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 2019

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CORPORATE INFORMATION

DIRECTORS
Liu Hongde *(Chairman)*
Lai Weixuan *(Chief Executive Officer)*
Fu Fangxing
Yu Xiaodong
Zhang Zhibiao
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

NOMINATION COMMITEE
Zhang Ping *(Chairman)*
Lai Weixuan
Chu Yu Lin, David

COMPANY SECRETARY
Kwok Chi Ho

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
Victoria Place, 5th Floor,
31 Victoria Street
Hamilton, HM 10, 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
4th floor North
Cedar House
41 Cedar Avenue
Hamilton HM 12, Bermuda

Hong Kong registrar
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
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WEBSITE
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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 2019.

OVERALL REVIEW

For the first half of 2019, the Group recorded revenue from continuing operations of HK$764,471,000 (2018: HK$607,872,000) and profit attributable to owners of the parent of HK$37,895,000 (2018: loss of HK$113,053,000).

The Group turned a loss into a profit which was mainly attributable to the following:

(1) the Group had disposed of the property development and investment business in 2018 and that business had recorded a loss of HK$56,740,000 for the first half of 2018;

(2) the general aviation aircraft piston engine business recorded a profit of HK$24,002,000 (2018: loss of HK$23,837,000) for the period; and

(3) regarding the corporate profit or loss not included in the results of the general aviation aircraft piston engine business segment, expenses decreased from HK$32,202,000 to HK$12,969,000 mainly due to a decrease in exchange loss, and fair value loss on financial assets at fair value through profit or loss of HK$10,573,000 as well as finance cost of HK$6,200,000 had been recorded for the same period of last year.

Basic earnings per share amounted to HK¢0.41 (2018: basic loss per share of HK¢1.33). 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 1% (2018: –4%).

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 support for piston engines.

For the first half of 2019, the general aviation aircraft piston engine business recognised revenue of HK$764,471,000 (2018: HK$607,872,000) and gross profit of HK$209,147,000 (2018: HK$142,476,000), and recorded profit for the period of HK$24,002,000 (2018: loss of HK$23,837,000). Had the effect from the fair value adjustments on the identifiable assets acquired from the acquisition of the business charged to current period's profit or loss of HK$31,301,000 (2018: HK$43,290,000) been excluded, the general aviation aircraft piston engine business would have recorded profit of HK$55,303,000 (2018: HK$19,453,000).

The general aviation market continued to show uneven growth in the first half of 2019. Premium aircraft experienced little growth while strong demand for training aircraft remained. The growth of the demand for our aftermarket business was strong at the start of 2019, especially in the aftermarket spare part segment, but gradually slowed down to zero as the first half of the year drew to a close. Our strategy is to have the widest product line range, striving to attract customers in all relevant market sectors to our general aviation aircraft piston engine business through market diversification.

The following is our key highlights during the period:

1) Our Original Equipment Manufacturer ("OEM") customer base increased by nearly 150% as compared with the corresponding period of last year and 7 new OEM airframes were added. Of greater importance is that these potential new airframes use engines from across our three engine product categories (Legacy, Prime™ and CD series). These new airframes are expected to give full benefit to the Group in 2022.

2) Sales of Prime™ series engine product increased by 76% and sales of spare parts increased by 6%.

3) We formed a new partnership with Piper Aircraft Inc. to supply Prime™ series engines for its new Pilot 100 training aircraft.

BUSINESS REVIEW *(cont'd)*

4) We formed a new partnership with Diamond Aircraft Industries to supply the CD-300 series engines for its new DA50 aircraft.

5) The new factory under Blue Marlin factory modernisation program had been completed in the first half of 2019, and manufacturing equipment had started to be installed. We installed the first 4 pieces of more than 50 pieces of new manufacturing equipment in May 2019, a process that will continue for the next 12 months. We expect to see operational improvements from the new facility and equipment in late 2019.

6) We formed a strategic partnership with VerdeGo Aero ("VerdeGo"), a company based in Florida, for the development of hybrid-electric aerospace powertrain systems. VerdeGo is now focusing on developing Integrated Distributed Electric Propulsion ("IDEP") systems. IDEP systems are flexible electric propulsion systems that can be configured to any airframe architecture, whether it is a traditional fixed wing design or a vertical takeoff/horizontal flight design. The end goal for IDEP systems is to meet the needs for more efficient and flexible power system designs so as to achieve the requirements of future short hop, Urban Air Mobility and long haul flight.

