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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 2015

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 2015, together with the comparative figures for 2014.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
REVENUE	3	2,198,590	70,856
Cost of sales		(2,015,599)	(65,033)
Gross profit		182,991	5,823
Other income and gains	4	35,029	27,447
Selling and distribution expenses		(22,998)	–
Administrative expenses		(57,169)	(62,616)
Other operating income/(expenses), net	6	3,929	(118,185)
Finance costs	5	(50,353)	(2,838)
Net gain on deemed disposal of associates		433,380	679
Gain on bargain purchase		–	169,222
Share of profits and losses of:			
Joint venture		(27,278)	(21,251)
Associates		(41,337)	(28,953)
Impairment of an available-for-sale investment		(311,137)	–
Fair value gain/(loss) on equity investment at fair value through profit or loss		(1,204)	65,085
Gain/(loss) on derecognition of available-for-sale investments		224	(24,678)
Fair value gain of available-for-sale investments (transfer from equity on derecognition)		19,091	5,268
Fair value gain/(loss) on derivative financial instruments, net		28,146	(8,565)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

	<i>Notes</i>	2015 HK\$'000	2014 <i>HK\$'000</i>
PROFIT BEFORE TAX	6	191,314	6,438
Income tax expense	7	(107,854)	(491)
PROFIT FOR THE YEAR		<u>83,460</u>	<u>5,947</u>
Attributable to:			
Owners of the parent		41,820	27,266
Non-controlling interests		41,640	(21,319)
		<u>83,460</u>	<u>5,947</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– Basic and diluted		<u>HK0.76 cent</u>	<u>HK0.59 cent</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>83,460</u>	<u>5,947</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	(307,190)	19,747
Reclassification adjustments for losses/(gains) included in the consolidated statement of profit or loss		
– Gain on derecognition	(19,091)	(5,268)
– Impairment loss	<u>311,137</u>	<u>–</u>
	(15,144)	14,479
Share of other comprehensive income of associates	16,028	(135)
Release of share of an associate's other comprehensive income upon deemed disposal of the associate	(38,241)	–
Exchange differences on translation of foreign operations	<u>(76,206)</u>	<u>(18,002)</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>(113,563)</u>	<u>(3,658)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>(30,103)</u>	<u>2,289</u>
Attributable to:		
Owners of the parent	(45,837)	23,538
Non-controlling interests	<u>15,734</u>	<u>(21,249)</u>
	<u>(30,103)</u>	<u>2,289</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	2015 HK\$'000	2014 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		31,595	41,297
Investment properties		373,425	–
Prepaid land lease payments		2,814	2,958
Intangible asset		380	570
Investment in a joint venture		290,621	317,899
Investments in associates		24,146	237,963
Financial asset under Project EC120		–	–
Available-for-sale investments		400,421	121,771
Derivative financial instruments		119,896	125,373
Trade receivable	9	21,628	–
Due from a fellow subsidiary		3,178	–
Loan to a related company		11,976	18,750
Prepayments		278	3,765
Deferred tax assets		9,685	–
		<hr/>	<hr/>
Total non-current assets		1,290,043	870,346
CURRENT ASSETS			
Properties under development and completed properties held for sale		4,070,648	4,950,000
Inventories		4,564	2,855
Trade and bills receivables	9	155,450	19,379
Due from fellow subsidiaries		46,016	–
Due from non-controlling shareholder of a subsidiary		323	–
Loans to associates		–	–
Loans to related companies		17,230	19,750
Prepayments, deposits and other receivables		61,714	1,204,613
Available-for-sale investments		–	51,071
Equity investment at fair value through profit or loss		285,713	166,797
Derivative financial instruments		–	25,497
Prepaid taxes		12,156	120,981
Time deposit with original maturity of more than three months when acquired		–	155,588
Pledged time deposits		359	375
Cash and cash equivalents		473,330	1,093,361
		<hr/>	<hr/>
Total current assets		5,127,503	7,810,267

