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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 2016

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 2016, together with the comparative figures for 2015.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> <i>(Restated)</i>
CONTINUING OPERATIONS			
REVENUE	3	102,786	2,154,988
Cost of sales		(74,269)	(1,974,454)
Gross profit		28,517	180,534
Other income and gains	4	12,765	34,550
Selling and distribution expenses		(31,694)	(22,998)
Administrative expenses		(41,611)	(54,059)
Other operating income/(expenses), net	6	(54,633)	15,299
Finance costs	5	(77)	(47,638)
Net gain on deemed disposal of associates		3,386	433,380
Share of profits and losses of:			
Joint venture		(215,369)	(27,278)
Associates		(3,013)	(41,337)
Impairment of an available-for-sale investment (transfer from available-for-sale investment revaluation reserve)		(134,107)	(311,137)
Gain on derecognition of available-for-sale investments		–	224
Fair value gain/(loss) of available-for-sale investments (transfer from equity on derecognition)		(490)	19,091
Fair value gain/(loss) on derivative financial instruments, net		(108,558)	28,146
Fair value loss on an equity investment at fair value through profit or loss		(198,094)	(1,204)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(continued)*

	<i>Notes</i>	2016 HK\$'000	2015 HK\$'000 <i>(Restated)</i>
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	6	(742,978)	205,573
Income tax credit/(expense)	7	<u>6,685</u>	<u>(108,057)</u>
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		(736,293)	97,516
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	8	<u>27,362</u>	<u>(14,056)</u>
PROFIT/(LOSS) FOR THE YEAR		<u>(708,931)</u>	<u>83,460</u>
Attributable to:			
Owners of the parent		(685,842)	41,820
Non-controlling interests		<u>(23,089)</u>	<u>41,640</u>
		<u>(708,931)</u>	<u>83,460</u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted			
– For profit/(loss) for the year		<u>(HK12.43 cents)</u>	<u>HK0.76 cent</u>
– For profit/(loss) from continuing operations		<u>(HK12.97 cents)</u>	<u>HK0.89 cent</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
PROFIT/(LOSS) FOR THE YEAR	<u>(708,931)</u>	<u>83,460</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	(119,876)	(307,190)
Reclassification adjustments for losses/(gains) included in the consolidated statement of profit or loss		
– Loss/(gain) on derecognition	490	(19,091)
– Impairment loss	<u>134,107</u>	<u>311,137</u>
	14,721	(15,144)
Exchange differences:		
Exchange differences on translation of foreign operations	(125,145)	(76,206)
Reclassification adjustment for a foreign operation disposed of during the year	<u>(1,223)</u>	<u>–</u>
	(126,368)	(76,206)
Share of other comprehensive income of a joint venture	(8,905)	–
Share of other comprehensive income of associates	–	16,028
Release of share of an associate's other comprehensive income upon deemed disposal of the associate	<u>–</u>	<u>(38,241)</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>(120,552)</u>	<u>(113,563)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>(829,483)</u>	<u>(30,103)</u>
Attributable to:		
Owners of the parent	(764,262)	(45,837)
Non-controlling interests	<u>(65,221)</u>	<u>15,734</u>
	<u>(829,483)</u>	<u>(30,103)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	2016 HK\$'000	2015 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		24,975	31,595
Investment properties		315,866	373,425
Prepaid land lease payments		–	2,814
Intangible asset		–	380
Investment in a joint venture		58,602	290,621
Investments in associates		13,378	24,146
Financial asset under Project EC120		–	–
Available-for-sale investments		278,745	400,421
Derivative financial instruments		11,338	119,896
Trade receivable	<i>10</i>	20,178	21,628
Due from a fellow subsidiary		–	3,178
Loan to a related company		–	11,976
Prepayments		–	278
Deferred tax assets		10,025	9,685
		<hr/>	<hr/>
Total non-current assets		733,107	1,290,043
CURRENT ASSETS			
Properties under development and completed properties held for sale		4,105,317	4,070,648
Inventories		–	4,564
Trade and bills receivables	<i>10</i>	69,442	155,450
Due from fellow subsidiaries		10,960	46,016
Due from a non-controlling shareholder of a subsidiary		–	323
Due from an intermediate holding company		5,282	–
Loans to associates		9,497	–
Loans to related companies		16,760	17,230
Prepayments, deposits and other receivables		42,978	61,714
Equity investment at fair value through profit or loss		87,619	285,713
Prepaid taxes		16,186	12,156
Pledged time deposits		–	359
Cash and cash equivalents		605,925	473,330
		<hr/>	<hr/>
Total current assets		4,969,966	5,127,503