FINANCIAL REVIEW

Convertible bonds

As at 30 June 2019, the Group held convertible bonds issued by Peace Map Holding Limited ("PMH"), a listed company in Hong Kong, and a convertible bond issued by an unlisted company in the United States of America (the "USA"). These convertible bonds are managed and their performance is evaluated on a fair value basis, and were included in financial assets at fair value through profit or loss. Fair values are mainly influenced by the prices or valuation of the underlying securities. The convertible bonds issued by PMH matured in 2018 but PMH failed to redeem them, therefore they were stated at the fair value of zero as at 31 December 2018 and 30 June 2019. The convertible bond issued by the unlisted company were stated at its fair value of HK$1,938,000 as at 30 June 2019.

For the first half of 2019, no fair value gain or loss on financial assets at fair value through profit or loss was recorded in respect of the convertible bonds held by the Group, whereas a net fair value loss of HK$10,573,000 was recorded for the same period of last year.

Listed equity investments

As at 31 December 2018 and 30 June 2019, the Group held shares issued by PMH and AVIC Joy Holdings (HK) Limited ("AVIC Joy") (also a listed company in Hong Kong) respectively, and classified the investments as equity investments designated at fair value through other comprehensive income. Net changes in fair value are 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.

Since 2018, PMH's shares have been suspended for trading and PMH is in liquidation process. As at 30 June 2019, the fair value of the shares issued by PMH and AVIC Joy was assessed to be Nil (31 December 2018: Nil) and HK$40,231,000 (31 December 2018: HK$53,642,000) respectively.

FINANCIAL REVIEW *(cont'd)*

Joint ventures and associates

During the period, the Group recorded share of losses of the joint ventures and associates in an aggregate of HK$405,000 (2018: HK$2,770,000).

Administrative expenses

Administrative expenses consist of salaries and wages, product liability expenses, engineering expenses, legal and professional expenses and other general expenses. During the period, the Group recorded administrative expenses from continuing operations of HK$170,291,000 (2018: HK$196,443,000). The decrease was mainly due to the decrease in exchange loss from HK$21,706,000 to HK$5,306,000.

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 June 2019, the Group had current assets of HK$1,803,559,000 (31 December 2018: HK$1,892,118,000), including cash and bank balances and time deposits in an aggregate of HK$1,097,599,000 (31 December 2018: HK$1,191,575,000). The Group's current liabilities as at 30 June 2019 were HK$575,734,000 (31 December 2018: HK$540,746,000).

As at 30 June 2019, the Group's equity attributable to owners of the parent amounted to HK$3,549,016,000 (31 December 2018: HK$3,619,168,000), comprising issued capital of HK$930,337,000 (31 December 2018: HK$930,337,000) and reserves of HK$2,618,679,000 (31 December 2018: HK$2,688,831,000). The Group's interest-bearing debts included interest-bearing bank and other borrowings of HK$157,395,000 (31 December 2018: HK$121,249,000). 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 4% (31 December 2018: 3%).

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

The Group had no material acquisitions or disposals during the period.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2019, there were 685 (31 December 2018: 691) employees in the Group. The employee wages and salaries for the continuing operations, excluding directors' remuneration, amounted to HK$148,208,000 (2018: HK$108,784,000) 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.

OUTLOOK

The general aviation market's trajectory is affected by factors such as trade uncertainty, weak global economic conditions, rising costs associated with direct and indirect tariffs, and general uncertainty due to global political conflict, etc. These factors affect the premium aircraft segment in particular, as these aircrafts tend to be used by individuals and small business operations whose decision to use the aircraft is directly impacted by the global economic conditions.

OUTLOOK *(cont'd)*

We think that the continuing uncertainty in the overall market may affect the full-year result of our more established product lines that will likely be offset to a certain extent by the growth of our newer Prime™ series product line. Overall, our strategy of product breadth, investment in new capabilities and increasing emphasis on operational efficiency is expected to support stability in the business results throughout the year of 2019.

