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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 2014

The board of directors (the “Board”) of AVIC International Holding (HK) Limited (the “Company”) announces that the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2014, together with the comparative figures for 2013, are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	2014 HK\$	2013 HK\$
REVENUE	3	70,856,151	47,978,864
Cost of sales		(65,032,691)	(42,759,878)
Gross profit		5,823,460	5,218,986
Other income and gain	4	27,446,353	27,471,152
Administrative expenses		(62,615,955)	(46,190,303)
Other operating expenses, net		(118,185,261)	(25,010,073)
Finance costs	5	(2,837,941)	(2,936,761)
Net gain/(loss) on deemed disposal of associates		679,121	(7,808,330)
Gain on bargain purchase		169,222,457	–
Gain on disposal of associates		–	358,423,419

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

	<i>Notes</i>	2014 HK\$	2013 HK\$
Share of profits and losses of:			
Joint venture		(21,250,748)	60,838,893
Associates		(28,952,834)	(32,001,370)
Fair value gain/(loss) on equity investment at fair value through profit or loss		65,084,500	(2,620,081)
Loss on disposal of available-for-sale investments		–	(37,002,918)
Fair value gain of available-for-sale investments (transfer from equity on disposal)		–	177,211,944
Loss on derecognition of an available-for-sale investment		(24,677,965)	(2,904,818)
Fair value gain of an available-for-sale investment (transfer from equity on derecognition)		5,267,998	873,211
Fair value gain/(loss) on derivative financial instruments, net		(8,565,331)	4,124,612
PROFIT BEFORE TAX	6	6,437,854	477,687,563
Income tax expense	7	(490,857)	(81,012,316)
PROFIT FOR THE YEAR		<u>5,946,997</u>	<u>396,675,247</u>
Attributable to:			
Owners of the parent		27,266,364	397,242,208
Non-controlling interests		(21,319,367)	(566,961)
		<u>5,946,997</u>	<u>396,675,247</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– Basic and diluted	8	<u>HK0.59 cent</u>	<u>HK8.57 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
PROFIT FOR THE YEAR	<u><u>5,946,997</u></u>	<u><u>396,675,247</u></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	19,746,711	49,571,292
Reclassification adjustments for gains included in the consolidated statement of profit or loss		
– Gain on disposal/derecognition	(5,267,998)	(178,085,155)
Income tax effect	–	34,178,933
	<u>14,478,713</u>	<u>(94,334,930)</u>
Share of other comprehensive income of a joint venture	–	(36,396,187)
Share of other comprehensive income of associates	(135,285)	5,103,684
Exchange differences on translation of foreign operations	<u>(18,001,718)</u>	<u>14,045,154</u>
NET OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>(3,658,290)</u>	<u>(111,582,279)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>2,288,707</u></u>	<u><u>285,092,968</u></u>
Attributable to:		
Owners of the parent	23,537,798	285,593,172
Non-controlling interests	<u>(21,249,091)</u>	<u>(500,204)</u>
	<u><u>2,288,707</u></u>	<u><u>285,092,968</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December	31 December
	2014	2013
<i>Note</i>	HK\$	HK\$
NON-CURRENT ASSETS		
Property, plant and equipment	41,297,027	43,606,420
Prepaid land lease payments	2,958,040	3,065,639
Intangible asset	570,491	760,654
Investment in a joint venture	317,899,169	339,149,917
Investments in associates	237,963,141	302,363,625
Financial asset under Project EC120	–	–
Available-for-sale investments	121,770,827	204,523,519
Derivative financial instruments	125,373,037	191,429,868
Loans to related companies	18,750,000	20,127,389
Prepayments	3,765,157	–
	<hr/>	<hr/>
Total non-current assets	870,346,889	1,105,027,031
CURRENT ASSETS		
Properties under development	4,950,000,000	–
Inventories	2,854,935	3,025,756
Trade and bills receivables	19,378,421	14,862,874
Loans to associates	–	12,101,911
Loans to related companies	19,750,000	–
Prepayments, deposits and other receivables	1,204,612,895	90,930,682
Available-for-sale investments	51,071,290	–
Equity investment at fair value through profit or loss	166,796,500	8,381,000
Derivative financial instruments	25,497,256	34,632,277
Prepaid taxes	120,981,203	–
Time deposit with original maturity of more than three months when acquired	155,588,337	–
Pledged time deposits	375,000	382,166
Cash and cash equivalents	1,093,360,875	1,079,008,484
	<hr/>	<hr/>
Total current assets	7,810,266,712	1,243,325,150

