# 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)**

Interim Report **2018**

## CONTENTS



# CORPORATE INFORMATION

## DIRECTORS

Liu Hongde *(Chairman)*
Pan Linwu *(Deputy Chairman)*
Lai Weixuan
Zhou Chunhua
Xu Hongge *(Chief Executive Officer)*
Chow Wai Kam*
Chu Yu Lin, David**
Li Ka Fai, David**
Zhang Ping**

* *Non-executive Director*
** *Independent Non-executive Directors*

## AUDIT COMMITTEE

Chu Yu Lin, David *(Chairman)*
Li Ka Fai, David
Zhang Ping

## REMUNERATION COMMITTEE

Chu Yu Lin, David *(Chairman)*
Liu Hongde
Li Ka Fai, David

## COMPANY SECRETARY

Lau Ka Ho
(Appointed on 4 May 2018)
Tsui Choi Yee, Connie
(Resigned on 4 May 2018)

## AUDITORS

Ernst & Young

## LEGAL ADVISER

Michael Li & Co.
19/F., Prosperity Tower
No. 39 Queen's Road Central,
Central,
Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

## REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton, HM 12, Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit B, 15th Floor, United Centre
95 Queensway, Hong Kong

## SHARE REGISTRARS

### Principal registrar

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM 08, Bermuda

### Hong Kong registrar

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wan Chai,
Hong Kong

## WEBSITE

www.avic.com.hk

## STOCK CODE

232

# CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the board (the "Board") of directors (the "Directors") of AVIC International Holding (HK) Limited (the "Company"), I am pleased to present the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018.

## OVERALL REVIEW

On 7 February 2018, the Group completed the acquisition of the entire issued share capital of Motto Investment Limited ("Motto") and the shareholder's loan notes (the "Acquisition") from AVIC International (HK) Group Limited ("AVIC International (HK) Group"), an intermediate holding company, at an aggregate nominal consideration of HK$2,400,000,000, of which HK$1,400,000,000 was satisfied by way of allotment and issue of shares of the Company. Further details of the Acquisition were included in the circular of the Company dated 29 December 2017. The core business of Motto and its subsidiaries ("Motto Group") is the general aviation aircraft piston engine business which engages in the design, development and production of general aviation aircraft piston engines and spare parts as well as the provision of aftermarket services and supports for piston engines.

On 15 June 2018, a resolution was passed by the shareholders of the Company at the special general meeting to authorise the Company to dispose of the entire issued share capital of Ease Triumph International Limited ("Ease Triumph") and the outstanding shareholder's loans owed by East Triumph to the Company through 北京產權交易所 by way of open tender in accordance with the major terms as delineated in the announcement of the Company dated 17 April 2018 and the circular of the Company dated 31 May 2018. Accordingly, Ease Triumph and its subsidiaries ("Ease Triumph Group") was classified as a disposal group held for sale and as a discontinued operation. The comparative condensed consolidated statement of profit or loss has been re-presented as if the operation discontinued during the current period had been discontinued at the beginning of the comparative period. For the first half of 2018, the revenue of this discontinued operation amounted to HK$33,171,000 (2017: HK$29,740,000) and the loss amounted to HK$56,740,000 (2017: HK$46,841,000).

## OVERALL REVIEW *(cont'd)*

For the first half of 2018, the Group recorded revenue from continuing operations of HK$607,872,000 (2017: Nil) and loss attributable to owners of the parent of HK$113,053,000 (2017: HK$57,374,000). The increase in the loss attributable to owners of the parent was mainly because: (1) a one-off gain on disposal of convertible loans of HK$87,151,000 was recorded for the same period last year; (2) the newly acquired general aviation aircraft piston engine business recorded a loss of HK$23,837,000 for the first half of 2018; and (3) exchange loss of HK$22,138,000 arisen from the change in exchange rate for the new loan from an intermediate holding company in 2018 was included in administrative expenses in the first half of 2018; though a fair value loss of financial instruments of only HK$10,573,000 was recorded for the first half of 2018 as compared to the impairment and fair value loss of financial instruments of HK$85,476,000 in total recorded for the same period last year. Basic loss per share amounted to HK¢1.33 (2017: HK¢1.04). The return on equity, calculated on the basis of profit/loss attributable to owners of the parent as a percentage of equity attributable to owners of the parent, was -4% (2017: -3%).

## BUSINESS REVIEW

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

The Company has planned to dispose of Ease Triumph Group, its real estate business platform. Upon the completion of the disposal, the Company will no longer have business related to real estate.

Since the completion of the Acquisition, i.e. 7 February 2018, up to 30 June 2018, the general aviation aircraft piston engine business recognised revenue and gross profit of HK$607,872,000 and HK$142,476,000, respectively, and recorded loss of HK$23,837,000.

## BUSINESS REVIEW *(cont'd)*

### *Market*

In the first half of 2018, total engine units sold were 1,178. The sales of Original Equipment Manufacturer ("OEM") Avgas Engines and spares went upwards, though partially offset by Maintenance, Repair and Overhaul ("MRO") division and lower revenue in Titan Engine product line.

We produce a full range of piston powered aircraft engines capable of powering most aircraft in the existing, approximately 200,000 aircraft general aviation fleet as well as all fixed and rotary wing designs currently in production. We produce three primary engine types that meet five key market sectors.

The three engine types are:

1) Continental Legacy Engines – These are aero-derivative, air cooled engines fueled by aviation gasoline;

2) Continental Jet-A Engines – These are auto-derivative, liquid cooled engines fueled by Jet-A aviation fuel; and

3) Continental Titan Engines – These are aero-derivative, air cooled engines fueled by aviation gasoline. These engines are distinguished from the Continental Legacy Engines in that they are designed to mimic and be used in place of engines produced by Lycoming® Engines, an operating division of AVCO Corporation.

## BUSINESS REVIEW *(cont'd)*

### *Market* *(cont'd)*

The five market sectors are:

1) Certified General Aviation Business and Pleasure – This represents the market segment for aircraft used by individuals or corporations for business and pleasure travel. The market tends to result in low to middle flight hours per year;

2) Certified General Aviation Pilot Training – This represents the market segment for aircraft used to train new pilots for personal, business and commercial aircraft. It tends to result in middle to high flight hours per year;

3) Uncertified General Aviation – This represents the market segment for aircraft that are built or modified by individuals. It tends to yield aircraft usage in the low flight hours per year;

4) General Aviation Light Sport Aircraft – This is a category for small aircraft constrained in weight and speed to lower the cost and level of training needed for ownership. It tends to yield aircraft usage in the low flight hours per year; and

5) Unmanned Aircraft – This is a category of aircraft that began in the government sector but has rapidly transitioned to many commercial applications. This market segment is characterised by high annual flight hours.

Our products can be used across all market segments. Regardless of market segment, regulatory and safety requirements create a high hurdle to entry making access to adjacent markets costly and time consuming.

## BUSINESS REVIEW *(cont'd)*

### *Blue Marlin*

We have launched a factory modernisation project called Blue Marlin aiming at deploying a new manufacturing facility with new processes and efficiencies. All documents for the property and the new facility have been signed with the developer, landlord, and airport authority. We expect to see site survey, land preparation and other construction activities commence in the middle of July 2018. The new facility will be completed in the second quarter of 2019 with new equipment arriving in early 2019. We anticipate full production and transition to be completed in 2020.

### *Enterprise resource planning ("ERP") system upgrade*

To align with the facility modernisation, we started the Macola 10 project to upgrade the current ERP system from version 9 to version 10. This project will improve ERP system efficiencies and prepare us for both the completion of Blue Marlin and consolidation of accounting systems across factory operations. The first phase of the project in support of the new US factory is expected to finish by the end of 2019.

### *Research and development projects*

In the first half of 2018, we completed major developments that included:

1) IO-370 – Completed all certification work with the Federal Aviation Administration resulting in the issue of both the Type Certificate and the Production Certificate in June 2018;

2) CD-100 Series – Completed all design work and began certification activities for a third horsepower class rated at 170 Hp;

3) CD-200 Series – Completed major design activities and began endurance testing for a second horsepower class rated at 285 Hp; and

4) A number of confidential OEM development projects continue to progress on schedule and are expected to launch in early 2020.

## FINANCIAL REVIEW

### *Convertible bonds*

As at 31 December 2017, 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 managed and their performance is evaluated on a fair value basis. Fair values are mainly influenced by the prices of the underlying securities and the time value of the conversion options.

