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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 2012

The board of directors (the “Board”) of AVIC International Holding (HK) Limited (the “Company”) announces that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2012, together with the comparative figures for 2011, are as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	2012			2011		
		Continuing operations HK\$	Discontinued operation HK\$	Total HK\$	Continuing operations HK\$	Discontinued operation HK\$	Total HK\$
REVENUE	3	87,328,163	-	87,328,163	-	303,232,773	303,232,773
Cost of sales		(77,224,314)	-	(77,224,314)	-	(273,448,525)	(273,448,525)
Gross profit		10,103,849	-	10,103,849	-	29,784,248	29,784,248
Other income	4	25,247,730	-	25,247,730	13,386,603	19,028,821	32,415,424
Administrative expenses		(51,615,956)	-	(51,615,956)	(39,431,323)	(16,952,595)	(56,383,918)
Other operating income, net		649,880	-	649,880	-	173,447	173,447
Finance costs	5	(3,050,736)	-	(3,050,736)	-	(7,567,778)	(7,567,778)
Loss on deemed disposal of an associate		-	-	-	(3,081,826)	-	(3,081,826)
Gain on disposal of associates		19,958,414	-	19,958,414	-	-	-
Gain on additional investment in an associate		-	-	-	2,143,056	-	2,143,056

	Notes	2012			2011		
		Continuing operations HK\$	Discontinued operation HK\$	Total HK\$	Continuing operations HK\$	Discontinued operation HK\$	Total HK\$
Share of profits and losses of:							
Jointly-controlled entity		229,743,979	-	229,743,979	127,756,610	-	127,756,610
Associates		(22,094,004)	-	(22,094,004)	194,062	-	194,062
Net gain on disposal of available -for-sale investments		223,313,135	-	223,313,135	331,046,551	-	331,046,551
Fair value loss on derivative financial instrument		(12,671,668)	-	(12,671,668)	-	-	-
Gain on disposal of subsidiaries		3,028,233	-	3,028,233	-	148,489,035	148,489,035
PROFIT BEFORE TAX	6	422,612,856	-	422,612,856	432,013,733	172,955,178	604,968,911
Income tax expense	7	(61,617,712)	-	(61,617,712)	(111,191,360)	(20,188,963)	(131,380,323)
PROFIT FOR THE YEAR		360,995,144	-	360,995,144	320,822,373	152,766,215	473,588,588
Attributable to:							
Equity holders of the parent		359,651,230	-	359,651,230	320,822,373	146,696,878	467,519,251
Non-controlling interests		1,343,914	-	1,343,914	-	6,069,337	6,069,337
		360,995,144	-	360,995,144	320,822,373	152,766,215	473,588,588
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8						
- Basic and diluted		HK7.70 cents	N/A	HK7.70 cents	HK6.79 cents	HK3.11 cents	HK9.90 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
PROFIT FOR THE YEAR	<u>360,995,144</u>	<u>473,588,588</u>
OTHER COMPREHENSIVE INCOME		
Available-for-sale investments:		
Change in fair value	(121,540,836)	(929,298,296)
Reclassification adjustments for gains included in the consolidated income statement		
– Gain on disposal	(247,950,880)	(331,046,551)
– Conversion of convertible bonds into interests in an associate	–	(13,961,927)
Income tax effect	<u>93,155,136</u>	<u>332,432,600</u>
	(276,336,580)	(941,874,174)
Share of other comprehensive income of a jointly-controlled entity	(296,679,305)	(701,496,414)
Share of other comprehensive income of associates	7,276,653	2,612,000
Exchange differences on translation of foreign operations	<u>15,629,767</u>	<u>14,639,218</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>(550,109,465)</u>	<u>(1,626,119,370)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>(189,114,321)</u>	<u>(1,152,530,782)</u>
Attributable to:		
Equity holders of the parent	(190,523,716)	(1,162,009,245)
Non-controlling interests	<u>1,409,395</u>	<u>9,478,463</u>
	<u>(189,114,321)</u>	<u>(1,152,530,782)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	31 December 2012 HK\$	31 December 2011 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment		46,087,240	49,961,296
Prepaid land lease payments		3,105,075	3,126,952
Goodwill		4,193,707	4,193,707
Intangible asset		950,817	1,140,980
Investment in a jointly-controlled entity		314,707,211	510,161,056
Interests in associates		302,951,535	202,785,969
Deposit paid for acquisition of a property		40,000,000	–
Financial asset under Project EC120		–	–
Available-for-sale investments		193,975,451	534,904,646
		<hr/>	<hr/>
Total non-current assets		905,971,036	1,306,274,606
CURRENT ASSETS			
Inventories		2,776,536	4,540,453
Trade and bills receivables	9	13,815,192	10,965,384
Loans to associates		12,250,000	53,243,122
Loan to a related company		18,750,000	18,292,683
Prepayments, deposits and other receivables		32,461,335	305,944,306
Derivative financial instrument		9,014,631	–
Time deposit		–	164,634,146
Pledged time deposits		6,625,000	365,854
Cash and cash equivalents		1,024,789,556	631,308,018
		<hr/>	<hr/>
Assets classified as held for sale		1,120,482,250	1,189,293,966
		60,000,000	56,280,761
		<hr/>	<hr/>
Total current assets		1,180,482,250	1,245,574,727
CURRENT LIABILITIES			
Due to non-controlling shareholder of a subsidiary		320,317	94,895
Trade and bills payables	10	43,823,954	24,600,267
Tax payable		16,535,960	38,761,759
Other payables and accruals		17,666,439	167,678,922
Interest-bearing bank borrowings		14,625,000	37,073,171
		<hr/>	<hr/>
Total current liabilities		92,971,670	268,209,014