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

	31 December	31 December
	2014	2013
<i>Note</i>	HK\$	HK\$
CURRENT LIABILITIES		
Due to fellow subsidiaries	123,399,741	–
Due to non-controlling shareholders of subsidiaries	49,733,993	160,833
Loans from fellow subsidiaries	2,103,087,500	–
Trade and bills payables	8,494,860	6,571,758
Tax payable	38,912,089	58,849,659
Other payables and accruals	56,083,055	11,095,205
Customer deposits	1,757,151,933	–
Interest-bearing bank borrowings	39,625,000	40,382,165
	<hr/>	<hr/>
Total current liabilities	4,176,488,171	117,059,620
	<hr/>	<hr/>
NET CURRENT ASSETS	3,633,778,541	1,126,265,530
	<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES	4,504,125,430	2,231,292,561
	<hr/>	<hr/>
NON-CURRENT LIABILITIES		
Loans from a fellow subsidiary	258,750,000	–
Interest-bearing bank borrowings	665,060,715	–
Deferred tax liabilities	218,553,199	980,889
	<hr/>	<hr/>
Total non-current liabilities	1,142,363,914	980,889
	<hr/>	<hr/>
NET ASSETS	3,361,761,516	2,230,311,672
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EQUITY		
Equity attributable to owners of the parent		
Issued capital	551,959,100	461,959,100
Reserves	2,231,412,030	1,763,270,812
	<hr/>	<hr/>
	2,783,371,130	2,225,229,912
Non-controlling interests	578,390,386	5,081,760
	<hr/>	<hr/>
Total equity	3,361,761,516	2,230,311,672
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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”) and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for equity investments, available-for-sale investments and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and a new interpretation for the first time for the current year’s financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	<i>Investment Entities</i>
Amendments to HKAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i>
Amendments to HKAS 39	<i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>
Amendments to HKFRS 2 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Definition of Vesting Condition</i>
Amendments to HKFRS 3 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Accounting for Contingent Consideration in a Business Combination</i>
Amendments to HKFRS 13 included in <i>Annual Improvements 2010-2012 Cycle</i>	<i>Short-term Receivables and Payables</i>
Amendments to HKFRS 1 included in <i>Annual Improvements 2011-2013 Cycle</i>	<i>Meaning of Effective HKFRSs</i>

The adoption of the revised standards and new interpretation has had no significant financial effect on the financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three (2013: two) reportable operating segments as follows:

- (a) the knitting and textile business segment engages in the production and distribution of knitting and textile products, knitted fabrics and clothing;
- (b) the trading business segment engages in the trading of raw materials and auxiliary materials (new in 2014); and
- (c) the aero-technology related business segment engages in the share of profit from the development, manufacture and distribution of helicopters.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) for the year. The adjusted profit/(loss) for the year is measured consistently with the Group's profit for the year except that certain income and gains or losses relating to investments in a joint venture and associates and financial instruments, as well as head office and corporate expenses (including impairment of goodwill, impairment of loans to associates and impairment of an investment in an associate) and unallocated income tax are excluded from such measurement.