On 1 January 2018, the Group adopted Hong Kong Financial Reporting Standard 9 ("HKFRS 9"). Originally, the convertible bonds were separated into derivative financial instruments and available-for-sale debt instruments. In accordance with HKFRS 9, the entire convertible bonds should be measured at fair value through profit or loss.

On 6 March 2018, the convertible bond issued by AVIC Joy matured and was redeemed by AVIC Joy. For the first half of 2018, net fair value loss on financial assets at fair value through profit or loss of HK$10,573,000 was recognised in respect of the convertible bonds issued by PMH and AVIC Joy. For the same period last year, a fair value loss on derivative financial instruments of HK$11,086,000 was recognised in respect of the derivatives embedded in these convertible bonds.

As at 30 June 2018, the convertible bonds issued by PMH were included in financial assets at fair value through profit or loss and stated at fair values of HK$20,000,000.

## FINANCIAL REVIEW *(cont'd)*

### *Equity investments*

As at 31 December 2017, the Group held shares issued by PMH and classified the investment as a financial asset at fair value through profit or loss, and held shares issued by AVIC Joy and classified the investment as an available-for-sale investment.

On 1 January 2018, the Group adopted HKFRS 9. In accordance with HKFRS 9, the Group opted to classify all equity investments as financial assets at fair value through other comprehensive income with net changes in fair value recognised as other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

For the first half of 2018, the Group recorded a fair value loss on equity investments of HK$66,392,000 which was included in other comprehensive income. For the same period last year, the Group recorded a fair value loss on the shares issued by PMH of HK$25,905,000 which was recognised in the statement of profit or loss. Furthermore, an impairment of an available-for-sale investment of HK$48,485,000 in respect of the shares issued by AVIC Joy was also recorded in the same period last year.

### *Joint ventures and associates*

During the period, the Group recorded share of losses of the joint ventures and associates in an aggregate of HK$2,770,000 (2017: HK$11,047,000).

## LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 June 2018, the Group had current assets of HK$4,738,358,000 (31 December 2017: HK$3,825,763,000), including cash and bank balances and time deposits in an aggregate of HK$308,232,000 (31 December 2017: HK$627,140,000). The Group's current liabilities as at 30 June 2018 were HK$3,293,148,000 (31 December 2017: HK$980,982,000).

On 7 February 2018, the Acquisition was completed and a total of 3,783,783,783 new shares of the Company have been issued as fully paid to AVIC International (HK) Group. The fair value of these shares was HK$1,627,027,000 which was measured based on listed share price of HK$0.43 on that date. Accordingly, the issued share capital and share premium account of the Company increased by HK$378,378,000 and HK$1,248,649,000 respectively.

As at 30 June 2018, the Group's equity attributable to owners of the parent amounted to HK$3,189,776,000 (31 December 2017: HK$1,732,505,000), comprising issued capital of HK$930,337,000 (31 December 2017: HK$551,959,000) and reserves of HK$2,259,439,000 (31 December 2017: HK$1,180,546,000). The Group's interest-bearing debts included loans from a fellow subsidiary of nil (31 December 2017: HK$923,077,000), loans from an intermediate holding company of HK$534,485,000 (31 December 2017: HK$503,550,000) and interest-bearing bank borrowings of HK$19,631,000 (31 December 2017: Nil). The Group's gearing ratio, calculated on the basis of the interest-bearing debts as a percentage of equity attributable to owners of the parent plus the interest-bearing debts, was 15% (31 December 2017: 45%).

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

## CHARGES ON THE GROUP'S ASSETS

There were no charges on the Group's assets.

## EXPOSURE TO FOREIGN CURRENCY RISK

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

## MATERIAL ACQUISITIONS AND DISPOSALS

Save for the transactions as disclosed elsewhere in this interim report, the Group had no other material acquisitions or disposals during the period.

## CONTINGENT LIABILITIES

Details of the significant contingent liabilities of the Group are set out in note 17 to the interim financial statements.

## EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, there were 679 (31 December 2017: 70) employees in the Group. The employee wages and salaries for the continuing operations, excluding Directors' remuneration, amounted to HK$108,784,000 (2017: HK$2,144,000) for the period. 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.

## EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 20 to the interim financial statements.

## OUTLOOK

### *Opportunities*

We expect backlog and order strength in Jet-A products to continue through the end of 2018. Focusing on improving Parts Manufacturing Approval ("PMA") parts production bottlenecks will increase availability in the second half of 2018 in support of market expansion opportunities in adjacent markets for Titan Experimental Engines and Titan PMA parts.

### *Risks*

The general aviation market entered a period of softness that has resulted in lower demand in the orders of parts and engine in our Legacy Avgas segment. This could lead to revenue and profit erosion in the second half of 2018 if this situation continues.

### *Market assessment*

The production of new general aviation aircraft is not enough to overcome the attrition to the already fielded fleet where the average aircraft has been in service for more than 40 years. Therefore, we focus strongly on having product breadth to allow it to access its competitors' market space as allowed within the regulatory schemes. The Certified General Aviation Pilot Training and the Unmanned Aircraft sectors have potential for growth due to the global demand for pilots and the flexibility and cost advantages that unmanned aircraft provide.

### *Market forecast*

We believe that we can have growth opportunities in all market segments based on gaining market share through the introduction of new products, the focus on replacing suppliers on existing OEM aircraft, and having a wide range of products. However, due to the regulatory cycle, we will not see material results before 2020, which is when the regulatory based certification programs are expected to complete and then production and delivery of aircraft with engine products would be allowed. Until then, the Group will see general revenue stability, subject to global economic factors and increased capital and expense spending.

## 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**
**Liu Hongde**
*Chairman*

Hong Kong, 23 August 2018

# OTHER INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Except for certain Directors who had non-beneficial interests in certain subsidiaries of the Company held for the benefits of the Company, as at 30 June 2018, none of the Directors and chief executive of the Company had an interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (a) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO"); or (b) as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" above and in the section headed "SHARE OPTION SCHEME" below, during the period no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company had been granted to any of the Directors or their respective spouses or children under 18 years of age; no such rights had been exercised by them; and none of the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

At the annual general meeting held on 28 May 2014, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants to contribute to the business development and growth of the Group and to enable the Group to recruit high-calibre employees and attract or retain human resources that are valuable to the Group. Since the adoption of the Scheme, no options have been granted, exercised, lapsed, cancelled or outstanding thereunder as at 30 June 2018.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the following interests in 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

| Name of shareholders | *Notes* | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital as at 30 June 2018 |
|---|---|---|---|---|
| Tacko International Limited ("Tacko") | *(1)* | Beneficial owner | 1,895,559,000 | 20.37 |
| AVIC International (HK) Group | *(1)* | Beneficial owner | 2,421,341,390 | 26.03 |
| AVIC International (HK) Group | *(1)* | Through a controlled corporation | 4,316,903,900 | 46.40 |
| AVIC International Holding Corporation ("AVIC International") | *(1)* | Through a controlled corporation | 4,316,903,900 | 46.40 |
| Aviation Industry Corporation of China ("AVIC") | *(1)* | Through a controlled corporation | 4,316,903,900 | 46.40 |

*Notes:*

(1) According to notices of disclosure of interests filed with the Company, Tacko is a wholly-owned subsidiary of AVIC International (HK) Group, which in turn is a wholly-owned subsidiary of AVIC International. AVIC International is a non-wholly-owned subsidiary of AVIC (62.52% interest controlled by AVIC as at 30 June 2018). Accordingly, each of AVIC International (HK) Group, AVIC International and AVIC is deemed to be interested in the shares held by Tacko.

Save as disclosed above, as at 30 June 2018, no person had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

## CORPORATE GOVERNANCE

The Company is committed in maintaining good standards of corporate governance practices by emphasising transparency, accountability and responsibility to its shareholders.

Throughout the six months ended 30 June 2018, 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 to the Listing Rules, except as noted hereunder.

Other than the non-executive Director appointed on 23 June 2015 and the independent non-executive Director appointed on 26 May 2017, the other two independent non-executive Directors are appointed without specific terms, a requirement provided by 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. Therefore, the Company is of the view that it has adopted adequate measures to ensure the corporate governance of the Company complies with the same level to that required under the CG Code.

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. The Company considers to establish a nomination committee (the "Nomination Committee"). The principal responsibilities of the Nomination Committee would be to, among other things, review the structure, size and composition (including skills, knowledge and experience) of the Board and make recommendations to the Board regarding any proposed changes; identify candidates with suitable qualifications as directors, select and make recommendations to the Board; assess the independence of independent non-executive Directors; and make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors. Following the establishment of the Nomination Committee, the Company would comply with code provisions A.5.1 to A.5.4 of the CG Code.