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, 22 August 2019

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 2019, 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 2019.

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

As at 30 June 2019, 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 2019
Tacko International Limited ("Tacko")	*(1)*	Beneficial owner	1,895,559,000	20.37
AVIC International (HK) Group Limited ("AVIC International (HK) Group")	*(1)*	Beneficial owner	2,421,341,390	26.03
AVIC International (HK) Group	*(1)*	Through a controlled corporation	4,316,900,390	46.40
AVIC International Holding Corporation ("AVIC International")	*(1)*	Through a controlled corporation	4,316,900,390	46.40
Aviation Industry Corporation of China, Ltd ("AVIC")	*(1)*	Through a controlled corporation	4,316,900,390	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 (76.83% interest controlled by AVIC as at 30 June 2019). 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 2019, 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 to maintaining good standards of corporate governance practices by emphasising transparency, accountability and responsibility to its shareholders.

Throughout the six months ended 30 June 2019, 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 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 2019.

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 2019 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 2019 (Unaudited) HK$'000	For the six months ended 30 June 2018 (Unaudited) HK$'000
CONTINUING OPERATIONS			
Revenue	*4*	**764,471**	607,872
Cost of sales		**(555,324)**	(465,396)
Gross profit		**209,147**	142,476
Other income and gains	*4*	**39,728**	12,776
Selling and distribution expenses		**(48,391)**	(33,736)
Administrative expenses		**(170,291)**	(196,443)
Finance costs	*5*	**(2,139)**	(7,285)
Share of profits and losses of:			
Joint ventures		**(1,038)**	(2,557)
Associates		**633**	(213)
Other operating income	*6*	**1,721**	–
Reversal of impairment losses on financial assets, net	*6*	**1,152**	3,936
Fair value loss on financial assets at fair value through profit or loss		**–**	(10,573)
Profit/(loss) before tax from continuing operations	*6*	**30,522**	(91,619)
Income tax credit	*7*	**7,373**	19,236
Profit/(loss) for the period from continuing operations		**37,895**	(72,383)
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	*8*	**–**	(56,740)
PROFIT/(LOSS) FOR THE PERIOD		**37,895**	(129,123)

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

		For the six months ended 30 June	
	Note	**2019 (Unaudited) *HK$'000***	2018 (Unaudited) *HK$'000*
Attributable to:			
Owners of the parent		**37,895**	(113,053)
Non-controlling interests		**–**	(16,070)
		37,895	(129,123)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*9*		
Basic and diluted			
– For profit/(loss) for the period		**HK0.41 cent**	(HK1.33 cents)
– For profit/(loss) from continuing operations		**HK0.41 cent**	(HK0.85 cent)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PROFIT/(LOSS) FOR THE PERIOD	**37,895**	(129,123)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**119**	51,366
Reclassification adjustment for a foreign operation deregistered during the period	**(1,721)**	–
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(1,602)**	51,366
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income: Changes in fair value	**(13,411)**	(66,392)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**(13,411)**	(66,392)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**(15,013)**	(15,026)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**22,882**	(144,149)
Attributable to:		
Owners of the parent	**22,882**	(149,797)
Non-controlling interests	**–**	5,648
	22,882	(144,149)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**405,547**	335,243
Right-of-use assets		**32,721**	–
Goodwill		**399,948**	400,094
Other intangible assets		**1,774,413**	1,781,157
Investments in joint ventures		**38,152**	39,174
Investments in associates		**13,079**	12,446
Equity investments designated at fair value through other comprehensive income		**40,620**	54,031
Total non-current assets		**2,704,480**	2,622,145
CURRENT ASSETS			
Inventories		**511,647**	473,753
Trade receivables	*12*	**116,459**	102,711
Due from a fellow subsidiary		**24,637**	29,566
Due from an associate		**847**	575
Loans to an associate		**9,143**	9,143
Prepayments, deposits and other receivables		**41,289**	84,795
Financial assets at fair value through profit or loss		**1,938**	–
Cash and cash equivalents		**1,097,599**	1,191,575
Total current assets		**1,803,559**	1,892,118

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(cont'd)

