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AVIC International Holding (HK) Limited 中國航空工業國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “Board”) of directors (the “Directors”) of AVIC International Holding (HK) Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020, together with the comparative figures for the corresponding period of last year.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
		2020	2019
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000 (Restated)
Revenue	4	651,410	764,471
Cost of sales		(475,776)	(555,324)
Gross profit		175,634	209,147
Other income	4	14,093	6,317
Other gains and losses	4	(3,040)	30,978
Impairment of goodwill	11	(377,336)	–
Selling and distribution expenses		(36,903)	(48,391)
Administrative expenses		(149,661)	(148,237)
Research and development costs		(19,896)	(16,748)
Finance costs	5	(8,859)	(2,139)
Share of profits and losses of:			
Joint ventures		–	(1,038)
An associate		(730)	633

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

	<i>Notes</i>	For the six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000 (Restated)
(LOSS)/PROFIT BEFORE TAX	<i>6</i>	(406,698)	30,522
Income tax credit	<i>7</i>	10,846	7,373
		<hr/>	<hr/>
(LOSS)/PROFIT FOR THE PERIOD, ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>(395,852)</u>	<u>37,895</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	<i>8</i>	<u>(HK4.25 cents)</u>	<u>HK0.41 cent</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
(LOSS)/PROFIT FOR THE PERIOD	<u>(395,852)</u>	<u>37,895</u>
OTHER COMPREHENSIVE (EXPENSE)/INCOME		
Other comprehensive (expense)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	(1,871)	119
Reclassification adjustment for a foreign operation deregistered during the period	—	(1,721)
Net other comprehensive (expense)/income that may be reclassified to profit or loss in subsequent periods	<u>(1,871)</u>	<u>(1,602)</u>
Other comprehensive expense 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	(7,458)	(13,411)
Net other comprehensive expense that will not be reclassified to profit or loss in subsequent periods	<u>(7,458)</u>	<u>(13,411)</u>
OTHER COMPREHENSIVE EXPENSE FOR THE PERIOD, NET OF TAX	<u>(9,329)</u>	<u>(15,013)</u>
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD, ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>(405,181)</u>	<u>22,882</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020	31 December 2019
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
			(Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	477,699	410,880
Investment property	<i>10</i>	137,100	151,500
Right-of-use assets		309,436	317,688
Goodwill	<i>11</i>	21,828	399,821
Other intangible assets		1,741,461	1,765,634
Investment in a joint venture		–	–
Investment in an associate		11,051	11,781
Equity investments designated at fair value through other comprehensive income		23,083	34,430
Financial assets at fair value through profit or loss		1,938	1,938
Deferred tax assets		19,007	24,673
		<hr/>	<hr/>
Total non-current assets		2,742,603	3,118,345
CURRENT ASSETS			
Inventories		512,186	490,265
Trade receivables	<i>12</i>	176,266	103,672
Due from fellow subsidiaries		26,330	20,011
Due from an associate		1,358	1,093
Loans to an associate		8,889	8,889
Prepayments, deposits and other receivables		26,129	39,963
Cash and cash equivalents		937,688	990,386
		<hr/>	<hr/>
Total current assets		1,688,846	1,654,279

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

		30 June 2020	31 December 2019
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	HK\$'000 (Restated)
CURRENT LIABILITIES			
Due to intermediate holding companies		28,386	27,846
Trade payables	13	93,348	85,219
Other payables and accruals		93,726	94,030
Provisions and other liabilities		23,944	42,633
Tax payable		39,796	46,560
Borrowings		311,637	225,161
Lease liabilities		6,309	5,906
		<hr/>	<hr/>
Total current liabilities		597,146	527,355
		<hr/>	<hr/>
NET CURRENT ASSETS		1,091,700	1,126,924
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,834,303	4,245,269
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Other payables and accruals		36,828	31,109
Provisions and other liabilities		46,971	35,526
Lease liabilities		311,992	314,704
Defined benefit obligations		16,339	15,756
Deferred tax liabilities		253,660	274,480
		<hr/>	<hr/>
Total non-current liabilities		665,790	671,575
		<hr/>	<hr/>
Net assets		3,168,513	3,573,694
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Issued capital		930,337	930,337
Reserves		2,238,176	2,643,357
		<hr/>	<hr/>
Total equity		3,168,513	3,573,694
		<hr/> <hr/>	<hr/> <hr/>