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

The Company has adopted the Model Code as the Company's code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all the Directors, all of them confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2018.

## AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") established in compliance with the Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal control systems and the effectiveness of the Company's internal audit function including the review of this interim report. It currently comprises three Independent Non-executive Directors, namely, Mr. Chu Yu Lin, David (as Chairman), Mr. Li Ka Fai, David and Mr. Zhang Ping.

## REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 has been reviewed by the Audit Committee, and has also been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

# INTERIM FINANCIAL INFORMATION

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Notes | For the six months ended 30 June<br>**2018**<br>**(Unaudited)**<br>***HK$'000*** | <br>2017<br>(Unaudited)<br>*HK$'000*<br>*(Restated)* |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue | *4* | **607,872** | – |
| Cost of sales | | **(465,396)** | – |
| Gross profit | | **142,476** | – |
| Other income and gain | *4* | **12,776** | 3,311 |
| Selling and distribution expenses | | **(33,736)** | – |
| Administrative expenses | | **(196,443)** | (13,758) |
| Other operating income/(expenses) | *6* | **3,936** | (347) |
| Finance costs | *5* | **(7,285)** | – |
| Gain on disposal of convertible loans | | **–** | 87,151 |
| Share of profits and losses of: | | | |
| Joint ventures | | **(2,557)** | (9,934) |
| Associates | | **(213)** | (1,113) |
| Impairment of an available-for-sale investment (transfer from available-for-sale investment revaluation reserve) | | **–** | (48,485) |
| Fair value loss on derivative financial instruments | | **–** | (11,086) |
| Fair value loss on equity investment at fair value through profit or loss | | **–** | (25,905) |
| Fair value loss on financial assets at fair value through profit or loss | | **(10,573)** | – |
| Loss before tax from continuing operations | *6* | **(91,619)** | (20,166) |
| Income tax credit | *7* | **19,236** | – |
| Loss for the period from continuing operations | | **(72,383)** | (20,166) |
| **DISCONTINUED OPERATION** | | | |
| Loss for the period from a discontinued operation | *8* | **(56,740)** | (46,841) |
| **LOSS FOR THE PERIOD** | | **(129,123)** | (67,007) |

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

| | Note | For the six months ended 30 June **2018** **(Unaudited)** ***HK$'000*** | 2017 (Unaudited) *HK$'000* *(Restated)* |
|---|---|---|---|
| Attributable to: | | | |
| Owners of the parent | | **(113,053)** | (57,374) |
| Non-controlling interests | | **(16,070)** | (9,633) |
| | | **(129,123)** | (67,007) |
| **LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | *9* | | |
| Basic and diluted | | | |
| – For loss for the period | | **(HK1.33 cents)** | (HK1.04 cents) |
| – For loss from continuing operations | | **(HK0.85 cent)** | (HK0.37 cent) |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **LOSS FOR THE PERIOD** | **(129,123)** | (67,007) |
| **OTHER COMPREHENSIVE INCOME** | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | |
| Available-for-sale investments: | | |
| Changes in fair value | **–** | (37,212) |
| Reclassification adjustment for losses included in the condensed consolidated statement of profit or loss | | |
| – Impairment loss | **–** | 48,485 |
| | **–** | 11,273 |
| Share of other comprehensive income of a joint venture | **–** | 1,468 |
| Exchange differences on translation of foreign operations | **51,366** | 59,570 |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | **51,366** | 72,311 |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | |
| Financial assets at fair value through other comprehensive income: | | |
| Changes in fair value | **(66,392)** | – |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX | **(15,026)** | 72,311 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **(144,149)** | 5,304 |
| Attributable to: | | |
| Owners of the parent | **(149,797)** | (5,040) |
| Non-controlling interests | **5,648** | 10,344 |
| | **(144,149)** | 5,304 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | 30 June 2018 (Unaudited) *HK$'000* | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *11* | **335,230** | 22,444 |
| Investment properties | | **–** | 368,639 |
| Goodwill | | **439,422** | – |
| Other intangible assets | | **1,798,505** | – |
| Investments in joint ventures | | **42,758** | 42,464 |
| Investments in associates | | **14,396** | 14,385 |
| Financial asset under Project EC120 | | **–** | – |
| Available-for-sale investments | | **–** | 110,380 |
| Financial assets at fair value through other comprehensive income | | **124,749** | – |
| Prepayments | | **752** | – |
| Total non-current assets | | **2,755,812** | 558,312 |
| **CURRENT ASSETS** | | | |
| Properties under development and completed properties held for sale | | **–** | 2,937,160 |
| Inventories | | **540,091** | – |
| Trade receivables | *12* | **104,897** | 76,977 |
| Due from fellow subsidiaries | | **30,225** | 1,664 |
| Due from an associate | | **312** | 10,441 |
| Loans to an associate | | **10,494** | – |
| Prepayments, deposits and other receivables | | **46,809** | 5,095 |
| Available-for-sale investments | | **–** | 82,348 |
| Financial assets at fair value through profit or loss | | **20,000** | – |
| Equity investment at fair value through profit or loss | | **–** | 80,761 |
| Derivative financial instruments | | **–** | 1 |
| Prepaid taxes | | **–** | 4,176 |
| Cash and cash equivalents | | **308,232** | 627,140 |
| | | **1,061,060** | 3,825,763 |
| Assets of a disposal group classified as held for sale | *8* | **3,677,298** | – |
| Total current assets | | **4,738,358** | 3,825,763 |

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

| | Notes | **30 June 2018 (Unaudited) *HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Due to non-controlling shareholders of subsidiaries | | **–** | 138,852 |
| Due to intermediate holding companies | | **809,300** | 16,681 |
| Loan from an intermediate holding company | | **534,485** | – |
| Due to fellow subsidiaries | | **–** | 5,492 |
| Loans from a fellow subsidiary | | **–** | 366,864 |
| Trade payables | *13* | **73,916** | 122,511 |
| Other payables, accruals and provisions | | **159,000** | 34,198 |
| Customer deposits | | **–** | 217,981 |
| Tax payable | | **37,261** | 78,403 |
| Interest-bearing bank borrowings | | **12,400** | – |
| | | **1,626,362** | 980,982 |
| Liabilities directly associated with the assets classified as held for sale | *8* | **1,666,786** | – |
| Total current liabilities | | **3,293,148** | 980,982 |
| **NET CURRENT ASSETS** | | **1,445,210** | 2,844,781 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,201,022** | 3,403,093 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*(cont'd)*

| | Note | 30 June 2018 (Unaudited) *HK$'000* | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Due to an intermediate holding company | | **23,328** | – |
| Loans from an intermediate holding company | | **–** | 503,550 |
| Loans from a fellow subsidiary | | **–** | 556,213 |
| Interest-bearing bank borrowings | | **7,231** | – |
| Provisions and other payables | | **72,996** | – |
| Defined benefit obligations | | **7,866** | – |
| Contract liabilities | | **35,999** | – |
| Deferred tax liabilities | | **337,115** | 71,398 |
| Total non-current liabilities | | **484,535** | 1,131,161 |
| Net assets | | **3,716,487** | 2,271,932 |
| **EQUITY** | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | *14* | **930,337** | 551,959 |
| Reserves | | **2,259,439** | 1,180,546 |
| | | **3,189,776** | 1,732,505 |
| Non-controlling interests | | **526,711** | 539,427 |
| Total equity | | **3,716,487** | 2,271,932 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital (Unaudited) *HK$'000* | Share premium account (Unaudited) *HK$'000* | Available-for-sale investment revaluation reserve (Unaudited) *HK$'000* | Fair value reserve of financial assets at fair value through other comprehensive income (Unaudited) *HK$'000* | Reserve fund (Unaudited) *HK$'000* | Exchange fluctuation reserve (Unaudited) *HK$'000* | Retained profits (Unaudited) *HK$'000* | Total (Unaudited) *HK$'000* | Non-controlling interests (Unaudited) *HK$'000* | Total equity (Unaudited) *HK$'000* |
| At 1 January 2018 | 551,959 | 609,080 | 6,649 | - | 23,655 | (49,889) | 591,051 | 1,732,505 | 539,427 | 2,271,932 |
| Adjustment on initial application of HKFRS 9 *(note 2(a)(i))* | - | - | (6,649) | (628,135) | - | - | 634,784 | - | - | - |
| Adjustment on initial application of HKFRS 15 *(note 2(b))* | - | - | - | - | - | 1,070 | (21,029) | (19,959) | (18,364) | (38,323) |
| At 1 January 2018 (Restated) | 551,959 | 609,080 | - | (628,135) | 23,655 | (48,819) | 1,204,806 | 1,712,546 | 521,063 | 2,233,609 |
| Loss for the period | - | - | - | - | - | - | (113,053) | (113,053) | (16,070) | (129,123) |
| Other comprehensive income for the period: | | | | | | | | | | |
| Exchange differences on translation of foreign operations | - | - | - | - | - | 29,648 | - | 29,648 | 21,718 | 51,366 |
| Changes in fair value of financial assets at fair value through other comprehensive income, net of tax | - | - | - | (66,392) | - | - | - | (66,392) | - | (66,392) |
| Total comprehensive income for the period | - | - | - | (66,392) | - | 29,648 | (113,053) | (149,797) | 5,648 | (144,149) |
| Issue of shares *(note 14)* | 378,378 | 1,248,649 | - | - | - | - | - | 1,627,027 | - | 1,627,027 |
| At 30 June 2018 | 930,337 | 1,857,729* | -* | (694,527)* | 23,655* | (19,171)* | 1,091,753* | 3,189,776 | 526,711 | 3,716,487 |