	Note	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*
CURRENT LIABILITIES			
Due to intermediate holding companies		**28,328**	28,815
Trade payables	*13*	**69,967**	90,152
Dividend payable		**93,034**	–
Other payables and accruals		**138,567**	114,727
Provisions and other liabilities		**48,198**	49,445
Tax payable		**68,951**	137,389
Interest-bearing bank and other borrowings		**128,689**	120,218
Total current liabilities		**575,734**	540,746
NET CURRENT ASSETS		**1,227,825**	1,351,372
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,932,305**	3,973,517

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(cont'd)

	Note	**30 June 2019 (Unaudited)** ***HK$'000***	31 December 2018 (Audited) *HK$'000*
NON-CURRENT LIABILITIES			
Other payables and accruals		**30,527**	29,520
Provisions and other liabilities		**40,602**	47,539
Interest-bearing bank and other borrowings		**28,706**	1,031
Defined benefit obligations		**7,587**	6,905
Deferred tax liabilities		**275,867**	269,354
Total non-current liabilities		**383,289**	354,349
Net assets		**3,549,016**	3,619,168
EQUITY			
Issued capital	*14*	**930,337**	930,337
Reserves		**2,618,679**	2,688,831
Total equity		**3,549,016**	3,619,168

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital (Unaudited) *HK$'000*	Share premium account (Unaudited) *HK$'000*	Fair value reserve of equity investments designated 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 equity (Unaudited) *HK$'000*
At 1 January 2019	930,337	1,857,729	(765,634)	7,790	(31,688)	1,620,634	3,619,168
Profit for the period	-	-	-	-	-	37,895	37,895
Other comprehensive income for the period:							
Exchange differences related to foreign operations	-	-	-	-	(1,602)	-	(1,602)
Changes in fair value of equity investments designated at fair value through other comprehensive income	-	-	(13,411)	-	-	-	(13,411)
Total comprehensive income for the period	-	-	(13,411)	-	(1,602)	37,895	22,882
2018 special dividend declared *(note 10)*	-	-	-	-	-	(93,034)	(93,034)
Deregistration of a subsidiary	-	-	-	(2,604)	-	2,604	-
At 30 June 2019	930,337	1,857,729*	(779,045)*	5,186*	(33,290)*	1,568,099*	3,549,016

* These reserve accounts comprise the consolidated reserves of HK$2,618,679,000 in the condensed consolidated statement of financial position as at 30 June 2019.

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$'000*	Fair value reserve of equity investments designated at fair value through other comprehensive income (Unaudited) *HK$'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 31 December 2017	551,959	609,080	6,649	–	23,655	(49,889)	591,051	1,732,505	539,427	2,271,932
Effect of adoption of HKFRS 9	–	–	(6,649)	(628,135)	–	–	634,784	–	–	–
Effect of adoption of HKFRS 15	–	–	–	–	–	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 related to foreign operations	–	–	–	–	–	29,648	–	29,648	21,718	51,366
Changes in fair value of equity investments designated at fair value through other comprehensive income	–	–	–	(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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax:			
From continuing operations		**30,522**	(91,619)
From a discontinued operation	8	**–**	(54,506)
Adjustments for:			
Bank interest income		**(4,999)**	(1,889)
Interest income on a convertible bond	4	**–**	(186)
Interest income on loans to an associate	4	**(272)**	(497)
Gain on disposal of other intangible assets	4	**(32,194)**	–
Gain on disposal of items of property, plant and equipment	4	**(1,217)**	(349)
Finance costs	5, 8	**2,139**	41,285
Share of profits and losses of joint ventures and associates		**405**	2,770
Write-down of inventories to net realisable value	6	**4,914**	6,865
Depreciation of property, plant and equipment	6	**33,123**	26,424
Depreciation of right-of-use assets	6	**2,370**	–
Amortisation of other intangible assets	6	**41,381**	34,576
Gain on deregistration of a subsidiary	6	**(1,721)**	–
Reversal of impairment of trade receivables, net	6	**(1,209)**	(311)
Impairment/(reversal of impairment) of other receivable	6	**57**	(3,625)
Fair value loss on financial assets at fair value through profit or loss		**–**	10,573
		73,299	(30,489)

