Kong Limited (the 'Stock Exchange"), and a convertible bond issued by an unlisted company in the USA. These convertible bonds are managed and their performance is evaluated on a fair value basis, and were included in financial assets at fair value through profit or loss. Fair values are mainly influenced by the prices or valuation of the underlying securities. The convertible bonds issued by PMH matured in 2018 but PMH failed to redeem them, therefore they were stated at the fair value of zero as at 31 December 2018 and 2019. The convertible bond issued by the unlisted company was stated at fair value of HK$1,938,000 as at 31 December 2019.

In 2019, no fair value gain or loss on financial assets at fair value through profit or loss was recorded in respect of the convertible bonds held by the Group, whereas a fair value loss of HK$30,573,000 was recorded in the same period of last year.

Listed equity investments

As at 31 December 2019, the Group held shares issued by PMH and AVIC Joy Holdings (HK) Limited ("AVIC Joy") (stock code: 260), also listed on the Stock Exchange, which were classified as equity investments designated at fair value through other comprehensive income. Net changes in fair value are recognised as other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments will not be recycled to profit or loss when the investments are derecognised.

Since 2018, PMH's shares have been suspended for trading and PMH is in liquidation process. As at 31 December 2019, the fair values of the shares issued by PMH and AVIC Joy were assessed to be Nil (2018: Nil) and HK$34,041,000 (2018: HK$53,642,000) respectively.

Joint ventures and associates

During the year, the Group recorded share of losses of joint ventures and associates in an aggregate of HK$38,689,000 (2018: HK$2,470,000) mainly because a joint venture made provisions for impairment losses on certain assets and for losses on litigations.

Administrative expenses

Administrative expenses consist of salaries and wages, product liability expenses, engineering expenses, legal and professional expenses and other general expenses. During the year, the Group recorded administrative expenses from continuing operations of HK$374,095,000 (2018: HK$351,248,000).

Investment property

During the year, the Company moved its office from United Centre to Admiralty Centre. The Company is seeking a tenant for the property at United Centre. The property was transferred from property, plant and equipment to an investment property and it was stated at fair value of HK$151,500,000 as at 31 December 2019.

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 December 2019, the Group had current assets of HK$1,654,279,000 (2018: HK$1,892,118,000), including cash and bank balances and time deposits in an aggregate of HK$990,386,000 (2018: HK$1,191,575,000). The Group's current liabilities as at 31 December 2019 were HK$527,355,000 (2018: HK$540,746,000).

As at 31 December 2019, the Group's equity attributable to owners of the parent amounted to HK$3,573,694,000 (2018: HK$3,619,168,000), comprising issued capital of HK$930,337,000 (2018: HK$930,337,000) and reserves of HK$2,643,357,000 (2018: HK$2,688,831,000). The Group's interest-bearing debts included interest-bearing bank borrowings of HK$225,161,000 (2018: HK$121,249,000) and lease liabilities of HK$320,610,000 (2018: Nil). 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 15% (2018: 3%).

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

CHARGES ON THE GROUP'S ASSETS

There were no charges on the Group's assets.

EXPOSURE TO FOREIGN CURRENCY RISK

As most of the Group's business transactions, assets and liabilities are principally denominated in the functional currencies of the operating units, the Group's exposure to foreign currency risk is minimal.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions or disposals during the year.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (2018: Nil).

ENVIRONMENTAL AND REGULATORY COMPLIANCE

Environmental protection and the effective use of natural resources have gradually become an important concept in modern economic growth. The Group has been keeping track on the major trends in environmental protection around the world and has been making an effort to integrate the concept of environmental protection in its operations. Based on new technology and management approach, the Group strictly controls its environmental impact and resource usage such that cleaner production featuring lower pollution and lower emissions thus sustainable development can be achieved.

The Group strictly complies all applicable laws and regulations released by the relevant authorities which are material to us. Throughout the year of 2019, there was no incidence of non-compliance with the relevant laws and regulations that have a significant impact on the Group.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, there were 650 (2018: 691) employees in the Group. The employees' wages and salaries for the continuing operations, excluding directors' remuneration, amounted to HK$293,581,000 (2018: HK$252,989,000) for the year ended 31 December 2019. 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.

EVENT AFTER THE REPORTING PERIOD

The recent outbreak and the spread of novel coronavirus has had an adverse impact on market sentiments and posed challenging situation to the whole world. The Group will continue to pay close attention to the impact of the situation on the operation of the Group and will take all possible and reasonable measures to mitigate and limit the impact on our Group's operation.

OUTLOOK

Across the five market sectors accessible to the piston engine aircraft business: Certified General Aviation Business and Pleasure, Certified General Aviation Pilot Training, Uncertified General Aviation, General Aviation Light Sport and Unmanned Aircraft, our strategy is to have the widest breadth of product offerings and to invest heavily in new product development and certification so as to continuously generate future growth opportunities. In addition, we strive to improve operational profitability and cost effectiveness by establishing an affordable cost structure and implementing Blue Marlin Program.

"U.S. economic growth and opportunity coming from the general aviation industry is increasing", said Peter Bunce, the President and Chief Executive Officer of the General Aviation Manufacturers Association. With that, we deeply understand our potential growth opportunities and current operational challenges. Hence, we have built our strategy of "P.A.C.E" (Profit, Affordable Cost Structure, Culture, Execution) and accordingly a 5-year roadmap. Through completing Blue Marlin Program, building a flexible and affordable cost structure, continually developing new technology and product lines, and implementing "P.A.C.E." strategy, we expect our product quality and profitability can be raised which in return can assure a steady growth in our operating results.

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 2019, 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 (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, which is in contrary to 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 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. Having made specific enquiry, all Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2019.

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 2019 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 annual results for the year ended 31 December 2019 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 Tuesday, 19 May 2020 to Friday, 22 May 2020, 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 22 May 2020 ("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 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 Monday, 18 May 2020.

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
Lai Weixuan
Chairman

Hong Kong, 13 March 2020

As at the date of this announcement, the Board comprises Mr. Lai Weixuan, Mr. Fu Fangxing, Mr. Zhang Zhibiao, Mr. Yu Xiaodong and Mr. Zhao Yang 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.