* These reserve accounts comprise the consolidated reserves of HK$2,259,439,000 in the condensed consolidated statement of financial position as at 30 June 2018.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(cont'd)*

| | Attributable to owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital (Unaudited) *HK$'000* | Share premium account (Unaudited) *HK$'000* | Available-for-sale investment revaluation reserve (Unaudited) *HK$'000* | Reserve fund (Unaudited) *HK$'000* | Exchange fluctuation reserve (Unaudited) *HK$'000* | Retained profits (Unaudited) *HK$'000* | Total (Unaudited) *HK$'000* | Non-controlling interests (Unaudited) *HK$'000* | Total equity (Unaudited) *HK$'000* |
| At 1 January 2017 | 551,959 | 609,080 | 25,386 | 18,505 | (116,340) | 884,682 | 1,973,272 | 553,481 | 2,526,753 |
| Loss for the period | – | – | – | – | – | (57,374) | (57,374) | (9,633) | (67,007) |
| Other comprehensive income for the period: | | | | | | | | | |
| Changes in fair value of available-for-sale investments, net of tax | – | – | 11,273 | – | – | – | 11,273 | – | 11,273 |
| Share of other comprehensive income of a joint venture | – | – | – | – | 1,468 | – | 1,468 | – | 1,468 |
| Exchange differences on translation of foreign operations | – | – | – | – | 39,593 | – | 39,593 | 19,977 | 59,570 |
| Total comprehensive income for the period | – | – | 11,273 | – | 41,061 | (57,374) | (5,040) | 10,344 | 5,304 |
| At 30 June 2017 | 551,959 | 609,080 | 36,659 | 18,505 | (75,279) | 827,308 | 1,968,232 | 563,825 | 2,532,057 |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | For the six months ended 30 June 2018 (Unaudited) HK$'000 | 2017 (Unaudited) HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Loss before tax: | | | |
| From continuing operations | | **(91,619)** | (20,166) |
| From a discontinued operation | 8 | **(54,506)** | (44,539) |
| Adjustments for: | | | |
| Finance costs | 5, 8 | **41,285** | 22,089 |
| Share of profits and losses of joint ventures and associates | | **2,770** | 11,047 |
| Bank interest income | | **(1,889)** | (3,091) |
| Interest income on a convertible bond | | **(186)** | (518) |
| Interest income on loans to an associate | | **(497)** | (282) |
| Interest income on loans to related companies | | **–** | (511) |
| Gain on disposal of convertible loans | | **–** | (87,151) |
| Depreciation | 6 | **26,424** | 681 |
| Amortisation of other intangible assets | 6 | **34,576** | – |
| Reversal of provision for impairment of trade receivables | 6 | **(311)** | – |
| Reversal of provision for impairment of other receivable | 6 | **(3,625)** | – |
| Loss/(gain) on disposal of items of property, plant and equipment | 4, 6 | **(349)** | 347 |
| Write-down of inventories to net realisable value | 6 | **6,865** | – |
| Impairment of an available-for-sale investment | | **–** | 48,485 |
| Fair value loss on derivative financial instruments | | **–** | 11,086 |
| Fair value loss on equity investment at fair value through profit or loss | | **–** | 25,905 |
| Fair value loss on financial assets at fair value through profit or loss | | **10,573** | – |
| | | **(30,489)** | (36,618) |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(cont'd)*

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Decrease/(increase) in properties under development and completed properties held for sale | **29,785** | (50,019) |
| Decrease in inventories | **24,896** | – |
| Decrease/(increase) in trade receivables | **(33,073)** | 3,898 |
| Decrease/(increase) in prepayments, deposits and other receivables | **6,589** | (2,467) |
| Decrease in contract assets | **37** | – |
| Decrease/(increase) in amounts due from fellow subsidiaries | **(201)** | 8,314 |
| Decrease in an amount due from an associate | **53** | – |
| Decrease in trade payables | **(55,013)** | (7,065) |
| Increase in other payables, accruals and provisions | **30,656** | 4,344 |
| Increase in contract liabilities | **15,195** | – |
| Increase in customer deposits | **–** | 407,446 |
| Increase in defined benefit obligations | **860** | – |
| Cash generated from/(used in) operations | **(10,705)** | 327,833 |
| Overseas tax paid | **(10,029)** | (8,898) |
| Net cash flows from/(used in) operating activities | **(20,734)** | 318,935 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(cont'd)*

| | | For the six months ended 30 June | |
|---|---|---|---|
| | Notes | **2018 (Unaudited) *HK$'000*** | 2017 (Unaudited) *HK$'000* |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | *11* | **(30,463)** | (26) |
| Proceeds from disposal of items of property, plant and equipment | | **4,999** | 548 |
| Additions to other intangible assets | | **(21,439)** | – |
| Receipt on maturity of convertible bond | | **51,776** | – |
| Proceeds from disposal of convertible loans | | **–** | 87,151 |
| Bank interest received | | **2,018** | 3,094 |
| Interest received on a convertible bond | | **518** | 518 |
| Interest received on loans to an associate | | **514** | 570 |
| Interest received on loans to related companies | | **–** | 1,065 |
| Acquisition of subsidiaries | *15* | **(126,080)** | – |
| Net cash flows from/(used in) investing activities | | **(118,157)** | 92,920 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(cont'd)*

| | For the six months ended 30 June | |
|---|---|---|
| | **2018 (Unaudited) *HK$'000*** | 2017 (Unaudited) *HK$'000* |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Repayment of bank loans | **(32,294)** | (230,134) |
| Repayment of loans from a fellow subsidiary | **–** | (106,145) |
| Repayment of loans from a non-controlling shareholder of a subsidiary | **(69,607)** | – |
| New loans from an intermediate holding company | **543,127** | – |
| Repayment of loans from an intermediate holding company | **(533,951)** | – |
| Increase/(decrease) in amounts due to non-controlling shareholders of subsidiaries | **(25,777)** | 25,891 |
| Increase/(decrease) in amounts due to intermediate holding companies | **(2,551)** | 7,535 |
| Increase/(decrease) in amounts due to fellow subsidiaries | **(18,731)** | 1,830 |
| Interest paid | **(43,440)** | (56,083) |
| Net cash flows used in financing activities | **(183,224)** | (357,106) |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(cont'd)*

| | For the six months ended 30 June | |
|---|---|---|
| | **2018 (Unaudited) *HK$'000*** | 2017 (Unaudited) *HK$'000* |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **(322,115)** | 54,749 |
| Cash and cash equivalents at 1 January | **627,140** | 605,925 |
| Effect of foreign exchange rate changes, net | **13,043** | 9,703 |
| **CASH AND CASH EQUIVALENTS AT 30 JUNE** | **318,068** | 670,377 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | **308,232** | 370,086 |
| Non-pledged time deposit with original maturity of less than three months when acquired | **–** | 300,291 |
| Cash and cash equivalents as stated in the statement of financial position | **308,232** | 670,377 |
| Cash and bank balances attributable to a discontinued operation | **9,836** | – |
| Cash and cash equivalents as stated in the statement of cash flows | **318,068** | 670,377 |

# NOTES TO INTERIM FINANCIAL STATEMENTS

## 1. Accounting policies and basis of preparation

The condensed consolidated interim financial statements are prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Listing Rules and are in compliance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA.

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2017, except for the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) for the first time in the current period as disclosed in note 2 below.