	31 December 2012 HK\$	31 December 2011 HK\$
NET CURRENT ASSETS	<u>1,087,510,580</u>	<u>977,365,713</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	1,993,481,616	2,283,640,319
NON-CURRENT LIABILITY		
Deferred tax liabilities	<u>35,282,673</u>	<u>128,560,660</u>
Net assets	<u>1,958,198,943</u>	<u>2,155,079,659</u>
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	466,139,700	468,085,100
Reserves	<u>1,486,477,279</u>	<u>1,682,821,990</u>
	1,952,616,979	2,150,907,090
Non-controlling interests	<u>5,581,964</u>	<u>4,172,569</u>
Total equity	<u>1,958,198,943</u>	<u>2,155,079,659</u>

Notes:

1. Basis of preparation

The financial statements of the Group 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, 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 certain equity investments and derivative financial instruments, which have been measured at fair value. Assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. These financial statements are presented in Hong Kong dollars except when otherwise indicated.

2. Changes in accounting policy and disclosures

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

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the revised HKFRSs 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 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 aero-technology related business segment engages in the share of profit from the development, manufacture and distribution of helicopters; and
- (c) the electric and steam power supply segment engages in the generation and sale of electric and steam power (discontinued in 2011).

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, which is a measure of adjusted profit for the year. The adjusted profit for the year is measured consistently with the Group’s profit for the year except that head office’s other income, gain on disposal of associates, loss on deemed disposal of an associate, gain on additional investment in an associate, share of profits and losses of the jointly-controlled entity and associates, gain on disposal of available-for-sale investments, fair value loss on derivative financial instrument, gain on disposal of subsidiaries as well as head office and corporate expenses and unallocated income tax are excluded from such measurement.