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

	<i>Note</i>	2016 HK\$'000	2015 HK\$'000
CURRENT LIABILITIES			
Due to non-controlling shareholders of subsidiaries		88,444	64,301
Due to an intermediate holding company		–	14,164
Due to fellow subsidiaries		1,643	4
Loans from fellow subsidiaries		586,592	205,988
Trade and bills payables	<i>11</i>	41,213	92,358
Other payables and accruals		17,223	32,744
Customer deposits		920,238	248,310
Interest-bearing bank borrowings		–	37,964
Tax payable		37,449	68,139
		<hr/>	<hr/>
Total current liabilities		1,692,802	763,972
		<hr/>	<hr/>
NET CURRENT ASSETS		3,277,164	4,363,531
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,010,271	5,653,574
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Loans from an intermediate holding company		475,419	509,581
Loans from a fellow subsidiary		648,045	1,658,683
Interest-bearing bank borrowings		230,134	–
Deferred tax liabilities		129,920	153,652
		<hr/>	<hr/>
Total non-current liabilities		1,483,518	2,321,916
		<hr/>	<hr/>
Net assets		2,526,753	3,331,658
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		551,959	551,959
Reserves		1,421,313	2,185,575
		<hr/>	<hr/>
		1,973,272	2,737,534
		<hr/>	<hr/>
Non-controlling interests		553,481	594,124
		<hr/>	<hr/>
Total equity		2,526,753	3,331,658
		<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, an equity investment at fair value through profit or loss, certain available-for-sale investments, and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11 HKFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of the above new and revised standards 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 two reportable operating segments as follows:

- (a) the property development and investment business segment engages in the property development of residential and commercial projects; and
- (b) the trading business segment engages in the trading of raw materials and auxiliary materials.

During the year, the Group disposed of the knitting and textile business. Accordingly, the comparative segment information related to the knitting and textile business is reclassified as “profit/(loss) for the year from a discontinued operation” in the consolidated statement of profit or loss. Details of which are set out in note 8 to the financial statements.

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 from continuing operations. The adjusted profit/(loss) for the year from continuing operations is measured consistently with the Group’s profit/(loss) for the year from continuing operations except that certain income and gains or losses relating to investments in a joint venture and associates and financial instruments, as well as head office and corporate expenses (including reversal of impairments/impairments of loans to associates and related companies and an investment in a joint venture, and recovery/impairment of other receivables) and unallocated income tax are excluded from such measurement.

3. OPERATING SEGMENT INFORMATION *(continued)*

The following is an analysis of the Group's revenue and results from continuing operations by reportable operating segments.

Year ended 31 December 2016

	Property development and investment business HK\$'000	Trading business HK\$'000	Total HK\$'000
Segment revenue:			
Sales to external customers	85,987	–	85,987
Gross rental income	16,799	–	16,799
	<u>102,786</u>	<u>–</u>	<u>102,786</u>
Revenue from continuing operations	<u>102,786</u>	<u>–</u>	<u>102,786</u>
Segment results	<u>(47,058)</u>	<u>–</u>	<u>(47,058)</u>
<i>Reconciliation:</i>			
Unallocated other income			5,985
Corporate and other unallocated expenses			(38,592)
Net gain on deemed disposal of associates			3,386
Share of profits and losses of:			
Joint venture			(215,369)
Associates			(3,013)
Impairment of an available-for-sale investment			(134,107)
Fair value loss of available-for-sale investments			(490)
Fair value loss on derivative financial instruments, net			(108,558)
Fair value loss on an equity investment at fair value through profit or loss			(198,094)
Unallocated income tax expense			(383)
Loss for the year from continuing operations			<u>(736,293)</u>
Other segment information:			
Bank interest income	1,789	–	1,789
Unallocated bank interest income			385
			<u>2,174</u>
Depreciation	–	–	–
Unallocated depreciation			(2,174)
			<u>(2,174)</u>
Finance costs	(77)	–	(77)