## 2. Changes in accounting policies and disclosures

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

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* |
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers* |
| Amendments to HKAS 40 | *Transfers of Investment Property* |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| Annual Improvements 2014-2016 Cycle | *Amendments to HKFRS 1 and HKAS 28* |

The adoption of new and revised HKFRSs has had no significant financial effect on these condensed consolidated interim financial statements except for HKFRS 9, HKFRS 15 and Amendments to HKFRS 15 which will be explained below.

## 2. Changes in accounting policies and disclosures *(cont'd)*

### *(a) HKFRS 9 Financial Instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The impacts relate to the classification and measurement and the impairment requirements are summarised as follows:

*(i) Classification and measurement*

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

## 2. Changes in accounting policies and disclosures *(cont'd)*

### *(a) HKFRS 9 Financial Instruments* *(cont'd)*

*(i) Classification and measurement (cont'd)*

The new classification and measurement of the Group's financial assets are as follows:

(i) Debt instruments at amortised cost that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion.

(ii) Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its equity instruments as financial assets at fair value through other comprehensive income. Financial assets at fair value through other comprehensive income are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's equity instruments were classified as available-for-sale investments and equity investment at fair value through profit or loss.

## 2. Changes in accounting policies and disclosures *(cont'd)*

### *(a) HKFRS 9 Financial Instruments (cont'd)*

*(i) Classification and measurement (cont'd)*

(iii) Financial assets at fair value through profit or loss include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under HKAS 39, the Group's convertible bond investments were separated into derivative financial instruments and available-for-sale debt instruments. Upon transition, the available-for-sale investment revaluation reserve relating to available-for-sale debt instruments, which had been previously recognised under accumulated other comprehensive income, was reclassified to retained profits.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

## 2. Changes in accounting policies and disclosures *(cont'd)*

### *(a) HKFRS 9 Financial Instruments (cont'd)*

*(i) Classification and measurement (cont'd)*

The following table summarises classification changes for the Group's financial assets at 1 January 2018:

| | Originally stated *HK$'000* | Reclassification under HKFRS 9 *HK$'000* | Restated *HK$'000* |
|---|---|---|---|
| **Equity investments** | | | |
| Available-for-sale investments | 110,380 | (110,380) | – |
| Equity investment at fair value through profit or loss | 80,761 | (80,761) | – |
| Financial assets at fair value through other comprehensive income | – | 191,141 | 191,141 |
| | 191,141 | – | 191,141 |
| **Convertible bonds** | | | |
| Available-for-sale investments | 82,348 | (82,348) | – |
| Derivative financial instruments | 1 | (1) | – |
| Financial assets at fair value through profit or loss | – | 82,349 | 82,349 |
| | 82,349 | – | 82,349 |

## 2. Changes in accounting policies and disclosures *(cont'd)*

### *(a) HKFRS 9 Financial Instruments (cont'd)*

*(i) Classification and measurement (cont'd)*

In accordance with HKFRS 9, the Group did not restate comparative information. Instead, the Group recognised the transition adjustments against the opening balance of equity at 1 January 2018. The effect on opening balance of equity is as follows:

| | Available-for-sale investment revaluation reserve *HK$'000* | Fair value reserve of financial assets at fair value through other comprehensive income *HK$'000* | Retained profits *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Opening balance (Originally stated) | 6,649 | – | 591,051 | 597,700 |
| Reclassification of available-for-sale investments revaluation reserve under HKFRS 9 | (6,649) | (628,135) | 634,784 | – |
| Opening balance (Restated) | – | (628,135) | 1,225,835 | 597,700 |

## 2. Changes in accounting policies and disclosures *(cont'd)*

### *(a) HKFRS 9 Financial Instruments* *(cont'd)*

*(ii) Impairment*

HKFRS 9 requires an impairment on trades receivables, other receivables and amounts due from fellow subsidiaries and an associate that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and recorded lifetime expected losses on its trade receivables. The Group applied general approach and recorded twelve month expected losses on its other receivables and amounts due from fellow subsidiaries and an associate. The adoption of HKFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

### *(b) HKFRS 15 Revenue from Contracts with Customers*

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

## 2. Changes in accounting policies and disclosures *(cont'd)*

### *(b) HKFRS 15 Revenue from Contracts with Customers (cont'd)*

The Group adopted HKFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits at 1 January 2018. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

*Revenue recognition*

Revenue is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

## 2. Changes in accounting policies and disclosures *(cont'd)*

### *(b) HKFRS 15 Revenue from Contracts with Customers* *(cont'd)*

*Revenue recognition (cont'd)*

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract.

(i) Accounting for revenue from sales of properties

Prior to the adoption of HKFRS 15, the Group accounted for revenue from sales of properties when significant risks and rewards of ownership has been transferred to the customers.

Under HKFRS 15, for properties that have no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from customers for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method for measuring progress. The excess of cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

The Group has assessed that the revenue from sale of properties will continue to be recognised at a point in time, when the purchasers obtain the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable.

## 2. Changes in accounting policies and disclosures *(cont'd)*

### (b) *HKFRS 15 Revenue from Contracts with Customers (cont'd)*

*Revenue recognition (cont'd)*

(i) Accounting for revenue from sales of properties *(cont'd)*

The Group adopted the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2018. In addition, the Group applied the new requirements only to contracts that are not completed before 1 January 2018. Those sales of completed properties held for sale with control of the properties not transferred to customers before 1 January 2018 and the corresponding cost of sales were adjusted to the opening balance of retained profits at 1 January 2018. The impact of the adoption of HKFRS 15 is shown in the table below.

(ii) Accounting for revenue from the general aviation aircraft piston engine business segment

The general aviation aircraft piston engine business segment involves the sales of aircraft engines and spare parts and the provision of repair and maintenance services for aircraft engines. The provision of repair and maintenance services for aircraft engines are sold separately to customers. Under HKFRS 15, the Group recognised the revenue from the sales of aircraft engines and spare parts at the point in time when control of the asset is transferred to the customer, generally on delivery of the aircraft engines and spare parts. The Group recognised the revenue from the provision of repair and maintenance services for aircraft engines over time in the accounting period in which the services are rendered.

## 2. Changes in accounting policies and disclosures *(cont'd)*

### *(b) HKFRS 15 Revenue from Contracts with Customers (cont'd)*

*Revenue recognition (cont'd)*

(iii) Accounting for significant financing component for sales of properties

Prior to the adoption of HKFRS 15, the Group presented sales proceeds received from customers in connection with the Group's pre-sales of properties as customer deposits in the consolidated statement of financial position.

Upon adoption of HKFRS 15, the Group elected to apply the practical expedient and did not recognise the effects of a significant component with a customer if the time period is one year or less. In addition, reclassifications have been made from customer deposits to contract liabilities for the outstanding balance of sales proceeds from customers. The adoption of HKFRS 15 has had no significant impact on the opening retained profits as at 1 January 2018. Customer deposits of HK$217,981,000 has been reclassified to contract liabilities as at 1 January 2018. The impact of the adoption of HKFRS 15 is shown in the table below.

(iv) Accounting for sales commission

Prior to the adoption of HKFRS 15, the Group expensed off the sales commission associated with obtaining agreement for sale and purchase with property buyer. Upon adoption of HKFRS 15, sales commissions incurred directly attributable to obtaining a contract, if recoverable, are capitalised and recorded in contract assets. Capitalised sales commissions are charged to profit or loss when the revenue from the related property sale is recognised and are included as selling and distribution expenses at that time. The impact of the adoption of HKFRS 15 on sales commission was adjusted to the opening balance of retained profits at 1 January 2018. The impact of the adoption of HKFRS 15 is shown in the table below.

## 2. Changes in accounting policies and disclosures *(cont'd)*

### *(b) HKFRS 15 Revenue from Contracts with Customers (cont'd)*

*Revenue recognition (cont'd)*

The impact on the Group's financial position at 1 January 2018 by the application of HKFRS 15 is as follows:

| | Originally stated<br>*HK$'000* | Adjustments under HKFRS 15<br>*HK$'000* | Restated<br>*HK$'000* |
|---|---|---|---|
| **Consolidated statement of financial position (extract)** | | | |
| Properties under development and completed properties held for sale | 2,937,160 | 134,818 | 3,071,978 |
| Trade receivables | 76,977 | (76,977) | – |
| Due from fellow subsidiaries | 1,664 | (1,664) | – |
| Contract assets | – | 4,971 | 4,971 |
| Prepaid taxes | 4,176 | 16,539 | 20,715 |
| Other payables and accruals | 34,198 | (10,016) | 24,182 |
| Customer deposits | 217,981 | (217,981) | – |
| Contract liabilities | – | 339,654 | 339,654 |
| Deferred tax liabilities | 71,398 | 4,353 | 75,751 |
| Exchange fluctuation reserve | (49,889) | 1,070 | (48,819) |
| Retained profits | 591,051 | (21,029) | 570,022 |
| Non-controlling interests | 539,427 | (18,364) | 521,063 |

## 3. Operating segment information

For management purposes, the Group is organised into business units based on their products and services. During the period, the Group acquired the general aviation aircraft piston engine business in February and discontinued the property development and investment business in June. Accordingly, the comparative segment information related to the property development and investment business is classified as "loss for the period from a discontinued operation" in the condensed consolidated statement of profit or loss. As a result, the Group has only one reportable operating segment, the general aviation aircraft piston engine business, which engages in the design, development and production of general aviation aircraft piston engines and spare parts as well as the provision of aftermarket services and supports for piston engines.