	Continuing operations						Discontinued operation				Total	
	Knitting and textile business		Aero-technology related business		Total		Electric and steam power supply		Total		2012	2011
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:												
Sales to external customers	<u>87,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>87,328</u>	<u>-</u>	<u>-</u>	<u>303,233</u>	<u>-</u>	<u>303,233</u>	<u>87,328</u>	<u>303,233</u>
Segment results	<u>2,743</u>	<u>-</u>	<u>5,289</u>	<u>541</u>	<u>8,032</u>	<u>541</u>	<u>-</u>	<u>17,644</u>	<u>-</u>	<u>17,644</u>	<u>8,032</u>	<u>18,185</u>
<i>Reconciliation:</i>												
Unallocated other income					12,988	8,860			-	21	12,988	8,881
Corporate and other unallocated expenses					(37,791)	(35,566)			-	(632)	(37,791)	(36,198)
Gain on disposal of associates					19,958	-			-	-	19,958	-
Loss on deemed disposal of an associate					-	(3,082)			-	-	-	(3,082)
Gain on additional investment in an associate					-	2,143			-	-	-	2,143
Share of profits and losses of:												
Jointly-controlled entity					229,744	127,757			-	-	229,744	127,757
Associates					(22,094)	194			-	-	(22,094)	194
Net gain on disposal of available-for-sale investments					223,313	331,047			-	-	223,313	331,047
Fair value loss on derivative financial instrument					(12,672)	-			-	-	(12,672)	-
Gain on disposal of subsidiaries					3,028	-			-	148,489	3,028	148,489
Unallocated income tax expense					(63,511)	(111,071)			-	(12,756)	(63,511)	(123,827)
Profit for the year					<u>360,995</u>	<u>320,823</u>			<u>-</u>	<u>152,766</u>	<u>360,995</u>	<u>473,589</u>
Other segment information:												
Bank interest income	15	-	9,032	831	9,047	831	-	784	-	784	9,047	1,615
Unallocated amounts					5,090	1,725			-	21	5,090	1,746
					<u>14,137</u>	<u>2,556</u>			<u>-</u>	<u>805</u>	<u>14,137</u>	<u>3,361</u>
Interest income on loans to associates	-	-	1,196	456	1,196	456	-	-	-	-	1,196	456
Unallocated amounts					1,081	1,170			-	-	1,081	1,170
					<u>2,277</u>	<u>1,626</u>			<u>-</u>	<u>-</u>	<u>2,277</u>	<u>1,626</u>
Interest income on other receivables	-	-	613	108	613	108	-	-	-	-	613	108
Unallocated amounts					513	560			-	-	513	560
					<u>1,126</u>	<u>668</u>			<u>-</u>	<u>-</u>	<u>1,126</u>	<u>668</u>
Depreciation and amortisation	(3,648)	-	(587)	(416)	(4,235)	(416)	-	(22,641)	-	(22,641)	(4,235)	(23,057)
Unallocated amounts					(1,522)	(1,081)			-	-	(1,522)	(1,081)
					<u>(5,757)</u>	<u>(1,497)</u>			<u>-</u>	<u>(22,641)</u>	<u>(5,757)</u>	<u>(24,138)</u>
Interest income on loans to a jointly-controlled entity	-	-	-	1,763	-	1,763	-	-	-	-	-	1,763
Interest income on a loan to a related company	-	-	1,161	1,368	1,161	1,368	-	-	-	-	1,161	1,368
Finance costs	(3,051)	-	-	-	(3,051)	-	-	(7,568)	-	(7,568)	(3,051)	(7,568)

Geographical information

(a) Revenue from external customers

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Mainland China	87,328	303,233

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

(b) Non-current assets

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Hong Kong	286,401	219,372
Mainland China	425,595	551,998
	711,996	771,370

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

Information about a major customer

Revenue of approximately HK\$25,384,000 was derived from sales by the knitting and textile business segment to a single customer. In the prior year, revenue of approximately HK\$44,062,000 had been derived from sales by the electric and steam power supply segment to a single customer.

4. Other income

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Bank interest income	14,137,489	3,360,697
Interest income on convertible bonds issued by an associate	849,692	155,833
Interest income on loans to associates	2,277,351	1,626,198
Interest income on other receivables	1,126,383	667,892
Interest income on a loan to a related company	1,160,803	1,368,110
Interest income on loans to a jointly-controlled entity	–	1,763,162
Dividend income from an available-for-sale listed investment	4,376,674	5,249,769
Income from installation of infrastructure for steam supply	–	3,064,837
Government grants	–	12,479,888
Income from sale of coal residues	–	2,560,120
Others	1,319,338	118,918
	<u>25,247,730</u>	<u>32,415,424</u>
Attributable to continuing operations	25,247,730	13,386,603
Attributable to a discontinued operation	–	19,028,821
	<u>25,247,730</u>	<u>32,415,424</u>

5. Finance costs

An analysis of finance costs is as follows:

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Interest on bank loans wholly repayable within five years:		
Attributable to continuing operations	3,050,736	–
Attributable to a discontinued operation	–	7,567,778
	<u>3,050,736</u>	<u>7,567,778</u>

6. Profit before tax

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

	2012	2011
	<i>HK\$</i>	<i>HK\$</i>
Depreciation	5,566,770	24,137,574
Amortisation of customer relationship	190,163	–
Recognition of prepaid land lease payments	72,938	767,793
Provision for impairment of trade and bills receivables	919,620	–
Recovery of other receivables	(1,569,500)	(173,447)
	<u> </u>	<u> </u>

The disclosures presented in this note include all amounts charged/(credited) in respect of the continuing operations and a discontinued operation.

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 (2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2012	2011
	<i>HK\$</i>	<i>HK\$</i>
Current – Elsewhere:		
Charge for the year	65,822,550	130,594,573
Overprovision in prior years	(4,081,987)	–
Deferred	(122,851)	785,750
	<u> </u>	<u> </u>
Total tax charge for the year	<u>61,617,712</u>	<u>131,380,323</u>
Attributable to continuing operations	61,617,712	111,191,360
Attributable to a discontinued operation	–	20,188,963
	<u> </u>	<u> </u>
	<u>61,617,712</u>	<u>131,380,323</u>

8. Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$359,651,230 (2011: HK\$467,519,251) and the weighted average number of ordinary shares of 4,668,670,176 (2011: 4,723,995,831) in issue during the year.