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2015

	Property development and investment business <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Total <i>HK\$'000</i> <i>(Restated)</i>
Segment revenue:			
Sales to external customers	2,137,619	7,644	2,145,263
Gross rental income	9,725	–	9,725
	<u>2,147,344</u>	<u>7,644</u>	<u>2,154,988</u>
Revenue from continuing operations	<u>2,147,344</u>	<u>7,644</u>	<u>2,154,988</u>
Segment results	<u>35,065</u>	<u>175</u>	35,240
<i>Reconciliation:</i>			
Unallocated other income			4,461
Corporate and other unallocated expenses			(15,957)
Net gain on deemed disposal of associates			433,380
Share of profits and losses of:			
Joint venture			(27,278)
Associates			(41,337)
Impairment of an available-for-sale investment			(311,137)
Gain on derecognition of available-for-sale investments			224
Fair value gain of available-for-sale investments			19,091
Fair value gain on derivative financial instruments, net			28,146
Fair value loss on an equity investment at fair value through profit or loss			(1,204)
Unallocated income tax expense			(26,113)
			<u>97,516</u>
Profit for the year from continuing operations			<u>97,516</u>
Other segment information:			
Bank interest income	769	9,010	9,779
Unallocated bank interest income			2,114
			<u>11,893</u>
Depreciation	(1)	(1,225)	(1,226)
Unallocated depreciation			(1,294)
			<u>(2,520)</u>
Finance costs	(47,638)	–	(47,638)

3. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> <i>(Restated)</i>
Mainland China	<u>102,786</u>	<u>2,154,988</u>

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

(b) Non-current assets

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Hong Kong	23,211	24,411
Mainland China	<u>389,610</u>	<u>688,668</u>
	<u>412,821</u>	<u>713,079</u>

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

Information about major customers

Revenue from continuing operations of approximately HK\$44,390,000 (2015: Nil) was derived from sales by the property development and investment business segment to two customers of HK\$31,100,000 and HK\$13,290,000, respectively.

4. OTHER INCOME AND GAINS

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> <i>(Restated)</i>
<u>Other income</u>		
Bank interest income	2,174	11,893
Interest income on a convertible bond	1,036	518
Interest income on loans to associates	577	1,229
Interest income on loans to related companies	1,076	1,994
Government grant	7,534	17,800
Others	<u>146</u>	<u>359</u>
	12,543	33,793
<u>Gains</u>		
Fair value gains on investment properties	–	757
Gain on disposal of items of property, plant and equipment	<u>222</u>	<u>–</u>
	<u>12,765</u>	<u>34,550</u>

5. FINANCE COSTS

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> <i>(Restated)</i>
Interest on bank loans and other loans	156,816	266,319
Less: Interest capitalised	(156,739)	(218,681)
	77	47,638

6. PROFIT/(LOSS) BEFORE TAX

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> <i>(Restated)</i>
Cost of properties sold*	74,269	1,967,041
Cost of goods sold*	–	7,413
Depreciation	2,174	2,520
Other operating expenses/(income), net:		
Loss on disposal of items of property, plant and equipment	–	105
Fair value losses on investment properties	34,047	–
Impairment of an investment in a joint venture	7,745	–
Reversal of impairment of loans to associates	–	(11,677)
Provision for impairment of loans to related companies	12,608	–
Provision for impairment/(recovery) of prepayments and other receivables	233	(3,727)
	54,633	(15,299)

* 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 (2015: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> <i>(Restated)</i>
Current – Elsewhere:		
Charge for the year	1,155	100,216
Deferred	(15,225)	(67,024)
Land appreciation tax in Mainland China	7,385	74,865
Total tax charge/(credit) for the year	(6,685)	108,057

8. DISCONTINUED OPERATION

During the year, the Group disposed of 浙江東陽金牛針織製衣有限公司 (“Zhejiang Dongyang Jinniu”), a 51%-owned subsidiary, to an independent third party. Zhejiang Dongyang Jinniu engaged in the production and distribution of knitting and textile products, knitted fabrics and clothing. The Group decided to dispose of this subsidiary and cease its knitting and textile business because it had been loss-making in recent years.