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

	For the six months ended 30 June	
	2019 **(Unaudited)** ***HK$'000***	2018 (Unaudited) *HK$'000*
Decrease in properties under development and completed properties held for sale	**–**	29,785
Decrease/(increase) in inventories	**(38,398)**	24,896
Increase in trade receivables	**(11,471)**	(33,073)
Decrease in contract assets	**–**	37
Decrease/(increase) in amounts due from fellow subsidiaries	**4,929**	(201)
Decrease/(increase) in an amount due from an associate	**(272)**	53
Decrease in prepayments, deposits and other receivables	**43,622**	6,589
Decrease in trade payables	**(19,740)**	(55,013)
Increase in other payables, accruals, provisions and other liabilities	**16,628**	30,656
Increase in contract liabilities	**891**	15,195
Increase in defined benefit obligations	**682**	860
Cash generated from/(used in) operations	**70,170**	(10,705)
Overseas tax paid	**(4,826)**	(10,029)
Net cash flows from/(used in) operating activities	**65,344**	(20,734)

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

	Note	For the six months ended 30 June 2019 (Unaudited) HK$'000	2018 (Unaudited) HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	11	**(105,462)**	(30,463)
Proceeds from disposal of items of property, plant and equipment		**2,984**	4,999
Additions to other intangible assets		**(38,060)**	(21,439)
Proceeds from disposal of other intangible assets		**32,194**	–
Receipt on maturity of convertible bond		**–**	51,776
Bank interest received		**4,999**	2,018
Interest received on a convertible bond		**–**	518
Interest received on loans to an associate		**272**	514
Purchase of a financial asset at fair value through profit or loss		**(1,163)**	–
Acquisition of subsidiaries		**–**	(126,080)
Overseas tax paid		**(48,911)**	–
Net cash flows used in investing activities		**(153,147)**	(118,157)

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**9,362**	–
Repayment of bank loans	**(6,200)**	(32,294)
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	**385**	(533,951)
Decrease in amounts due to non-controlling shareholders of subsidiaries	**–**	(25,777)
Decrease in amounts due to intermediate holding companies	**–**	(2,551)
Decrease in amounts due to fellow subsidiaries	**–**	(18,731)
Principal portion of lease payments	**(2,906)**	–
Interest paid	**(1,340)**	(43,440)
Net cash flows used in financing activities	**(699)**	(183,224)

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(88,502)**	(322,115)
Cash and cash equivalents at 1 January	**1,191,575**	627,140
Effect of foreign exchange rate changes, net	**(5,474)**	13,043
CASH AND CASH EQUIVALENTS AT 30 JUNE	**1,097,599**	318,068
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**597,840**	308,232
Non-pledged time deposit with original maturity of less than three months when acquired	**499,759**	–
Cash and cash equivalents as stated in the statement of financial position	**1,097,599**	308,232
Cash and bank balances attributable to a discontinued operation	**–**	9,836
Cash and cash equivalents as stated in the statement of cash flows	**1,097,599**	318,068

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 consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) effective as of 1 January 2019 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 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The adoption of new and revised HKFRSs has had no significant financial effect on these condensed consolidated interim financial statements except for HKFRS 16 which will be explained below.

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

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of land and buildings and motor vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

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

As a lessee – Leases previously classified as operating leases *(cont'd)*

Impacts on transition (cont'd)

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase (Unaudited) ***HK$'000***
Assets	
Increase in right-of-use assets	**35,091**
Increase in total assets	**35,091**
Liabilities	
Increase in interest-bearing bank and other borrowings	**35,091**
Increase in total liabilities	**35,091**

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	(Unaudited) ***HK$'000***
Operating lease commitments as at 31 December 2018	**69,022**
Weighted average incremental borrowing rate as at 1 January 2019	**4.6%**
Discounted operating lease commitments as at 1 January 2019	**35,128**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	**(37)**
Lease liabilities as at 1 January 2019	**35,091**

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

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

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

Summary of new accounting policies *(cont'd)*

Lease liabilities (cont'd)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within "interest-bearing bank and other borrowings"), and the movement during the period are as follows:

	Right-of-use assets			
	Land and buildings *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*	Lease liabilities *HK$'000*
As at 1 January 2019	**33,864**	**1,227**	**35,091**	**35,091**
Depreciation charge	(2,048)	(322)	(2,370)	–
Interest expense	–	–	–	799
Payments	–	–	–	(2,906)
As at 30 June 2019	**31,816**	**905**	**32,721**	**32,984**

The Group recognised rental expenses from short-term leases and leases of low-value assets of HK$853,000 for the six months ended 30 June 2019.