The calculation of basic earnings per share from continuing operations is based on the profit for the year from continuing operations attributable to ordinary equity holders of the parent of HK\$359,651,230 (2011: HK\$320,822,373) and the weighted average number of ordinary shares of 4,668,670,176 (2011: 4,723,995,831) in issue during the year.

The calculation of basic earnings per share from the discontinued operation for the year ended 31 December 2011 was based on the profit for that year from the discontinued operation attributable to ordinary equity holders of the parent of HK\$146,696,878 and the weighted average number of ordinary shares of 4,723,995,831 in issue during that year.

The Group had no potentially dilutive ordinary shares in issue during those years.

9. Trade and bills receivables

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Trade and bills receivables	14,734,812	10,965,384
Impairment	(919,620)	–
	<u>13,815,192</u>	<u>10,965,384</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 two 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:

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Current	11,621,215	4,886,884
31-60 days	559,727	1,461,435
61-90 days	–	1,157,676
Over 90 days	1,634,250	3,459,389
	<u>13,815,192</u>	<u>10,965,384</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:

	2012 <i>HK\$</i>	2011 <i>HK\$</i>
Current	37,159,244	7,279,367
31-60 days	1,356,601	5,778,673
61-90 days	918,980	4,906,328
Over 90 days	4,389,129	6,635,899
	<u>43,823,954</u>	<u>24,600,267</u>

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 2012.

BUSINESS REVIEW

Overall review

In 2011, the Group disposed of its electric and steam power supply business by disposing 53% out of its 56% equity interest in Zhejiang Sealand Thermoelectric Share-Holding Co. (“Zhejiang Sealand”). Details of the disposal were set out in the circular of the Company dated 7 December 2011. Upon the disposal, the electric and steam power supply segment became discontinued.

In 2012, the Group recorded turnover of HK\$87,328,000 (2011: HK\$303,233,000 (including the discontinued operation)). The profit attributable to equity holders dropped from HK\$467,519,000 to HK\$359,651,000 which was mainly due to the gain on disposal of Zhejiang Sealand of HK\$148,489,000 recorded in 2011. Basic earnings per share amounted to HK¢7.70 (2011: HK¢9.90).

Knitting and textile business

On 28 December 2011, the Group acquired a 51% equity interest in 浙江東陽金牛針織製衣有限公司 (“Zhejiang Dongyang Jinniu”) which is engaged in the production and distribution of knitting and textile products, knitted fabrics and clothing in Zhejiang Province, the PRC. As such, the knitting and textile business segment becomes a new reportable operating segment of the Group.

In 2012, the turnover of Zhejiang Dongyang Jinniu was HK\$87,328,000 and the sales volume of knitting and textile products for the year was approximately 3,135 tonnes. The overall gross profit rate was 12%. The knitting and textile business segment recorded profit of HK\$2,743,000 for the year.

Aero-technology related business

One EC120 helicopter was sold in 2012. No turnover was recorded by the Group as a breakeven was recorded by AVIC International Holding Corporation (“AVIC International”), a substantial shareholder of the Company, from the operations of Project EC120 in 2012 of which the Group shares 80%. The aero-technology related business segment recorded profit of HK\$5,289,000 (2011: HK\$541,000) for the year.

Others

During the year, the Group completed its disposal of its entire 47.91% equity interest in Fidelity Finance Leasing Limited (“Fidelity Finance”) and its subsidiary, and the assignment of the shareholder’s loan due and owing to the Group by Fidelity Finance, to Sino Gas Finance Limited, a wholly-owned subsidiary of China Environmental Investment Holdings Limited (“CEIH”), an associate of the Group, at an aggregate consideration of HK\$51,776,000 which was satisfied by convertible bonds issued by CEIH. As a result, a gain on disposal of associates of HK\$19,958,000 (2011: Nil) was recorded by the Group. In addition, in respect of the derivative embedded in the convertible bonds, the Group also recorded fair value loss on derivative financial instrument of HK\$12,672,000 in 2012. The fair value of the derivative financial instrument was determined based on the valuation performed by independent professionally qualified valuer. The fair value loss represented a decrease in the fair value of the derivative financial instrument as at 31 December 2012 as compared with that on the issue date which was mainly due to the reduction in the time value of the derivative financial instrument and the drop in share price of CEIH.