	Knitting and textile business		Trading business		Aero-technology related business		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>53,413</u>	<u>47,979</u>	<u>17,443</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,856</u>	<u>47,979</u>
Segment results	<u>(43,509)</u>	<u>(1,157)</u>	<u>2,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,522)</u>	<u>(1,157)</u>
<i>Reconciliation:</i>								
Unallocated other income and gain							21,261	27,273
Corporate and other unallocated expenses							(131,201)	(67,459)
Net gain/(loss) on deemed disposal of associates							679	(7,808)
Gain on bargain purchase							169,222	-
Gain on disposal of associates							-	358,423
Share of profits and losses of:								
Joint venture							(21,251)	60,839
Associates							(28,953)	(32,001)
Fair value gain/(loss) on equity investment at fair value through profit or loss							65,085	(2,620)
Loss on disposal of available-for-sale investments							-	(37,003)
Fair value gain of available-for-sale investments (transfer from equity on disposal)							-	177,212
Loss on derecognition of an available-for-sale investment							(24,678)	(2,905)
Fair value gain of an available-for-sale investment (transfer from equity on derecognition)							5,268	873
Fair value gain/(loss) on derivative financial instruments, net							(8,565)	4,125
Unallocated income tax expense							(398)	(81,117)
Profit for the year							<u>5,947</u>	<u>396,675</u>

3. OPERATING SEGMENT INFORMATION *(continued)*

	Knitting and textile business		Trading business		Aero-technology related business		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:								
Bank interest income	7	106	4,146	-	-	-	4,153	106
Unallocated bank interest income							18,259	17,536
							<u>22,412</u>	<u>17,642</u>
Depreciation and amortisation	(2,947)	(2,588)	(165)	-	-	-	(3,112)	(2,588)
Unallocated depreciation and amortisation							(2,063)	(2,099)
							<u>(5,175)</u>	<u>(4,687)</u>
Finance costs	(2,838)	(2,937)	-	-	-	-	(2,838)	(2,937)
Provision for impairment of trade and bills receivables	(4,371)	(4)	-	-	-	-	(4,371)	(4)
Recovery/(provision for impairment) of prepayments and other receivables	(37,752)	13	-	-	-	-	(37,752)	13
Unallocated provision for impairment of prepayments and other receivables							(1,263)	-
							<u>(39,015)</u>	<u>13</u>

Geographical information

(a) Revenue from external customers

	2014	2013
	HK\$'000	HK\$'000
Mainland China	<u>70,856</u>	<u>47,979</u>

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

3. OPERATING SEGMENT INFORMATION *(continued)*

(b) Non-current assets

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Hong Kong	256,840	277,366
Mainland China	347,613	373,255
	<u>604,453</u>	<u>650,621</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and loans to related companies.

Information about major customers

Revenue of approximately HK\$22,970,000 (2013: HK\$30,370,000) was derived from sales by the knitting and textile business segment to two (2013: four) single customers, and approximately HK\$17,443,000 (2013: Nil) was derived from sales by the trading business segment to one (2013: Nil) single customer.

4. OTHER INCOME AND GAIN

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Other income		
Bank interest income	22,411,971	17,641,894
Interest income on a convertible bond issued by an associate	1,035,517	1,035,517
Interest income on a derivative financial instrument	313,276	–
Interest income on loans to associates	716,981	1,600,364
Interest income on other receivables	1,007,500	908,830
Interest income on loans to related companies	1,780,305	1,132,076
Dividend income from an available-for-sale listed investment	–	867,853
Agency service income	–	2,229,448
Government grant	26,058	1,910,828
Others	154,445	92,342
	<u>27,446,053</u>	<u>27,419,152</u>
Gain		
Gain on disposal of items of property, plant and equipment	300	52,000
	<u>27,446,353</u>	<u>27,471,152</u>

5. FINANCE COSTS

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Interest on bank loans wholly repayable within five years	<u>2,837,941</u>	<u>2,936,761</u>

6. PROFIT BEFORE TAX

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

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Depreciation	4,984,972	4,497,133
Amortisation of customer relationship	190,163	190,163
Recognition of prepaid land lease payments	73,813	74,415
Impairment of goodwill	–	4,193,707
Impairment of loans to associates	68,534,591	19,000,000
Impairment of investments in associates	6,265,371	1,826,000
Provision for impairment of trade and bills receivables	4,370,756	3,770
Provision for impairment/(recovery) of prepayments and other receivables	<u>39,014,543</u>	<u>(13,404)</u>