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

	<i>Note</i>	2015 HK\$'000	2014 HK\$'000
CURRENT LIABILITIES			
Due to non-controlling shareholders of subsidiaries		64,301	49,734
Due to an intermediate holding company		14,164	–
Due to fellow subsidiaries		4	123,400
Loans from fellow subsidiaries		205,988	2,103,087
Trade and bills payables	<i>10</i>	92,358	8,495
Other payables and accruals		32,744	56,083
Customer deposits		248,310	1,757,152
Interest-bearing bank borrowings		37,964	39,625
Tax payable		68,139	38,912
		<hr/>	<hr/>
Total current liabilities		763,972	4,176,488
		<hr/>	<hr/>
NET CURRENT ASSETS		4,363,531	3,633,779
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,653,574	4,504,125
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Loans from an intermediate holding company		509,581	–
Loans from a fellow subsidiary		1,658,683	258,750
Interest-bearing bank borrowings		–	665,061
Deferred tax liabilities		153,652	218,553
		<hr/>	<hr/>
Total non-current liabilities		2,321,916	1,142,364
		<hr/>	<hr/>
Net assets		3,331,658	3,361,761
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		551,959	551,959
Reserves		2,185,575	2,231,412
		<hr/>	<hr/>
		2,737,534	2,783,371
Non-controlling interests		594,124	578,390
		<hr/>	<hr/>
Total equity		3,331,658	3,361,761
		<hr/> <hr/>	<hr/> <hr/>

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, 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 standards for the first time for the current year’s financial statements.

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

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

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

3. OPERATING SEGMENT INFORMATION

Following the Group’s new development in property development and investment business during the year ended 31 December 2015, management changed the composition of its reportable segments to add the new property development and investment business segment and removed the previous aero-technology related business segment as the previous aero-technology related business segment did not contribute any segment revenue and results to the Group for the year ended 31 December 2014. No restatement of the comparative segment information is required.

For management purposes, the Group is organised into business units based on their products and services and has three (2014: three) reportable operating segments as follows:

- (a) the property development and investment business segment engages in the property development of residential and commercial projects (new in 2015);
- (b) the knitting and textile business segment engages in the production and distribution of knitting and textile products, knitted fabrics and clothing; and
- (c) the trading business segment engages in the trading of raw materials and auxiliary materials.

3. OPERATING SEGMENT INFORMATION (continued)

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/(loss) for the year except that certain income and gains or losses relating to investments in a joint venture and associates and financial instruments, gain on bargain purchase, as well as head office and corporate expenses (including impairment of loans to associates, impairment of investments in associates and recovery of other receivable) and unallocated income tax are excluded from such measurement.

	Property development and investment business		Knitting and textile business		Trading business		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	2,137,619	–	43,602	53,413	7,644	17,443	2,188,865	70,856
Gross rental income	9,725	–	–	–	–	–	9,725	–
	<u>2,147,344</u>	<u>–</u>	<u>43,602</u>	<u>53,413</u>	<u>7,644</u>	<u>17,443</u>	<u>2,198,590</u>	<u>70,856</u>
Segment results	<u>35,065</u>	<u>–</u>	<u>(14,056)</u>	<u>(43,509)</u>	<u>175</u>	<u>2,987</u>	<u>21,184</u>	<u>(40,522)</u>
<i>Reconciliation:</i>								
Unallocated other income							4,461	21,261
Corporate and other unallocated expenses							(15,957)	(131,201)
Net gain/(loss) on deemed disposal of associates							433,380	679
Gain on bargain purchase							–	169,222
Share of profits and losses of:								
Joint venture							(27,278)	(21,251)
Associates							(41,337)	(28,953)
Impairment of an available-for-sale investment							(311,137)	–
Fair value gain/(loss) on equity investment at fair value through profit or loss							(1,204)	65,085
Gain/(loss) on derecognition of available-for-sale investments							224	(24,678)
Fair value gain of available-for-sale investments (transfer from equity on derecognition)							19,091	5,268
Fair value gain/(loss) on derivative financial instruments, net							28,146	(8,565)
Unallocated income tax expense							(26,113)	(398)
Profit for the year							<u>83,460</u>	<u>5,947</u>