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 period from continuing operations. The adjusted profit/(loss) for the period from continuing operations is measured consistently with the Group's profit/(loss) for the period from continuing operations except that certain income and gains or losses relating to investments in joint ventures and associates and financial instruments, the gain on disposal of convertible loans, as well as head office and corporate expenses and unallocated finance costs and income tax are excluded from such measurement.

## 3. Operating segment information *(cont'd)*

The following is an analysis of the Group's revenue and results from continuing operations by reportable operating segment for the six months ended 30 June.

| | **General aviation aircraft piston engine business** | | **Total** | |
|---|---|---|---|---|
| | **2018** **HK$'000** | 2017 *HK$'000* *(Restated)* | **2018** **HK$'000** | 2017 *HK$'000* *(Restated)* |
| **Segment revenue:** | | | | |
| Sales to external customers | **607,872** | – | **607,872** | – |
| **Segment results** | **(23,837)** | – | **(23,837)** | – |
| *Reconciliation:* | | | | |
| Unallocated other income | | | **2,716** | 3,311 |
| Corporate and other unallocated expenses | | | **(32,202)** | (14,105) |
| Finance costs | | | **(6,200)** | – |
| Gain on disposal of convertible loans | | | **–** | 87,151 |
| Share of profits and losses of: | | | | |
| Joint ventures | | | **(2,077)** | (9,934) |
| Associates | | | **(213)** | (1,113) |
| Impairment of an available-for-sale investment | | | **–** | (48,485) |
| Fair value loss on derivative financial instruments | | | **–** | (11,086) |
| Fair value loss on an equity investment at fair value through profit or loss | | | **–** | (25,905) |
| Fair value loss on financial assets at fair value through profit or loss | | | **(10,573)** | – |
| Unallocated income tax credit | | | **3** | – |
| Loss for the period from continuing operations | | | **(72,383)** | (20,166) |

## 4. Revenue, other income and gain

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| | | *(Restated)* |
| **Revenue** | | |
| Sales of goods transferred at a point in time | **553,606** | – |
| Rendering of services transferred over time | **54,266** | – |
| | **607,872** | – |
| **Other income** | | |
| Bank interest income | **1,399** | 1,832 |
| Interest income on a convertible bond | **186** | 518 |
| Interest income on loans to an associate | **497** | 282 |
| Interest income on loans to related companies | **–** | 511 |
| Compensation fee | **9,680** | – |
| Distributorship fee income | **326** | – |
| Government grant* | **–** | 168 |
| Others | **339** | – |
| | **12,427** | 3,311 |
| **Gain** | | |
| Gain on disposal of items of property, plant and equipment | **349** | – |
| | **12,776** | 3,311 |

* This represents subsidies from municipal government in Mainland China. There are no unfulfilled conditions or contingencies relating to these subsidies.

## 5. Finance costs

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| | | *(Restated)* |
| Interest on interest-bearing loans and borrowings | **7,192** | – |
| Others | **93** | – |
| | **7,285** | – |

## 6. Loss before tax

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| | | *(Restated)* |
| Cost of inventories sold* | **418,689** | – |
| Cost of services provided* | **39,842** | – |
| Write-down of inventories to net realisable value* | **6,865** | – |
| Research and development costs: | | |
| Current period expenditure | **28,559** | – |
| Depreciation | **26,424** | 681 |
| Amortisation of other intangible assets | **34,576** | – |
| Foreign exchange difference, net | **21,706** | (796) |
| Other operating expenses/(income): | | |
| Reversal of provision for impairment of trade receivables | **(311)** | – |
| Reversal of provision for impairment of other receivable | **(3,625)** | – |
| Loss on disposal of items of property, plant and equipment | **–** | 347 |
| | **(3,936)** | 347 |

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

## 7. Income tax

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2018 and 2017 as the Group did not generate any assessable profits arising in Hong Kong during those periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates.

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| | | *(Restated)* |
| Current – Elsewhere: | | |
| Charge for the period | **1,973** | – |
| Deferred | **(21,209)** | – |
| Total tax credit for the period | **(19,236)** | – |

## 8. Discontinued operation

On 15 June 2018, a resolution was passed by the shareholders of the Company at the special general meeting to authorise the Company to dispose of the entire issued share capital of Ease Triumph and the outstanding shareholder's loans owed by East Triumph to the Company through 北京產權交易所 by way of open tender. Accordingly, Ease Triumph Group was classified as a disposal group held for sale and as a discontinued operation.

## 8. Discontinued operation *(cont'd)*

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Revenue | **33,171** | 29,740 |
| Cost of sales | **(20,105)** | (20,980) |
| Gross profit | **13,066** | 8,760 |
| Other income | **541** | 1,259 |
| Selling and distribution expenses | **(2,200)** | (14,716) |
| Administrative expenses | **(31,913)** | (17,753) |
| Finance costs | **(34,000)** | (22,089) |
| Loss before tax from the discontinued operation | **(54,506)** | (44,539) |
| Income tax expense | **(2,234)** | (2,302) |
| Loss for the period from the discontinued operation | **(56,740)** | (46,841) |
| Attributable to: | | |
| Owners of the parent | **(40,670)** | (37,208) |
| Non-controlling interests | **(16,070)** | (9,633) |
| | **(56,740)** | (46,841) |
| Loss per share: | | |
| Basic and diluted, from the discontinued operation | **(HK0.48 cent)** | (HK0.67 cent) |

## 8. Discontinued operation *(cont'd)*

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2018 (Unaudited)** | 2017 (Unaudited) |
| Loss attributable to ordinary equity holders of the parent from the discontinued operation | **(HK$40,670,000)** | (HK$37,208,000) |
| Weighted average number of ordinary shares in issue during the period | **8,529,894,120** | 5,519,591,000 |

The major classes of assets and liabilities of Ease Triumph Group classified as held for sale as at 30 June are as follows:

| | **30 June 2018 (Unaudited)** ***HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| **Assets** | | |
| Investment properties | **384,568** | – |
| Properties under development and completed properties held for sale | **3,206,513** | – |
| Contract assets | **4,934** | – |
| Prepayments, deposits and other receivables | **44,271** | – |
| Prepaid taxes | **27,176** | – |
| Cash and cash equivalents | **9,836** | – |
| Assets of a disposal group classified as held for sale | **3,677,298** | – |

## 8. Discontinued operation *(cont'd)*

The major classes of assets and liabilities of Ease Triumph Group classified as held for sale as at 30 June are as follows: *(cont'd)*

| | **30 June 2018 (Unaudited)** ***HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| **Liabilities** | | |
| Due to non-controlling shareholders of subsidiaries | **(120,502)** | – |
| Due to an intermediate holding company | **(8,326)** | – |
| Due to fellow subsidiaries | **(1,240)** | – |
| Trade payables | **(101,976)** | – |
| Other payables and accruals | **(34,704)** | – |
| Contract liabilities | **(371,949)** | – |
| Tax payable | **(47,493)** | – |
| Loans from a non-controlling shareholder of a subsidiary | **(902,845)** | – |
| Deferred tax liabilities | **(77,751)** | – |
| Liabilities directly associated with the assets classified as held for sale | **(1,666,786)** | – |
| Net assets directly associated with the disposal group | **2,010,512** | – |

## 8. Discontinued operation *(cont'd)*

The net cash flows incurred by Ease Triumph Group are as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Operating activities | **(25,770)** | 333,263 |
| Investing activities | **490** | 1,259 |
| Financing activities | **(159,725)** | (357,106) |
| Net cash outflow | **(185,005)** | (22,584) |

## 9. Loss per share attributable to ordinary equity holders of the parent

The calculation of the basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 8,529,894,120 (2017: 5,519,591,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

## 9. Loss per share attributable to ordinary equity holders of the parent *(cont'd)*

The calculation of basic and diluted loss per share is based on:

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| | | *(Restated)* |
| **Loss attributable to ordinary equity holders of the parent:** | | |
| From continuing operations | **(72,383)** | (20,166) |
| From a discontinued operation | **(40,670)** | (37,208) |
| | **(113,053)** | (57,374) |

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| **Shares:** | | |
| Weighted average number of ordinary shares in issue during the period | **8,529,894,120** | 5,519,591,000 |

## 10. Dividend

The Directors do not declare an interim dividend for the six months ended 30 June 2018 (2017: Nil).