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 (2013: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Current – Elsewhere:		
Charge for the year	613,708	74,250,284
Underprovision in prior years	–	6,884,883
Deferred	<u>(122,851)</u>	<u>(122,851)</u>
Total tax charge for the year	<u>490,857</u>	<u>81,012,316</u>

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$27,266,364 (2013: HK\$397,242,208) and the weighted average number of ordinary shares of 4,626,988,260 (2013: 4,633,915,385) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2014 and 2013 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

9. TRADE AND BILLS RECEIVABLES

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Trade and bills receivables	24,739,510	15,803,837
Impairment	<u>(5,361,089)</u>	<u>(940,963)</u>
	<u>19,378,421</u>	<u>14,862,874</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Current	13,973,141	10,599,727
31 to 60 days	1,535,081	2,108,210
61 to 90 days	560,326	1,039,371
Over 90 days	<u>3,309,873</u>	<u>1,115,566</u>
	<u>19,378,421</u>	<u>14,862,874</u>

10. TRADE AND BILLS PAYABLES

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

	2014 <i>HK\$</i>	2013 <i>HK\$</i>
Current	3,015,861	2,676,733
31 to 60 days	1,619,831	341,096
61 to 90 days	999,988	839,023
Over 90 days	<u>2,859,180</u>	<u>2,714,906</u>
	<u>8,494,860</u>	<u>6,571,758</u>

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

11. BUSINESS COMBINATION

On 1 December 2014, the Group entered into a sale and purchase agreement with Onfield International Limited, a fellow subsidiary of the Company, to acquire a 100% equity interest in Ease Triumph International Limited (“Ease Triumph”). Ease Triumph and its subsidiaries (collectively “Ease Triumph Group”) is engaged in the development and sale of properties. On 30 December 2014, the acquisition was completed and approved at the shareholders’ meeting. In the opinion of the directors, the acquisition can help to enhance the Group’s growth potential and benefit the existing shareholders in the long run. The purchase consideration for the acquisition was in the form of cash of HK\$325,881,324, which was paid on 30 December 2014. The Group has elected to measure the non-controlling interests in Ease Triumph Group at the non-controlling interests’ proportionate share of Ease Triumph Group’s identifiable net assets.

The fair values of the identifiable assets and liabilities of Ease Triumph Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition <i>HK\$</i>
Property, plant and equipment	1,363
Properties under development	4,950,000,000
Prepayments, deposits and other receivables	1,124,076,640
Prepaid taxes	120,981,203
Cash and cash equivalents	106,594,720
Due to fellow subsidiaries	(123,399,741)
Due to non-controlling shareholders of subsidiaries	(49,733,993)
Loans from fellow subsidiaries	(2,361,837,500)
Other payables and accruals	(37,113,385)
Customer deposits	(1,757,151,933)
Interest-bearing bank borrowings – non-current	(665,060,715)
Deferred tax liabilities	(217,695,161)
	<hr/>
Total identifiable net assets at fair value	1,089,661,498
Non-controlling interests	(594,557,717)
	<hr/>
	495,103,781
Gain on bargain purchase recognised in the consolidated statement of profit or loss	(169,222,457)
	<hr/>
Satisfied by cash	<u><u>325,881,324</u></u>

A gain on bargain purchase was resulted as the consideration reflected a discount to the reassessed net asset value of Ease Triumph Group. Reassessed net asset value discount is one of the common methodologies used by investors when determining the valuation of real estate companies or assets.

DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2014.