3. OPERATING SEGMENT INFORMATION *(continued)*

	Property development and investment business		Knitting and textile business		Trading business		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:								
Bank interest income	769	–	14	7	9,010	4,146	9,793	4,153
Unallocated bank interest income							2,114	18,259
							<u>11,907</u>	<u>22,412</u>
Depreciation and amortisation	(1)	–	(1,639)	(2,947)	(1,225)	(165)	(2,865)	(3,112)
Unallocated depreciation and amortisation							<u>(1,294)</u>	<u>(2,063)</u>
							<u>(4,159)</u>	<u>(5,175)</u>
Finance costs	(47,638)	–	(2,715)	(2,838)	–	–	<u>(50,353)</u>	<u>(2,838)</u>
Provision for impairment of items of property, plant and equipment	–	–	(6,924)	–	–	–	<u>(6,924)</u>	<u>–</u>
Provision for impairment of trade and bills receivables	–	–	(6,871)	(4,371)	–	–	<u>(6,871)</u>	<u>(4,371)</u>
Recovery/(provision for impairment) of prepayments and other receivables	–	–	2,426	(37,752)	–	–	2,426	(37,752)
Unallocated recovery/(provision for impairment) of prepayments and other receivables							<u>3,726</u>	<u>(1,263)</u>
							<u>6,152</u>	<u>(39,015)</u>

Geographical information

(a) Revenue from external customers

	2015 HK\$'000	2014 HK\$'000
Mainland China	<u>2,198,590</u>	<u>70,856</u>

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

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Hong Kong	24,411	256,840
Mainland China	688,668	347,612
	<u>713,079</u>	<u>604,452</u>

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

Information about major customers

For the year ended 31 December 2015, there was no single customer with sales amounting to 10% or more of the Group's revenue.

For the year ended 31 December 2014, revenue of approximately HK\$22,970,000 had been derived from sales by the knitting and textile business segment to two customers, and approximately HK\$17,443,000 had been derived from sales by the trading business segment to one single customer.

4. OTHER INCOME AND GAINS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
<u>Other income</u>		
Bank interest income	11,907	22,412
Interest income on a convertible bond issued by a former associate	518	1,036
Interest income on a derivative financial instrument	–	313
Interest income on loans to associates	1,229	717
Interest income on other receivables	–	1,008
Interest income on loans to related companies	1,994	1,780
Government grant	17,800	26
Others	824	155
	<u>34,272</u>	<u>27,447</u>
<u>Gains</u>		
Fair value gains on investment properties	757	–
	<u>35,029</u>	<u>27,447</u>

5. FINANCE COSTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interest on bank loans and other loans	269,034	2,838
Less: Interest capitalised	<u>(218,681)</u>	<u>–</u>
	<u>50,353</u>	<u>2,838</u>

6. PROFIT BEFORE TAX

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Cost of properties sold*	1,967,041	–
Cost of goods sold*	48,558	65,033
Depreciation	3,969	4,985
Amortisation of customer relationship	190	190
Recognition of prepaid land lease payments	<u>73</u>	<u>74</u>
Other operating expenses/(income), net:		
Provision for impairment of items of property, plant and equipment	6,924	–
Impairment/(reversal of impairment) of loans to associates	(11,677)	68,535
Impairment of investments in associates	–	6,264
Provision for impairment of trade and bills receivables	6,871	4,371
Provision for impairment/(recovery) of prepayments and other receivables	(6,152)	39,015
Loss on disposal of items of property, plant and equipment	<u>105</u>	<u>–</u>
	<u>(3,929)</u>	<u>118,185</u>

* 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 (2014: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current – Elsewhere:		
Charge for the year	100,273	614
Deferred	(67,284)	(123)
Land appreciation tax in Mainland China	<u>74,865</u>	<u>–</u>
Total tax charge for the year	<u>107,854</u>	<u>491</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, and the weighted average number of ordinary shares of 5,519,591,000 (2014: 4,626,988,260) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2015 and 2014 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