## 11. Property, plant and equipment

During the six months ended 30 June 2018, the Group has additions of items of property, plant and equipment of HK$30,463,000 (2017: HK$26,000) and disposal of items of property, plant and equipment with net book value of HK$4,650,000 (2017: HK$895,000).

## 12. Trade receivables

| | **30 June 2018 (Unaudited)** ***HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| Trade receivables | **111,694** | 76,977 |
| Impairment | **(6,797)** | – |
| | **104,897** | 76,977 |

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 in the general aviation aircraft piston engine business are mainly on credit, where partial advanced payment is required for certain customers. The credit period is generally 30 days. Each customer has a maximum credit limit.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. As at 30 June 2018, the Group had certain concentrations of credit risk as 47% of the Group's trade receivables were due from one of the Group's key customers. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

## 12. Trade receivables *(cont'd)*

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

| | **30 June 2018 (Unaudited)** ***HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| Within 1 month | **34,630** | – |
| 1 to 2 months | **37,765** | – |
| 2 to 3 months | **4,960** | – |
| Over 3 months | **27,542** | 76,977 |
| | **104,897** | 76,977 |

## 13. Trade payables

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

| | **30 June 2018 (Unaudited)** ***HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| Within 1 month | **64,951** | 85,604 |
| 1 to 2 months | **4,656** | – |
| 2 to 3 months | **746** | – |
| Over 3 months | **3,563** | 36,907 |
| | **73,916** | 122,511 |

The trade payables are non-interest-bearing and are normally settled on 60-day (31 December 2017: 90-day) terms.

## 14. Share capital

### *Shares*

| | **30 June 2018 (Unaudited)** *HK$'000* | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| Authorised: | | |
| 10,000,000 ordinary shares of HK$0.10 each | **1,000,000** | 1,000,000 |
| Issued and fully paid: | | |
| 9,303,374,783 (31 December 2017: 5,519,591,000) ordinary shares of HK$0.10 each | **930,337** | 551,959 |

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

| | **Number of shares in issue** | **Share capital** *HK$'000* | **Share premium account** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| At 1 January 2017, 30 June 2017 and 1 January 2018 | **5,519,591,000** | **551,959** | **609,080** | **1,161,039** |
| Issue of shares *(note)* | **3,783,783,783** | **378,378** | **1,248,649** | **1,627,027** |
| At 30 June 2018 | **9,303,374,783** | **930,337** | **1,857,729** | **2,788,066** |

*Note:*

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

## 15. Business combination

On 7 February 2018, the Group completed the Acquisition at an aggregate nominal consideration of HK$2,400,000,000, of which HK$1,400,000,000 was satisfied by way of allotment and issue of 3,783,783,783 shares of the Company, HK$200,000,000 was satisfied by cash at the acquisition date and the remaining of HK$800,000,000 was to be satisfied by cash upon earlier of the following events: (i) the Company having received the proceeds from the disposal of its property development and investment business, resulting in the Company having net cash balance of more than HK$800,000,000; and (ii) the Company having net cash balance of more than HK$800,000,000. Further details of the Acquisition were included in the circular of the Company dated 29 December 2017.

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

| | **Fair value recognised on acquisition** *HK$'000* |
|---|---|
| Property, plant and equipment | **320,445** |
| Other intangible assets | **1,842,405** |
| Investment in a joint venture | **1,062** |
| Inventories | **571,852** |
| Trade and other receivables | **121,303** |
| Due from fellow subsidiaries | **30,024** |
| Prepayments | **41,896** |
| Cash and cash equivalents | **73,920** |
| Trade payables, other payables and accruals | **(191,534)** |
| Interest-bearing loans and borrowings | **(51,925)** |
| Contract liabilities | **(35,704)** |
| Provisions and other liabilities | **(120,435)** |
| Due to an intermediate holding company | **(28,087)** |
| Due to fellow subsidiaries | **(14,198)** |
| Loan from an intermediate holding company | **(1,845,561)** |
| Tax payable | **(3,658)** |
| Defined benefit obligations | **(7,006)** |
| Deferred tax liabilities | **(366,109)** |

## 15. Business combination *(cont'd)*

The fair value of the identifiable assets and liabilities of Motto Group as at the date of acquisition were as follows: *(cont'd)*

| | **Fair value recognised on acquisition** *HK$'000* |
|---|---|
| Total identifiable net assets at fair value | **338,690** |
| The shareholder's loan acquired | **1,845,561** |
| Goodwill on acquisition | **442,776** |
| Total consideration | **2,627,027** |
| Satisfied by: | |
| Cash | **200,000** |
| Fair value of consideration shares | **1,627,027** |
| Due to an intermediate holding company | **800,000** |
| | **2,627,027** |

The fair value of the trade and other receivables as at the date of acquisition amounted to HK$121,303,000. The gross contractual amount of trade and other receivables was HK$128,410,000, of which trade and other receivables of HK$7,107,000 are expected to be uncollectible.

The Group incurred transaction costs of HK$6,722,000 for the Acquisition. These transaction costs have been expensed and are included in administrative expenses in the condensed consolidated statement of profit or loss.

None of the goodwill recognised is expected to be deductible for income tax purposes.

## 15. Business combination *(cont'd)*

An analysis of the cash flows in respect of the Acquisition is as follows:

| | ***HK$'000*** |
|---|---|
| Cash consideration paid | **(200,000)** |
| Cash and cash equivalents acquired | **73,920** |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | **(126,080)** |
| Transaction costs of the Acquisition included in cash flows from operating activities | **(6,722)** |
| | **(132,802)** |

Since the Acquisition, Motto Group contributed HK$607,872,000 to the Group's revenue and HK$23,837,000 to the consolidated loss for the six months ended 30 June 2018.

Had the combination taken place at the beginning of the six months ended 30 June 2018, the revenue from continuing operations of the Group and the loss of the Group for the six months ended 30 June 2018 would have been HK$750,240,000 and HK$130,386,000, respectively.

## 16. Commitments

| | **30 June 2018 (Unaudited) *HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
|---|---|---|
| **The Group:** | | |
| Contracted, but not provided for: | | |
| Plant and machinery | **67,045** | – |
| **Disposal group:** | | |
| Contracted, but not provided for: | | |
| Property development expenditure | **253,621** | 371,009 |

## 17. Contingent liabilities

### Disposal group:

As at 30 June 2018, the Group has given guarantees of HK$117,336,000 (31 December 2017: HK$104,012,000) 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.

## 18. Related party transactions

(a) In addition to the transactions described elsewhere in the interim report, the Group had the following material transactions with related parties during the period:

| | *Notes* | For the six months ended 30 June **2018** **(Unaudited)** ***HK$'000*** | 2017 (Unaudited) *HK$'000* |
|---|---|---|---|
| Interest income on a loan to a related company | *(i)* | **–** | 511 |
| Interest income on loans to an associate | *(ii)* | **497** | 282 |
| Interest expense on loans from a non-controlling shareholder of a subsidiary | *(iii)* | **(26,779)** | – |
| Interest expense on loans from an intermediate holding company | *(iv)* | **(13,421)** | (21,956) |
| Fellow subsidiaries: | | | |
| Sales | *(v)* | **67,336** | – |
| Interest expense | *(vi)* | **–** | (34,726) |
| Management fee | *(vii)* | **–** | (1,148) |
| Agency fee | *(vii)* | **–** | (56) |

## 18. Related party transactions *(cont'd)*

(a) *(cont'd)*

*Notes:*

(i) In the prior period, the interest income was charged on the loan to a related company at an interest rate of 6.15% per annum.

(ii) The interest income is charged on the loans to an associate at an interest rate of 6% (2017: 6%) per annum.

(iii) The interest expense is charged on the loans from a non-controlling shareholder of a subsidiary at an interest rate of 6% (2017: Nil) per annum.

(iv) The interest expense is charged on the loans from an intermediate holding company at interest rates of 4.35%-6% (2017: 6%) per annum.

(v) The sales to fellow subsidiaries were made according to the published prices and conditions offered to the major customers of the Group.