During the year, the Group disposed of certain listed investments and recorded net gain on disposal of available-for-sale investments of HK\$223,313,000 (2011: HK\$331,047,000). In addition, the Group recorded share of profits of jointly-controlled entity and associates of HK\$207,650,000 (2011: HK\$127,951,000). The increase was mainly attributable to the satisfactory results achieved by the jointly-controlled entity as it recorded a substantial gain on disposal of its available-for-sale investments. The Group also recorded bank interest income of HK\$14,137,000 (2011: HK\$3,361,000) and dividend income from an available-for-sale listed investment of HK\$4,377,000 (2011: HK\$5,250,000) for the year.

PROSPECTS

The Group, as an investment holding company, is committed to making investments in the aero-technology related business and other fields, and aims to enhance its value and create long-term return for its shareholders with returns on investments and operating profits. Given that China is encouraging the development of its aviation industry, particularly the reform of low-altitude airspace management, the aero-technology related business will have a golden opportunity for development in future. Meanwhile, with the extensive industry experience and established customer base of Zhejiang Dongyang Jinniu, the Group is optimistic about the prospect of its knitting and textile business. The Group will identify the projects with a bright development prospect, and will continue to review and optimise its business portfolios.

FINANCIAL REVIEW

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 31 December 2012, the Group had current assets of HK\$1,180,482,000 (2011: HK\$1,245,575,000), including cash and bank balances and time deposits in an aggregate of HK\$1,031,415,000 (2011: HK\$796,308,000). The Group's current liabilities as at 31 December 2012 were HK\$92,972,000 (2011: HK\$268,209,000).

During the year, the Company repurchased a total of 30,070,000 shares of the Company on The Stock Exchange of Hong Kong Limited at prices ranging from HK\$0.227 to HK\$0.255 per share for an aggregate consideration with the relevant expenses totalling HK\$7,288,000. 19,454,000 repurchased shares were cancelled during the year while 10,616,000 repurchased shares were subsequently cancelled.

As at 31 December 2012, the Group's equity attributable to equity holders of the parent amounted to HK\$1,952,617,000 (2011: HK\$2,150,907,000), comprising issued capital of HK\$466,140,000 (2011: HK\$468,085,000) and reserves of HK\$1,486,477,000 (2011: HK\$1,682,822,000). The Group's outstanding bank borrowings as at 31 December 2012 amounted to HK\$14,625,000 (2011: HK\$37,073,000). The Group's gearing ratio, calculated on the basis of total bank borrowings as a percentage of equity attributable to equity holders of the parent, was 1% (2011: 2%).

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

Charges on the Group's assets

As at 31 December 2012, the following Group's assets were pledged to secure the Group's banking facilities:

- (i) certain of the Group's land and buildings with an aggregate net book value of approximately HK\$4,112,000 (2011: HK\$3,964,000);
- (ii) the Group's leasehold land with an aggregate net book value of approximately HK\$3,179,000 (2011: HK\$3,205,000); and
- (iii) certain of the Group's short term time deposits amounting to HK\$6,625,000 (2011: HK\$366,000).

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 2012, the banking facilities granted to the companies controlled by acquaintances of a director of a subsidiary subject to guarantees given to banks by the Group were utilised to the extent of HK\$15,000,000 (2011: HK\$28,171,000).

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, there were 105 (2011: 97) 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

Save as disclosed in the section "Liquidity, capital structure and financial resources" above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CORPORATE GOVERNANCE PRACTICES

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 2012, the Company applied the principles of, and complied with all the code provisions and, where applicable, the recommended best practices of the former "Code on Corporate Governance Practices" (effective until 31 March 2012) and of the new "Corporate Governance Code" (effective from 1 April 2012) 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. In respect of code provisions A.4.1, all non-executive directors were appointed without specific terms, and A.5.1 to A.5.4, the Company has not established a nomination committee, details of which are set out respectively in the 2012 Interim Report. In

respect of code provision A.6.7, the non-executive director and an independent non-executive director were unable to attend the annual general meeting of the Company held in May 2012 due to other business commitments. In respect of code provision D.1.4, the Company did not have formal letters of appointment for directors until early December 2012. In respect of code provision E.1.2, the chairman of the Board was unable to attend the annual general meeting of the Company held in May 2012 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 of all the directors of the Company, all of them confirmed that they have complied with the required standards as set out in the Model Code throughout the year of 2012.

REVIEW BY AUDIT COMMITTEE

The final results for the year ended 31 December 2012 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, 18 March 2013

As at the date of this announcement, the Board of the Company comprises Mr. Wu Guangquan, Mr. Ji Guirong, Mr. Pan Linwu, Mr. You Lei 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.