9. TRADE AND BILLS RECEIVABLES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade and bills receivables	188,763	24,740
Impairment	(11,685)	(5,361)
	177,078	19,379
Less: Trade receivable, non-current portion	(21,628)	–
Current portion	155,450	19,379

The Group has different credit policies for different business operations depending on the requirements of the markets and businesses in which the subsidiaries operate. The Group's trading terms with its customers for the knitting and textile business and for the trading business are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. 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 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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within 1 month	168,800	13,973
1 to 2 months	1,184	1,535
2 to 3 months	2,858	561
Over 3 months	4,236	3,310
	177,078	19,379

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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within 1 month	80,197	3,016
1 to 2 months	2,307	1,620
2 to 3 months	1,841	1,000
Over 3 months	8,013	2,859
	<hr/> 92,358 <hr/>	<hr/> 8,495 <hr/>

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 2015.

OVERALL REVIEW

In 2015, the Group recorded turnover of HK\$2,198,590,000 (2014: HK\$70,856,000) and gross profit of HK\$182,991,000 (2014: HK\$5,823,000). The substantial rise in turnover and gross profit was because the property development and investment business segment started to sell and lease out properties during the year and thus turnover was recorded. The Group also recorded a one-off net gain on deemed disposal of associates of HK\$433,380,000 (2014: HK\$679,000). Nevertheless, a provision for impairment of an available-for-sale investment of HK\$311,137,000 (2014: Nil) was made due to the significant fall in stock market. During the year ended 31 December 2015, the profit before tax was HK\$191,314,000 (2014: HK\$6,438,000). After deducting income tax expense, the profit for the year was HK\$83,460,000 (2014: HK\$5,947,000) of which the profit attributable to owners of the parent was HK\$41,820,000 (2014: HK\$27,266,000).

Basic earnings per share amounted to HK¢0.76 (2014: HK¢0.59). The return on equity, calculated on the basis of profit attributable to owners of the parent as a percentage of equity attributable to owners of the parent, was 2% (2014: 1%).

BUSINESS REVIEW

Property development and investment business

During the year, the property development and investment business acquired by the Group on 30 December 2014 became one of the Group's principal activities. Currently, two projects are in progress. One is located at the Southern side of Zhongshan Road of the Shahekou District of 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").

In 2015, the overall keynote of the regulation and control policy of the Chinese government for the real estate industry insisted on promoting consumption and destocking, with frequent launch of supply and demand easing policies to push ahead with the steady rally of market volumes and prices. Despite the steady release of demand volume in the second and third tier cities as stimulated by such policies, the impetus was inadequate to push up the house prices due to the high inventory of real estate. Remarkably increasing prices and volumes have not yet turned up in the market of Dalian City where the Dalian Project is located.

Dalian Project comprises four parcels of land having a total site area of approximately 46,938 square meter (excluding communal site area). A large scale development project, the International Square, is being constructed comprising offices, retail shops and residential buildings. The total saleable area of Dalian Project upon completion is approximately 350,488 square meter. Dalian Project is currently in the normal development and construction phase, and pre-sale of certain residential and office space of the International Square has commenced since June 2013. Saleable area of 142,311 square meter was completed in 2015, of which 86,960 square meter was sold, 18,299 square meter was leased out and included in investment properties, and the remaining was included in completed properties held for sale. As at 31 December 2015, the total saleable area of properties under development was approximately 208,177 square meter.

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

As at 31 December 2015, the properties under development and completed properties held for sale amounted to HK\$4,070,648,000 (2014: HK\$4,950,000,000) and investment properties amounted to HK\$373,425,000 (2014: Nil). The customer deposits, which represent the proceeds of the pre-sale of properties, decreased from HK\$1,757,152,000 as at 31 December 2014 to HK\$248,310,000 as at 31 December 2015, because sales was recognised after the completion of properties during the year. Dalian Project recorded turnover of HK\$2,147,344,000 and gross profit of HK\$180,303,000 for the year. The property development and investment business segment contributed profit of HK\$35,065,000 for the year.