The results of Zhejiang Dongyang Jinniu included in the Group’s consolidated statement of profit or loss as a discontinued operation are presented below:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	18,616	43,602
Cost of sales	(17,621)	(41,145)
Gross profit	995	2,457
Other income	112	479
Administrative expenses	(882)	(3,110)
Other operating expenses, net	(4,112)	(11,370)
Finance costs	(1,188)	(2,715)
Loss before tax from the discontinued operation	(5,075)	(14,259)
Income tax credit/(expense)	(16)	203
Loss after tax from the discontinued operation	(5,091)	(14,056)
Pre-tax gain on disposal of a subsidiary	32,453	–
Tax expense	–	–
After-tax gain on disposal of a subsidiary	32,453	–
Profit/(loss) for the year from the discontinued operation	27,362	(14,056)
Attributable to:		
Owners of the parent	29,857	(7,169)
Non-controlling interests	(2,495)	(6,887)
	27,362	(14,056)
Earnings/(loss) per share:		
Basic and diluted, from the discontinued operation	HK0.54 cent	(HK0.13 cent)

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

	2016	2015
Profit/(loss) attributable to ordinary equity holders of the parent from the discontinued operation	HK\$29,857,000	(HK\$7,169,000)
Weighted average number of ordinary shares in issue during the year	5,519,591,000	5,519,591,000

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 5,519,591,000 (2015: 5,519,591,000) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

The calculation of basic and diluted earnings/(loss) per share is based on:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit/(loss) attributable to ordinary equity holders of the parent:		
From continuing operations	(715,699)	48,989
From a discontinued operation	29,857	(7,169)
	(685,842)	41,820
	Number of shares	
	2016	2015
Weighted average number of ordinary shares in issue during the year	5,519,591,000	5,519,591,000

10. TRADE AND BILLS RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade and bills receivables	89,620	188,763
Impairment	–	(11,685)
	89,620	177,078
Less: Trade receivable, non-current portion	(20,178)	(21,628)
Current portion	69,442	155,450

The Group has different credit policies for different business operations depending on the requirements of the markets and businesses in which the subsidiaries operate. 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'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.

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.

10. TRADE AND BILLS RECEIVABLES *(continued)*

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:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 month	2,089	168,800
1 to 2 months	–	1,184
2 to 3 months	–	2,858
Over 3 months	87,531	4,236
	<hr/> 89,620 <hr/>	<hr/> 177,078 <hr/>

11. 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:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 month	10,249	80,197
1 to 2 months	28,005	2,307
2 to 3 months	–	1,841
Over 3 months	2,959	8,013
	<hr/> 41,213 <hr/>	<hr/> 92,358 <hr/>

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

12. COMPARATIVE AMOUNTS

The comparative consolidated statement of profit or loss has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (*note 8*).

DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016.

OVERALL REVIEW

During the year, the Group disposed of Zhejiang Dongyang Jinniu, a 51%-owned subsidiary, to an independent third party at a cash consideration of HK\$5,650,000. Zhejiang Dongyang Jinniu engaged in the production and distribution of knitting and textile products, knitted fabrics and clothing. The Group decided to dispose of this subsidiary and cease its knitting and textile business because it had been loss-making in recent years. In 2016, the revenue of this discontinued operation amounted to HK\$18,616,000 (2015: HK\$43,602,000). Together with the gain on disposal of a subsidiary of HK\$32,453,000 (2015: Nil) recorded, the profit from this discontinued operation was HK\$27,362,000 (2015: loss of HK\$14,056,000).

In 2016, the Group recorded revenue and gross profit from continuing operations of HK\$102,786,000 (2015: HK\$2,154,988,000) and HK\$28,517,000 (2015: HK\$180,534,000), respectively, which were contributed mainly by the property development and investment business. The Group recorded loss for the year from continuing operations of HK\$736,293,000 (2015: profit of HK\$97,516,000), which arose mainly from the fair value losses on an equity investment at fair value through profit or loss and derivative financial instruments in an aggregate of HK\$306,652,000 (2015: gain of HK\$26,942,000), as well as the share of losses of the joint venture and associates in an aggregate of HK\$218,382,000 (2015: HK\$68,615,000) and the impairment of an available-for-sale investment of HK\$134,107,000 (2015: HK\$311,137,000). Loss attributable to owners of the parent was HK\$685,842,000 (2015: profit of HK\$41,820,000) and basic loss per share was HK¢12.43 (2015: basic earnings per share of HK¢0.76). 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 -35% (2015: 2%).