BUSINESS REVIEW

Overall review

In 2014, the Group recorded turnover of HK\$70,856,000 (2013: HK\$47,979,000). During the year, the Group commenced to engage in the trading business which contributed HK\$17,443,000 to the Group's turnover for the year. Nevertheless, the profit attributable to owners of the parent dropped from HK\$397,242,000 of 2013 to HK\$27,266,000 of 2014, which arose mainly from the one-off gain on disposal of associates of HK\$358,423,000 and one-off net gain on disposal of available-for-sale investments of HK\$140,209,000 (including reclassification from equity of HK\$177,212,000) recorded by the Group in 2013. Basic earnings per share amounted to HK¢0.59 (2013: HK¢8.57).

Knitting and textile business

In 2014, the turnover of 浙江東陽金牛針織製衣有限公司 (“Zhejiang Dongyang Jinniu”), a 51%-owned subsidiary, was HK\$53,413,000 (2013: HK\$47,979,000) and the sales volume was approximately 2,784 tonnes (2013: 2,219 tonnes). The gross profit rate was 10% (2013: 11%). However, due to the provision made for impairment of certain prepayments and other receivables which have been long overdue, the knitting and textile business segment recorded loss of HK\$43,509,000 (2013: HK\$1,157,000) for the year.

Trading business

During the year, the Group commenced to engage in the trading of raw materials and auxiliary materials such as electronic components, electronic products and metal materials in Zhejiang Province. The turnover and gross profit rate for the year was HK\$17,443,000 and 2% respectively. The trading business segment recorded profit of HK\$2,987,000 for the year.

Aero-technology related business

The Group is entitled to share 80% of the net income in relation to Project EC120 operated by AVIC International Holding Corporation (“AVIC International”), a substantial shareholder of the Company. 4 EC120 helicopters were sold in 2014. No turnover was recorded by the Group for both 2014 and 2013 as a breakeven was recorded by AVIC International from the operations of Project EC120 which was because AVIC International agreed that its indirect expenses allocated to Project EC120, if any, shall not exceed its share of income net of direct costs and expenses from the operations of Project EC120. As a result, the aero-technology related business segment did not contribute any profit to the Group for the year (2013: Nil).

Others

Gain on bargain purchase

As disclosed in the announcement of the Company dated 30 December 2014, the Group completed to acquire a 100% equity interest in Ease Triumph from a fellow subsidiary of the Company. Ease Triumph Group is engaged in the development and sale of properties. In the opinion of the directors, the acquisition can help to enhance the Group's growth potential and benefit the existing shareholders in the long run. Accordingly, a gain on bargain purchase of HK\$169,222,000 (2013: Nil) was recorded by the Group. Further details of the transaction were included in the circular of the Company dated 11 December 2014.

Joint venture and associates

During the year, the Group recorded share of losses of the joint venture and associates in an aggregate of HK\$50,204,000 (2013: profits of HK\$28,838,000). It was mainly because the joint venture recorded a loss in 2014 compared to a profit in 2013 as there had been a one-off gain on disposal of its available-for-sale investments in 2013. In addition, during the year, provision for impairment of loans to associates of HK\$68,535,000 (2013: HK\$19,000,000) was made as the associates have been loss-making in recent years.

In the prior year, the Group had disposed of its 22.66% equity interest in Sinbo Investment Limited ("Sinbo") and a gain on disposal of associates of HK\$358,423,000 had been recorded.

Derivative financial instruments

The Group's portfolio of derivative financial instruments as at 31 December 2014 consisted of the derivatives at fair values of HK\$125,373,000 and HK\$25,497,000 embedded in the convertible bonds issued by Peace Map Holding Limited ("PMH") and by AVIC Joy Holdings (HK) Limited ("AVIC Joy") (formerly known as China Environmental Investment Holdings Limited), both being listed on The Stock Exchange of Hong Kong Limited, respectively. These convertible bonds are hybrid instruments that include non-derivative host contracts and the embedded derivatives. The non-derivative host contracts, representing the bond components, have been designated as available-for-sale investments. The embedded derivatives, representing the conversion options, have been designated as derivative financial instruments. During the year ended 31 December 2014, fair value loss in an aggregate of HK\$8,565,000 (2013: fair value gain of HK\$4,125,000) was recognised to the consolidated statement of profit or loss in respect of the embedded derivatives, which was mainly due to the movement in the share price of PMH.