Knitting and textile business

In 2015, the operating condition of 浙江東陽金牛針織製衣有限公司 (“Zhejiang Dongyang Jinniu”), a 51%-owned subsidiary, was unfavourable. It was mainly attributable to the weak condition of the knitting and textile industry as a result of the influence of macro economy. Its turnover was HK\$43,602,000, a drop of 18% from HK\$53,413,000 in 2014. The sales volume was approximately 2,571 tonnes (2014: 2,784 tonnes). The gross profit rate was 6% (2014: 10%). A provision for impairment of items of property, plant and equipment of HK\$6,924,000 (2014: Nil) was made due to a reduced future cash inflow estimated. Moreover, a provision for impairment of trade and bills receivables of HK\$6,871,000 (2014: HK\$4,371,000) was made. The knitting and textile business segment recorded loss of HK\$14,056,000 (2014: HK\$43,509,000) for the year.

Trading business

During the year, the Group continued 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\$7,644,000 (2014: HK\$17,443,000) and 3% (2014: 2%) respectively. The trading business segment recorded profit of HK\$175,000 (2014: HK\$2,987,000) for the year.

FINANCIAL REVIEW

Joint venture and associates

During the year, the Group’s equity interests in two associates, AVIC Joy Holdings (HK) Limited (“AVIC Joy”), a listed company in Hong Kong, and 上海藍沛新材料科技股份有限公司 (“上海藍沛”), were diluted and the Group no longer had significant influence over them. As such, the Group’s investments in these two companies were reclassified from investments in associates to available-for-sale investments, and the Group discontinued to apply the equity method to share the results and other comprehensive income of these two companies. This reclassification was accounted for as disposals of the entire interests in AVIC Joy and 上海藍沛, and re-acquisitions of the retained interests at their fair values. As a result, a net gain on deemed disposal of associates of HK\$433,380,000 (2014: Nil) was recorded.

In addition, the Group recorded share of losses of the joint venture and associates in an aggregate of HK\$68,615,000 (2014: HK\$50,204,000) for the year.

Impairment of an available-for-sale investment

Subsequent to the Group’s investment in AVIC Joy being reclassified from investment in an associate to an available-for-sale investment during the year, there was a significant fall in the stock market in Hong Kong. As a result, an impairment of an available-for-sale investment of HK\$311,137,000 (2014: Nil) was recorded.

Convertible bonds

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

During the year, the Group converted certain convertible bonds issued by PMH (“PMH Convertible Bonds”) with a principal amount of HK\$66,000,000 into 264,000,000 shares of PMH at the conversion price of HK\$0.25 per share. The number of shares of PMH held by the Group increased from 497,900,000 shares as at 31 December 2014 to 761,900,000 shares as at 31 December 2015, which was included in equity investment at fair value through profit or loss. A loss on derecognition of HK\$3,760,000 was calculated which was the difference between the fair value of the shares of PMH received and that of PMH Convertible Bonds converted. At the same time, the corresponding fair value gain of HK\$8,573,000 previously recorded in the statement of other comprehensive income was released from the available-for-sale investment revaluation reserve. As a result, a net gain on derecognition of an available-for-sale investment of HK\$4,813,000 in respect of PMH Convertible Bonds was recorded in the consolidated statement of profit or loss for the year.

Furthermore, during the year, the maturity date of the convertible bond issued by AVIC Joy (“AVIC Joy Convertible Bond”) was extended from 6 March 2015 to 6 March 2018 as agreed by the Group and AVIC Joy, and the conversion rate was changed from HK\$0.235 per share to HK\$0.23 per share. A gain on derecognition of the original AVIC Joy Convertible Bond of HK\$3,984,000 was calculated which was the difference between the fair values of the original and the new AVIC Joy Convertible Bonds. At the same time, the corresponding fair value gain of HK\$10,518,000 previously recorded in the statement of other comprehensive income was released from the available-for-sale investment revaluation reserve. As a result, a net gain on derecognition of an available-for-sale investment of HK\$14,502,000 in respect of AVIC Joy Convertible Bond was recorded in the consolidated statement of profit or loss for the year.