(vi) In the prior period, the interest expense was charged on the loans from a fellow subsidiary at an interest rate of 6% per annum.

(vii) In the prior period, the management fee and agency fee to fellow subsidiaries were determined on bases agreed between the respective parties.

## 18. Related party transactions *(cont'd)*

(b) Outstanding balances with related parties:

(i) The loans to an associate are unsecured, bear interest at 6% (31 December 2017: Nil) per annum and are repayable within one year. The amount due from an associate is unsecured, non-interest-bearing and repayable on demand.

(ii) The loans from a non-controlling shareholder of a subsidiary are secured and bear interest at 6% (31 December 2017: Nil) per annum, of which HK$322,598,000 are repayable within one year and HK$580,247,000 are not repayable within one year. The amounts due to non-controlling shareholders of subsidiaries are unsecured, non-interest-bearing and have no fixed terms of repayment. Both the loans from and amounts due to non-controlling shareholders of subsidiaries as at 30 June 2018 are included in the liabilities directly associated with the assets classified as held for sale.

(iii) The amounts due from and to intermediate holding companies are unsecured, non-interest-bearing and have no fixed terms of repayment. The loans from an intermediate holding company are unsecured, bear interest at 4.35% (31 December 2017: 6%) per annum and are not repayable within one year. Certain amount due to an intermediate holding company of HK$8,326,000 as at 30 June 2018 is included in the liabilities directly associated with the assets classified as held for sale.

(iv) The amounts due from and to fellow subsidiaries are unsecured and non-interest-bearing. As at 31 December 2017, the loans from a fellow subsidiary were unsecured and bore interest at 6% per annum. The amounts due to fellow subsidiaries as at 30 June 2018 are included in the liabilities directly associated with the assets classified as held for sale.

## 18. Related party transactions *(cont'd)*

(c) Compensation of key management personnel of the Group:

| | For the six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Short term employee benefits | **1,178** | 785 |
| Post-employment benefits | **15** | 18 |
| Total compensation paid to key management personnel | **1,193** | 803 |

## 19. Fair value and fair value hierarchy of financial instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **30 June 2018 (Unaudited)** ***HK$'000*** | 31 December 2017 (Audited) *HK$'000* | **30 June 2018 (Unaudited)** ***HK$'000*** | 31 December 2017 (Audited) *HK$'000* |
| **Financial assets** | | | | |
| Financial assets at fair value through other comprehensive income | **124,749** | – | **124,749** | – |
| Financial assets at fair value through profit or loss | **20,000** | – | **20,000** | – |
| Available-for-sale investments | **–** | 192,728 | **–** | 192,728 |
| Equity investment at fair value through profit or loss | **–** | 80,761 | **–** | 80,761 |
| Derivative financial instruments | **–** | 1 | **–** | 1 |
| | **144,749** | 273,490 | **144,749** | 273,490 |
| **Financial liabilities** | | | | |
| Due to an intermediate holding company (non-current portion) | **23,328** | – | **23,328** | – |
| Loans from an intermediate holding company (non-current portion) | **–** | 503,550 | **–** | 502,961 |
| Loans from a fellow subsidiary (non-current portion) | **–** | 556,213 | **–** | 555,274 |
| Interest-bearing bank borrowings (non-current portion) | **7,231** | – | **7,231** | – |
| | **30,559** | 1,059,763 | **30,559** | 1,058,235 |

## 19. Fair value and fair value hierarchy of financial instruments *(cont'd)*

Management has assessed that the fair values of trade receivables, balances with fellow subsidiaries (current portion), intermediate holding companies (current portion), non-controlling shareholders of subsidiaries and an associate, financial assets included in prepayments, deposits and other receivables, cash and cash equivalents, trade payables, other payables and accruals, and interest-bearing bank borrowings (current portion) approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer and then reported to the chief executive officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the amount due to an intermediate holding company (non-current portion), loans from an intermediate holding company (non-current portion), loans from a fellow subsidiary (non-current portion) and interest-bearing bank borrowings (non-current portion) have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for the amount due to an intermediate holding company, loans from an intermediate holding company, loans from a fellow subsidiary and interest-bearing bank borrowings as at 30 June 2018 was assessed to be insignificant.

## 19. Fair value and fair value hierarchy of financial instruments *(cont'd)*

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted convertible bonds have been estimated using a valuation technique based on assumptions that are supported by observable market prices or rates. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income and the condensed consolidated statement of profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2018:

| | Valuation technique | Significant unobservable input | Range | Sensitivity of fair value to the input |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss (31 December 2017: Unlisted available-for-sale debt investments) | Discounted cash flow | Default risks | 80% to 100% (31 December 2017: 23% to 65%) | 1% increase/(decrease) in default rate would result in decrease/(increase) in fair value by HK$1,000,000 (31 December 2017: HK$518,000) |

## 19. Fair value and fair value hierarchy of financial instruments *(cont'd)*

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

***Assets measured at fair value:***

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **As at 30 June 2018 (Unaudited)** | | | | |
| Financial assets at fair value through other comprehensive income | **124,749** | **–** | **–** | **124,749** |
| Financial assets at fair value through profit or loss | **–** | **–** | **20,000** | **20,000** |
| | **124,749** | **–** | **20,000** | **144,749** |
| **As at 31 December 2017 (Audited)** | | | | |
| Available-for-sale investments: | | | | |
| Equity investments | 110,380 | – | – | 110,380 |
| Debt investments | – | – | 82,348 | 82,348 |
| Equity investment at fair value through profit or loss | 80,761 | – | – | 80,761 |
| Derivative financial instruments | – | 1 | – | 1 |
| | 191,141 | 1 | 82,348 | 273,490 |

## 19. Fair value and fair value hierarchy of financial instruments *(cont'd)*

The movements in fair value measurements within Level 3 during the period are as follows:

| | **2018 (Unaudited)** ***HK$'000*** | 2017 (Unaudited) *HK$'000* |
|---|---|---|
| **Financial assets at fair value through profit or loss:** | | |
| At 1 January | **82,349** | – |
| Total losses recognised in the condensed consolidated statement of profit or loss | **(10,573)** | – |
| Derecognition upon redemption | **(51,776)** | – |
| At 30 June | **20,000** | – |

***Liabilities for which fair values are disclosed:***

| | **Fair value measurement using** | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** ***HK$'000*** | **Significant observable inputs (Level 2)** ***HK$'000*** | **Significant unobservable inputs (Level 3)** ***HK$'000*** | **Total** ***HK$'000*** |
| **As at 30 June 2018 (Unaudited)** | | | | |
| Due to an intermediate holding company (non-current portion) | **–** | **23,328** | **–** | **23,328** |
| Interest-bearing bank borrowings (non-current portion) | **–** | **7,231** | **–** | **7,231** |
| | **–** | **30,559** | **–** | **30,559** |

## 19. Fair value and fair value hierarchy of financial instruments *(cont'd)*

***Liabilities for which fair values are disclosed:*** *(cont'd)*

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) *HK$'000* | Significant observable inputs (Level 2) *HK$'000* | Significant unobservable inputs (Level 3) *HK$'000* | Total *HK$'000* |
| **As at 31 December 2017 (Audited)** | | | | |
| Loans from an intermediate holding company | – | 502,961 | – | 502,961 |
| Loans from a fellow subsidiary (non-current portion) | – | 555,274 | – | 555,274 |
| | – | 1,058,235 | – | 1,058,235 |

## 20. Events after the reporting period

On 2 August 2018, the convertible bonds issued by PMH matured, but PMH failed to redeem the convertible bonds. The Group is still in the process of negotiating with PMH on the payment of the amount due under the convertible bonds. Further details were included in the announcement of the Company dated 3 August 2018. As of 30 June 2018, the Group's investment in the convertible bonds issued by PMH amounted to HK$20,000,000.

On 10 August 2018, the Supreme Court of Bermuda ordered PMH be wound up. The Group is still assessing its impact to the Group. As of 30 June 2018, the Group's investment in the shares issued by PMH amounted to HK$38,095,000.

## 21. Comparative amounts

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

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
ey.com

**TO THE BOARD OF DIRECTORS OF**
**AVIC INTERNATIONAL HOLDING (HK) LIMITED**
*(Incorporated in Bermuda with limited liability)*

## Introduction

We have reviewed the interim financial information set out on pages 18 to 70 which comprises the condensed consolidated statement of financial position of AVIC International Holding (HK) Limited (the "Company") and its subsidiaries as at 30 June 2018 and the related condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2018 is not prepared, in all material respects, in accordance with HKAS 34.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
23 August 2018