3. Operating segment information

For management purposes, the Group is organised into business units based on their products and services. 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 support 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 gain, gain on deregistration of a subsidiary, impairment loss on a financial asset, gains or losses relating to investments in certain joint ventures and associates and financial instruments, 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	
	2019 (Unaudited) *HK$'000*	2018 (Unaudited) *HK$'000*	**2019 (Unaudited) *HK$'000***	2018 (Unaudited) *HK$'000*
Segment revenue:				
Sales to external customers	**764,471**	607,872	**764,471**	607,872
Segment results	**24,002**	(23,837)	**24,002**	(23,837)
Reconciliation:				
Unallocated other income and gain			**6,407**	2,716
Corporate and other unallocated expenses			**(12,969)**	(32,202)
Finance costs			**–**	(6,200)
Share of profits and losses of:				
Joint ventures			**(922)**	(2,077)
Associates			**633**	(213)
Gain on deregistration of a subsidiary			**1,721**	–
Impairment loss on a financial asset			**(57)**	–
Fair value loss on financial assets at fair value through profit or loss			**–**	(10,573)
Unallocated income tax credit			**19,080**	3
Profit/(loss) for the period from continuing operations			**37,895**	(72,383)

4. Revenue, other income and gains

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue		
Sales of goods transferred at a point in time	**696,665**	553,606
Rendering of services transferred over time	**67,806**	54,266
	764,471	607,872
Disaggregated revenue information – Geographical markets		
USA	**607,278**	480,027
Europe	**95,875**	76,307
Others	**61,318**	51,538
	764,471	607,872
Other income		
Bank interest income	**4,999**	1,399
Interest income on a convertible bond	**–**	186
Interest income on loans to an associate	**272**	497
Compensation fee	**–**	9,680
Distributorship fee income	**388**	326
Others	**658**	339
	6,317	12,427
Gains		
Gain on disposal of other intangible assets	**32,194**	–
Gain on disposal of items of property, plant and equipment	**1,217**	349
	33,411	349
	39,728	12,776

5. Finance costs

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on interest-bearing loans and borrowings	**1,340**	7,192
Interest on the lease liabilities	**799**	–
Others	**–**	93
	2,139	7,285

6. Profit/(loss) before tax

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold*	**496,990**	418,689
Cost of services provided*	**53,420**	39,842
Write-down of inventories to net realisable value*	**4,914**	6,865
Research and development costs:		
Current period expenditure	**16,748**	28,559
Depreciation of property, plant and equipment	**33,123**	26,424
Depreciation of right-of-use assets	**2,370**	–
Amortisation of other intangible assets	**41,381**	34,576
Foreign exchange differences, net	**5,306**	21,706
Other operating income:		
Gain on deregistration of a subsidiary	**(1,721)**	–
Reversal of impairment losses on financial assets, net:		
Reversal of impairment of trade receivables, net	**(1,209)**	(311)
Impairment/(reversal of impairment) of other receivable	**57**	(3,625)
	(1,152)	(3,936)

* 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 2019 and 2018 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	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Elsewhere:		
Charge for the period	**4,379**	1,973
Overprovision in prior years	**(19,080)**	–
Deferred	**7,328**	(21,209)
Total tax credit for the period from continuing operations	**(7,373)**	(19,236)
Total tax charge for the period from the discontinued operation	**–**	2,234
	(7,373)	(17,002)

8. Discontinued operation

On 15 June 2018, a resolution had been 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 and interests owed by East Triumph to the Company. Accordingly, Ease Triumph and its subsidiaries ("Ease Triumph Group") was classified as a discontinued operation. The disposal had finally been completed at the end of 2018.