A deferred consideration for the disposal of the Group's interest in Sinbo in 2013 had been recorded as a derivative financial instrument with a fair value of HK\$23,844,000 as at 31 December 2013. During the year, the Group received the consideration and the derivative financial instrument was derecognised accordingly.

On 25 November 2013, the Group had entered into a borrowing agreement with Broadlink Enterprises Limited (“Broadlink”), an independent third party and a former shareholder of Sinbo, pursuant to which the Group lent to Broadlink the convertible bonds issued by PMH held by the Group with a principal amount of HK\$22,531,000. It had also been agreed that on 31 July 2014, Broadlink might elect to return to the Group either (i) the convertible bonds issued by PMH with a principal amount of HK\$22,531,000 together with interest at 2.5% per annum in cash; or (ii) a lump sum of HK\$33,000,000 in cash. As at 31 December 2013, this consideration receivable from Broadlink (“Broadlink Derivative”) with a fair value of HK\$27,174,000 had been recorded as a derivative financial instrument by the Group. During the year, Broadlink returned the convertible bonds issued by PMH with a principal amount of HK\$22,531,000 to the Group together with the interest and Broadlink Derivative was derecognised accordingly.

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 the consolidated statement of 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 (shares of PMH and AVIC Joy) and the time value of the derivative financial instruments.

Available-for-sale investments

During the year, due to the commercial consideration of increasing the influence over PMH, the Group converted the convertible bonds issued by PMH with a principal amount of HK\$117,250,000 into 469,000,000 shares of PMH at the conversion price of HK\$0.25 per share. On the date of the conversion, the market value of the shares of PMH received at conversion was HK\$93,331,000 while the fair value of the convertible bonds converted was stated at HK\$118,009,000 based on a valuation performed by an independent professionally qualified valuer. A loss on derecognition of HK\$24,678,000 was resulted. At the same time, the corresponding fair value gain of HK\$5,268,000 previously recorded in the statement of other comprehensive income was released from the available-for-sale investment revaluation reserve. As a result, a net loss on derecognition of an available-for-sale investment of HK\$19,410,000 was recorded in the consolidated statement of profit or loss for the year.

In the prior year, the Group had disposed of certain listed investments in Mainland China and a loss on disposal of available-for-sale investments of HK\$37,003,000 had been resulted. At the same time, the corresponding fair value gain of HK\$177,212,000 previously recorded in the statement of other comprehensive income had been released from the available-for-sale investment revaluation reserve. As a result, a net gain on disposal of available-for-sale investments of HK\$140,209,000 had been recorded in the consolidated statement of profit or loss for that year.

Equity investment at fair value through profit or loss

During the year, the Group recorded a fair value gain on equity investment at fair value through profit or loss of HK\$65,085,000 (2013: fair value loss of HK\$2,620,000) due to the rise in market price of the investment.

PROSPECTS

The Group, as an investment holding company, is committed to invest in the property development and sale business, the aero-technology related business and other fields, and aims to enhance its value and create long-term return for its shareholders in terms of returns on investments and operating profits. The newly acquired property development and sale business has a potential for return in the long run and will provide the Group with a source of revenue and profit and thus asset growth. The aero-technology related business will have a good opportunity for development in the future in view of the encouragement of the development of aviation industry made by China. The prosperity of the knitting and textile business declines as a result of the condition of the macro economy, and the Group is cautiously optimistic about the prospect of the business. Further development in trading business might be attained after more experience has been accumulated. The Group will identify the projects with a bright development prospect, and will continue to review and optimise its business portfolio.

FINANCIAL REVIEW

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 31 December 2014, the Group had current assets of HK\$7,810,267,000 (2013: HK\$1,243,325,000), including cash and bank balances and time deposits in an aggregate of HK\$1,249,324,000 (2013: HK\$1,079,391,000). The Group's current liabilities as at 31 December 2014 were HK\$4,176,488,000 (2013: HK\$117,060,000).