BUSINESS REVIEW

Property development and investment business

Currently, two projects are in progress for the property development and investment business. One is located at the Southern side of Zhongshan Road of the Shahekou District of the Dalian City (“Dalian Project”), and another is situated in a newly developed residential area with communal facilities in the Liangjiangxin District of Chongqing (“Chongqing Project”).

In 2016, influenced by the policies of the Chinese government and the domestic monetary environment, the “930 New Policy” set a demarcation line in the real estate market between a booming one and a cooling one. Before the implementation of the new policy, driven jointly by the supply-side structural reform and the easing monetary environment, the demand in first-tier and some second-tier cities was steadily released, thereby leading to significant de-stocking results. However, due to the serious regional differentiation, no apparent increase in price and volume was observed in the market of Dalian City where Dalian Project is located. Upon adoption of the “930 New Policy”, capital flows of financial institutions were subject to strict policy control, causing capital liquidity to become tightened. In several cities, a series of macro-economic control measures were introduced in succession and restrictions on property purchases and mortgage loans were re-launched. Affected by this external environment, the trading volume in Dalian and Chongqing showed a downward trend.

Property development and investment business (*continued*)

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 has been completed as at 31 December 2016, of which 90,649 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 2016, 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 2016, the properties under development and completed properties held for sale amounted to HK\$4,105,317,000 (2015: HK\$4,070,648,000) and investment properties amounted to HK\$315,866,000 (2015: HK\$373,425,000). The customer deposits, which represent the proceeds of the pre-sale of properties, amounted to HK\$920,238,000 (2015: HK\$248,310,000). Dalian Project recorded revenue of HK\$102,786,000 (2015: HK\$2,147,344,000) and gross profit of HK\$28,517,000 (2015: HK\$180,303,000) for the year. In 2016, enhanced de-stocking efforts remained prevailing in the market of Dalian City where Dalian Project is located. Under the circumstances, the Group controlled the property development progress in a moderate manner by reasonably allocating sales of completed properties and properties under development to capture the market share. Therefore, revenue for the year decreased as compared to last year. The property development and investment business segment recorded loss of HK\$47,058,000 (2015: profit of HK\$35,065,000) for the year.

Trading business

The trading business segment recorded no revenue (2015: HK\$7,644,000) and no profit or loss (2015: profit of HK\$175,000) for the year.

FINANCIAL REVIEW

Convertible bonds

The Group held convertible bonds issued by Peace Map Holding Limited (“PMH”) and AVIC Joy Holdings (HK) Limited (“AVIC Joy”), respectively, both are listed companies in Hong Kong. These convertible bonds are hybrid instruments that include non-derivative host contracts and the embedded derivatives. The non-derivative host contracts, representing the bond components, have been designated as available-for-sale investments. The embedded derivatives, representing the conversion options, have been designated as derivative financial instruments.

The Group’s derivative financial instruments are managed and their performance is evaluated on a fair value basis. Any fair value gain or loss is recognised in profit or loss. Fair values are stated based on valuations performed by independent professionally qualified valuers, which are mainly influenced by the prices of the underlying securities and the time value of the derivative financial instruments.

Convertible bonds (continued)

The Group's portfolio of derivative financial instruments as at 31 December 2016 consisted of the derivatives at fair values of HK\$9,277,000 (2015: HK\$90,444,000) and HK\$2,061,000 (2015: HK\$29,452,000) embedded in the convertible bonds issued by PMH and AVIC Joy, respectively. During the year, a fair value loss of HK\$108,558,000 (2015: gain of HK\$28,146,000) was recognised in respect of the embedded derivatives, which was mainly due to the drop in the share prices of both PMH and AVIC Joy.

Equity investment at fair value through profit or loss

The Group held shares issued by PMH and classified the investment as an equity investment at fair value through profit or loss. During the year, the Group recorded a fair value loss on an equity investment at fair value through profit or loss of HK\$198,094,000 (2015: HK\$1,204,000) due to the drop in the share price of PMH.