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	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue	–	33,171
Cost of sales	–	(20,105)
Gross profit	–	13,066
Other income	–	541
Selling and distribution expenses	–	(2,200)
Administrative expenses	–	(31,913)
Finance costs	–	(34,000)
Loss before tax from the discontinued operation	–	(54,506)
Income tax expense	–	(2,234)
Loss for the period from the discontinued operation	–	(56,740)
Attributable to:		
Owners of the parent	–	(40,670)
Non-controlling interests	–	(16,070)
	–	(56,740)
Loss per share:		
Basic and diluted, from the discontinued operation	**N/A**	(HK0.48 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	
	2019 **(Unaudited)**	2018 (Unaudited)
Loss attributable to ordinary equity holders of the parent from the discontinued operation	**N/A**	(HK$40,670,000)
Weighted average number of ordinary shares in issue during the period	**N/A**	8,529,894,120

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

	For the six months ended 30 June	
	2019 **(Unaudited)** ***HK$'000***	2018 (Unaudited) *HK$'000*
Operating activities	**–**	(25,770)
Investing activities	**–**	490
Financing activities	**–**	(159,725)
Net cash outflow	**–**	(185,005)

9. Earnings/(loss) per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 9,303,374,783 (2018: 8,529,894,120) in issue during the period.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the six months ended 30 June 2019 and 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit/(loss) attributable to ordinary equity holders of the parent:		
From continuing operations	**37,895**	(72,383)
From a discontinued operation	**–**	(40,670)
	37,895	(113,053)

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Shares:		
Weighted average number of ordinary shares in issue during the period	**9,303,374,783**	8,529,894,120

10. Dividend

The Directors do not declare an interim dividend for the six months ended 30 June 2019 (2018: Nil).

On 15 March 2019, the Board declared a 2018 special dividend of HK1 cent per ordinary share, amounting to a total of approximately HK$93,034,000. The 2018 special dividend has been paid subsequent to the reporting period.

11. Property, plant and equipment

During the six months ended 30 June 2019, the Group has additions of items of property, plant and equipment of HK$105,462,000 (2018: HK$30,463,000) and disposal of items of property, plant and equipment with net book value of HK$1,767,000 (2018: HK$4,650,000).

12. Trade receivables

	30 June 2019 (Unaudited) ***HK$'000***	31 December 2018 (Audited) *HK$'000*
Trade receivables	**121,822**	109,283
Impairment	**(5,363)**	(6,572)
	116,459	102,711

The Group's trading terms with its customers 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 2019, the Group had certain concentrations of credit risk as 39% 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 loss allowance, is as follows:

	30 June 2019 (Unaudited) ***HK$'000***	31 December 2018 (Audited) *HK$'000*
Within 1 month	**77,500**	76,745
1 to 2 months	**28,667**	12,241
2 to 3 months	**5,200**	3,927
Over 3 months	**5,092**	9,798
	116,459	102,711

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 2019 (Unaudited) ***HK$'000***	31 December 2018 (Audited) *HK$'000*
Within 1 month	**47,400**	65,839
1 to 2 months	**19,270**	19,182
2 to 3 months	**2,440**	3,844
Over 3 months	**857**	1,287
	69,967	90,152

The trade payables are non-interest-bearing and are normally settled on 60-to-90-day terms.

14. Share capital

Shares

	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*
Authorised:		
10,000,000,000 ordinary shares of HK$0.10 each	**1,000,000**	1,000,000
Issued and fully paid:		
9,303,374,783 ordinary shares of HK$0.10 each	**930,337**	930,337

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 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, 31 December 2018, 1 January 2019 and 30 June 2019	**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 had been issued as fully paid to AVIC International (HK) Group, an intermediate holding company, as part of the consideration for the acquisition of the entire issued share capital of Motto Investment Limited and the shareholder's loan notes. 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 had been increased by HK$378,378,000 and HK$1,248,649,000, respectively.

15. Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	30 June 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*
Contracted, but not provided for:		
Plant and machinery	**151,590**	158,015

16. 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:

		For the six months ended 30 June	
	Notes	**2019 (Unaudited) *HK$'000***	2018 (Unaudited) *HK$'000*
Interest income on loans to an associate	*(i)*	**272**	497
Interest expense on loans from a non-controlling shareholder of a subsidiary	*(ii)*	**–**	(26,779)
Interest expense on loans from an intermediate holding company	*(iii)*	**–**	(13,421)
Sales to a fellow subsidiary	*(iv)*	**88,366**	67,336

Notes:

(i) The interest income is charged on the loans to an associate at an interest rate of 6% (2018: 6%) per annum.

(ii) In the prior period, the interest expense was charged on the loans from a non-controlling shareholder of a subsidiary at an interest rate of 6% per annum.

(iii) In the prior period, the interest expense was charged on the loans from an intermediate holding company at interest rates of 4.35%-6% per annum.

(iv) The sales to a fellow subsidiary are based on prices determined between the Group and the fellow subsidiary.

16. 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 2018: 6%) 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 amounts due to intermediate holding companies are unsecured, non-interest-bearing and repayable on demand.

(iii) The amounts due from a fellow subsidiary are unsecured, non-interest-bearing and repayable within one year.

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

	For the six months ended 30 June	
	2019 (Unaudited) *HK$'000*	2018 (Unaudited) *HK$'000*
Short term employee benefits	**1,280**	1,178
Post-employment benefits	**15**	15
Total compensation paid to key management personnel	**1,295**	1,193

17. 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 2019 (Unaudited) *HK$'000*	31 December 2018 (Audited) *HK$'000*	**30 June 2019 (Unaudited) *HK$'000***	31 December 2018 (Audited) *HK$'000*
Financial assets				
Equity investments designated at fair value through other comprehensive income	**40,620**	54,031	**40,620**	54,031
Financial assets at fair value through profit or loss	**1,938**	–	**1,938**	–
	42,558	54,031	**42,558**	54,031
Financial liabilities				
Interest-bearing bank borrowings (non-current portion)	**–**	1,031	**–**	1,031

Management has assessed that the fair values of trade receivables, balances with a fellow subsidiary, an associate and intermediate holding companies, financial assets included in prepayments, deposits and other receivables, cash and cash equivalents, trade payables, financial liabilities included in 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.

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

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 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 interest-bearing bank borrowings as at 30 June 2019 was assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices, except for PMH's shares, which have been estimated based on PMH's available published financial information. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invested in unlisted investments. The Group has estimated the fair value of these unlisted investments with reference to the issued prices of recent transactions.

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

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2019 and 31 December 2018:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Market approach	Issued prices of recent transactions	HK$40 (31 December 2018: HK$40)	1% (31 December 2018: 1%) increase/ decrease in issued prices of recent transactions would result in increase/ decrease in fair value by HK$4,000 (31 December 2018: HK$4,000)
Unlisted debt instrument	Market approach	Yield rate	7% (31 December 2018: Nil)	1% (31 December 2018: Nil) increase/ decrease in yield rate would result in decrease/increase in fair value by HK$179,000/ HK$197,000 (31 December 2018: Nil/ Nil)

17. 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 2019 (Unaudited)				
Equity investments designated at fair value through other comprehensive income	**40,231**	**–**	**389**	**40,620**
Financial assets at fair value through profit or loss	**–**	**–**	**1,938**	**1,938**
	40,231	**–**	**2,327**	**42,558**
As at 31 December 2018 (Audited)				
Equity investments designated at fair value through other comprehensive income	53,642	–	389	54,031

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

Fair value hierarchy *(cont'd)*

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

	2019 (Unaudited) ***HK$'000***	2018 (Unaudited) *HK$'000*
Equity investments designated at fair value through other comprehensive income:		
At 1 January and 30 June	**389**	–
Financial assets at fair value through profit or loss:		
At 1 January	**–**	82,349
Addition	**1,938**	–
Total losses recognised in the condensed consolidated statement of profit or loss	**–**	(10,573)
Derecognition upon redemption	**–**	(51,776)
At 30 June	**1,938**	20,000

The Group did not have any financial liabilities measured at fair values as at 30 June 2019 and 31 December 2018.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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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 14 to 52 which comprises the condensed consolidated statement of financial position of AVIC International Holding (HK) Limited (the "Company") and its subsidiaries as at 30 June 2019 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 2019 is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
22 August 2019