During the year, pursuant to a share placing and subscription agreement, Tacko International Limited, an existing shareholder of the Company, placed 900,000,000 ordinary shares of the Company to certain independent third parties at HK\$0.60 per share, and subscribed for 900,000,000 new ordinary shares issued by the Company at the same price. The aggregate cash consideration received, before share issue expenses, was approximately HK\$540,000,000. This transaction resulted in an increase of the issued share capital and share premium account of HK\$90,000,000 and HK\$450,000,000 respectively. Share issue expenses of HK\$5,397,000 were charged to the share premium account accordingly.

As at 31 December 2014, the Group's equity attributable to owners of the parent amounted to HK\$2,783,371,000 (2013: HK\$2,225,230,000), comprising issued capital of HK\$551,959,000 (2013: HK\$461,959,000) and reserves of HK\$2,231,412,000 (2013: HK\$1,763,271,000). The Group's outstanding bank borrowings as at 31 December 2014 amounted to HK\$704,686,000 (2013: HK\$40,382,000). The Group's gearing ratio, calculated on the basis of total bank borrowings as a percentage of equity attributable to owners of the parent, was 25% (2013: 2%).

The Group's banking facilities are mainly utilised for general working capital requirements and to finance its property development projects.

Charges on the Group's assets

As at 31 December 2014, the following Group's assets were pledged to secure the Group's banking facilities:

- (i) the Group's building in Mainland China with net book value of HK\$3,542,000 (2013: HK\$3,879,000);
- (ii) the Group's leasehold land in Mainland China with net book value of HK\$3,032,000 (2013: HK\$3,140,000);
- (iii) certain of the Group's properties under development with an aggregate carrying value of HK\$2,450,000,000 (2013: Nil); and
- (iv) certain of the Group's short term time deposits amounting to HK\$375,000 (2013: HK\$382,000).

Exposure to fluctuations in exchange rates

The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the units' 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 year.

CONTINGENT LIABILITIES

As at 31 December 2014, the Company had given financial guarantee to a bank for banking facility granted to a subsidiary of HK\$93,000,000 (2013: HK\$93,000,000) which was not utilised.

As at 31 December 2014, the Group has given guarantees of HK\$56,975,000 (2013: Nil) 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 31 December 2014, there were 179 (2013: 68) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

PURCHASE, 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 the corporate governance practices by emphasising transparency, accountability and responsibility to its shareholders.

For the year ended 31 December 2014, 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.

All non-executive directors (including independent non-executive directors) of the Company 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 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.

Mr. Wu Guangquan, the Chairman of the Board was unable to attend the annual general meeting of the Company held in May 2014 as provided for in code provision E.1.2 of the CG Code as he was on an overseas engagement. Due to other business commitments, all independent board committee members (Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Li Zhaoxi) could not attend the special general meeting of the Company held in December 2014 to approve a connected transaction as provided for in the said code provision.

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 2014.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2014 have been agreed by the Group's auditor, Ernst & Young, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by Ernst & Young 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 Ernst & Young on the preliminary announcement.

REVIEW BY AUDIT COMMITTEE

The final results for the year ended 31 December 2014 of the Group have been reviewed by the audit committee of the Company.

APPRECIATION

I would like to take this opportunity to express my appreciation to my fellow directors and all our staff for their support, hard work and dedication.

By order of the Board
AVIC International Holding (HK) Limited
Wu Guangquan
Chairman

Hong Kong, 25 March 2015

As at the date of this announcement, the Board of the Company comprises Mr. Wu Guangquan, Mr. Pan Linwu, Mr. You Lei, Mr. Ji Guirong and Mr. Zhang Chuanjun as executive directors; Mr. Ip Tak Chuen, Edmond as non-executive director; Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Li Zhaoxi as independent non-executive directors.