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 2015 consisted of the derivatives at fair values of HK\$90,444,000 (2014: HK\$125,373,000) and HK\$29,452,000 (2014: HK\$25,497,000) embedded in PMH Convertible Bonds and AVIC Joy Convertible Bond, respectively. During the year, a fair value gain of HK\$28,146,000 (2014: loss of HK\$8,565,000) was recognised in respect of the embedded derivatives, which was mainly due to the rise in the share price of PMH.

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 December 2015, the Group had current assets of HK\$5,127,503,000 (2014: HK\$7,810,267,000), including cash and bank balances and time deposits in an aggregate of HK\$473,689,000 (2014: HK\$1,249,324,000). The Group's current liabilities as at 31 December 2015 were HK\$763,972,000 (2014: HK\$4,176,488,000).

As at 31 December 2015, the Group's equity attributable to owners of the parent amounted to HK\$2,737,534,000 (2014: HK\$2,783,371,000), comprising issued capital of HK\$551,959,000 (2014: HK\$551,959,000) and reserves of HK\$2,185,575,000 (2014: HK\$2,231,412,000). The Group's interest-bearing debts, including loans from fellow subsidiaries of HK\$1,864,671,000 (2014: HK\$2,361,837,000), interest-bearing bank borrowings of HK\$37,964,000 (2014: HK\$704,686,000) and loans from an intermediate holding company of HK\$509,581,000 (2014: Nil) 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 47% (2014: 52%).

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

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2015, 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\$3,148,000 (2014: HK\$3,542,000);
- (ii) the Group's leasehold land in Mainland China with net book value of HK\$2,885,000 (2014: HK\$3,032,000); and
- (iii) certain of the Group's short term time deposits amounting to HK\$359,000 (2014: HK\$375,000).

As at 31 December 2014, certain of the Group's properties under development with an aggregate carrying value of HK\$2,450,000,000 had also been 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 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 2015, the Group has given guarantees of HK\$36,489,000 (2014: HK\$56,975,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties for a period from the date of loans being granted to the purchasers up to the date of issuance of property title certificates to the purchasers.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2015, there were 156 (2014: 179) employees in the Group. The employee wages and salaries, excluding directors' remuneration, amounted to HK\$30,269,000 (2014: HK\$17,096,000) for the year ended 31 December 2015. The Group recognises the importance of good relationship with employees. The Directors believe that the working environment and benefits offered to employees have contributed to building good staff relations and retention. The Group's remuneration policies are formulated based on the performance of individual employees and market conditions and are reviewed regularly. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

OUTLOOK

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

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

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

PURCHASE, 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 2015, 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 Listing Rules, except as noted hereunder.

Except for the Non-executive Director appointed on 23 June 2015, all non-executive directors (including independent non-executive directors) 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, 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.

Mr. Wu Guangquan, the Chairman of the Board was unable to attend the annual general meeting of the Company held in May 2015 as provided for in code provision E.1.2 of the CG Code as he was on an overseas engagement.

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 2015.

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 2015 as set out in the preliminary announcement have been agreed by the Company’s auditors, Ernst and 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 Hong Kong Institute of Certified Public Accountants 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 2015 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 of
AVIC International Holding (HK) Limited
Wu Guangquan
Chairman

Hong Kong, 24 March 2016

As at the date of this announcement, the Board comprises Mr. Wu Guangquan, Mr. Pan Linwu, Mr. Lai Weixuan, Mr. Xu Hongge and Mr. Xiao Nan as executive Directors; Mr. Chow Wai Kam as non-executive Director; Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Li Zhaoxi as independent non-executive Directors.