Impairment of an available-for-sale investment

The Group held shares issued by AVIC Joy and classified the investment as an available-for-sale investment. Due to the significant decline in the share price of AVIC Joy during the year, an impairment of an available-for-sale investment of HK\$134,107,000 (2015: HK\$311,137,000) was recorded.

Joint venture and associates

During the year, the Group recorded share of losses of the joint venture and associates in an aggregate of HK\$218,382,000 (2015: HK\$68,615,000) mainly because the joint venture made significant impairment provisions on its certain investments and other assets.

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 December 2016, the Group had current assets of HK\$4,969,966,000 (2015: HK\$5,127,503,000), including cash and bank balances and time deposits in an aggregate of HK\$605,925,000 (2015: HK\$473,689,000). The Group's current liabilities as at 31 December 2016 were HK\$1,692,802,000 (2015: HK\$763,972,000).

As at 31 December 2016, the Group's equity attributable to owners of the parent amounted to HK\$1,973,272,000 (2015: HK\$2,737,534,000), comprising issued capital of HK\$551,959,000 (2015: HK\$551,959,000) and reserves of HK\$1,421,313,000 (2015: HK\$2,185,575,000). The Group's interest-bearing debts, including loans from fellow subsidiaries of HK\$1,234,637,000 (2015: HK\$1,864,671,000), interest-bearing bank borrowings of HK\$230,134,000 (2015: HK\$37,964,000) and loans from an intermediate holding company of HK\$475,419,000 (2015: HK\$509,581,000) are mainly denominated in Renminbi and arranged on a fixed rate basis. The Group's gearing ratio, calculated on the basis of the interest-bearing debts as a percentage of equity attributable to owners of the parent plus the interest-bearing debts, was 50% (2015: 47%).

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

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2016, certain of the Group's properties under development with an aggregate carrying value of HK\$1,658,082,000 (2015: Nil) were pledged to secure the Group's banking facilities.

As at 31 December 2015, the following Group's assets had been 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;
- (ii) the Group's leasehold land in Mainland China with net book value of HK\$2,885,000; and
- (iii) certain of the Group's short term time deposits amounting to HK\$359,000.

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 2016, the Group has given guarantees of HK\$76,085,000 (2015: HK\$36,489,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties for a period from the date of loans being granted to the purchasers up to the date of issuance of property title certificates to the purchasers.

ENVIRONMENTAL AND REGULATORY COMPLIANCE

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

The Company strictly follows all applicable laws and regulations released by the relevant authorities which are material to the Company. Throughout the year 2016, there was no incidence of non-compliance with the relevant laws and regulations that have a significant impact on the Company.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, there were 73 (2015: 156) employees in the Group. The employee wages and salaries for the continuing operations, excluding directors' remuneration, amounted to HK\$28,586,000 (2015: HK\$22,179,000) for the year ended 31 December 2016. 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 2017, sustaining the macro-economic control trends of 2016, the Chinese real estate market will continually strengthen the return to the residential attributes of properties. The regulators will, through revision of regulatory policies, restrict capitals inconsistent with policies from flowing into the real estate market. As affected by such policies and monetary environment, property supply and sales will be characteristic with "reduced investment, decelerated construction, and decreased volume and price". Nevertheless, on the whole, the first-tier and second-tier hotspot cities will have steady economic growth due to remarkable policy orientation, and the ongoing urbanisation as well as the "two-child policy" dividend will also drive the rigid demand and the demand for better housing. Based on the overall judgment, the real estate market will witness stable operation amid moderately reduced volume and price.

Apart from being closely concerned with the public bid invitation, auction and listing markets, the Group will also pay attention 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 corporate governance practices by emphasising transparency, accountability and responsibility to its shareholders.

For the year ended 31 December 2016, 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.

CORPORATE GOVERNANCE *(continued)*

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.

The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “Model Code”) as set out in Appendix 10 of the Listing Rules as the Company’s code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry, all directors of the Company have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2016.

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 2016 as set out in the preliminary announcement have been agreed by the Company’s auditors, Ernst & Young (“EY”), to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by EY on the preliminary announcement.

REVIEW BY AUDIT COMMITTEE

The final results for the year ended 31 December 2016 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
Liu Hongde
Chairman

Hong Kong, 14 March 2017

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