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

1A. SIGNIFICANT EVENTS IN THE CURRENT INTERIM PERIOD

The outbreak of the coronavirus disease 2019 pandemic (the “COVID-19 Pandemic”) and the subsequent quarantine measures as well as the travel restrictions imposed by many countries have had negative impacts to the global economy, business environment and directly and indirectly affect the operations of the Group. In the USA, due to the government’s anti-epidemic measures of closing public institutions like flight schools, the demand for engines was reduced. As such, the financial positions and performance of the Group were affected in different aspects, including reduction in revenue and recognising impairment of goodwill as disclosed in the relevant notes.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for an investment property and certain financial instruments, which are measured at fair values.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendments to HKFRS 3	<i>Definition of Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and on the disclosures set out in these condensed consolidated financial statements.

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 is engaged 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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment (loss)/profit before tax, which is a measure of adjusted (loss)/profit before tax. The adjusted (loss)/profit before tax is measured consistently with the Group's (loss)/profit before tax except that certain income, gains and losses, share of profits and losses of a joint venture and an associate as well as head office and corporate expenses are excluded from such measurement.

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

	General aviation aircraft piston engine business		Total	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000 (Restated)	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000 (Restated)
Segment revenue:				
Sales to external customers	<u>651,410</u>	<u>764,471</u>	<u>651,410</u>	<u>764,471</u>
Segment results	<u>(402,395)</u>	<u>35,709</u>	<u>(402,395)</u>	<u>35,709</u>
<i>Reconciliation:</i>				
Unallocated other income, other gains and losses			3,581	2,718
Corporate and other unallocated expenses			(7,154)	(7,616)
Share of profits and losses of:				
A joint venture			-	(922)
An associate			(730)	633
(Loss)/profit before tax			<u>(406,698)</u>	<u>30,522</u>

4. REVENUE, OTHER INCOME, OTHER GAINS AND LOSSES

An analysis of revenue, other income, other gains and losses is as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Revenue from contracts with customers		
Sales of aircraft engines and spare parts transferred at a point in time	605,963	696,665
Rendering of services transferred over time	45,447	67,806
	<u>651,410</u>	<u>764,471</u>
Disaggregated revenue information – Geographical markets		
USA	500,262	607,278
Europe	94,581	95,875
Others	56,567	61,318
	<u>651,410</u>	<u>764,471</u>
Other income		
Bank interest income	6,276	4,999
Interest income on loans to an associate	266	272
Distributorship fee income	387	388
Service fee income	6,975	–
Others	189	658
	<u>14,093</u>	<u>6,317</u>
Other gains and losses		
Gain on deregistration of a subsidiary	–	1,721
Gain on disposal of other intangible assets	–	32,194
(Loss)/gain on disposal of items of property, plant and equipment	(5)	1,217
Fair value loss on an investment property	(14,400)	–
Foreign exchange differences, net	(42)	(5,306)
Reversal of impairment losses on financial assets, net:		
Reversal of impairment of trade receivables, net	139	1,209
Reversal of impairment/(impairment) of an other receivable*	11,268	(57)
	<u>(3,040)</u>	<u>30,978</u>

* During the current interim period, the Group reversed the impairment loss of an other receivable of HK\$11,268,000 as repayment was received. The receivable was a loan made to an entity which the Group invested in and classified as an unlisted equity investment designated at fair value through other comprehensive income.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on interest-bearing bank borrowings	1,613	1,340
Interest on lease liabilities	7,246	799
	<u>8,859</u>	<u>2,139</u>

6. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold*	436,866	496,990
Cost of services provided*	37,639	53,420
Write-down of inventories to net realisable value*	1,271	4,914
Depreciation of property, plant and equipment	30,441	33,123
Depreciation of right-of-use assets	8,246	2,370
Amortisation of other intangible assets	43,424	41,381
	<u>43,424</u>	<u>41,381</u>

* 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 2020 and 2019 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	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong:		
Underprovision in prior years	99	–
Current – Elsewhere:		
Charge for the period	4,786	4,379
Overprovision in prior years	–	(19,080)
Deferred	<u>(15,731)</u>	<u>7,328</u>
	<u>(10,846)</u>	<u>(7,373)</u>

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

The calculation of the basic (loss)/earnings per share amounts is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the period.

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

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
(Loss)/earnings:		
(Loss)/profit attributable to ordinary equity holders of the parent	<u>(395,852)</u>	<u>37,895</u>
	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Shares:		
Weighted average number of ordinary shares in issue during the period	<u>9,303,374,783</u>	<u>9,303,374,783</u>

9. DIVIDEND

The Directors do not declare an interim dividend for the six months ended 30 June 2020 (2019: 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.

10. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the six months ended 30 June 2020, the Group has additions of items of property, plant and equipment of HK\$97,412,000 (2019: HK\$105,462,000) and disposal of items of property, plant and equipment with net book value of HK\$8,000 (2019: HK\$1,767,000).

The Group's investment property consisted of a commercial property in Hong Kong. The Group's investment property was revalued based on valuation performed by LCH (Asia-Pacific) Surveyors Limited, an independent professionally qualified valuer. The loss arising from change in fair value of investment property of HK\$14,400,000 (2019: Nil) has been recognised in profit or loss for the six months ended 30 June 2020.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment property as at 30 June 2020:

	Valuation technique	Key input	Significant unobservable inputs
Commercial property	Market comparison approach	Adjusted unit price	HK\$32,262 – HK\$38,024 (31 December 2019: HK\$31,965 – HK\$43,274) per square feet

Under the market comparison approach, the property is valued on the market basis assuming sales in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets. Comparison is based on prices realised in actual transactions or asking prices of comparable properties. Appropriate adjustments are then made to account for the differences between such properties in terms of age, time, location, floor level and other relevant factors.

11. GOODWILL

The Group's goodwill acquired through business combination has been allocated to the following cash-generating units ("CGU") for impairment testing:

- General aviation aircraft piston engine business in USA CGU ("USA CGU"); and
- General aviation aircraft piston engine business in Germany CGU ("Germany CGU")

As at 30 June 2020, the carrying amount of goodwill allocated to USA CGU was HK\$7,777,000 (31 December 2019: HK\$385,770,000). During the six months ended 30 June 2020, the Group recognised impairment of goodwill directly related to USA CGU amounting to HK\$377,336,000 (2019: Nil) which was mainly due to the COVID-19 Pandemic and the deteriorated economic environment.

As at 30 June 2020, the carrying amount of goodwill allocated to Germany CGU was HK\$14,051,000 (31 December 2019: HK\$14,051,000).

The key assumptions used for value-in-use calculations are as follows:

	USA CGU	Germany CGU
At 30 June 2020		
Gross amount (HK\$'000)	385,113	14,051
Impairment (HK\$'000)	(377,336)	–
	<u>7,777</u>	<u>14,051</u>
Carrying amount (HK\$'000)	<u>7,777</u>	<u>14,051</u>
Revenue's growth rates after the forecasted period	2.5%	2.5%
Annual discount rates	16.0%	16.2%
At 31 December 2019		
Gross amount (HK\$'000)	385,770	14,051
Impairment (HK\$'000)	–	–
	<u>385,770</u>	<u>14,051</u>
Carrying amount (HK\$'000)	<u>385,770</u>	<u>14,051</u>
Revenue's growth rates after the forecasted period	2.5%	2.5%
Annual discount rates	12.8%	15.5%

The recoverable amounts of both cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by management covering a seven-year period for USA CGU and an eleven-year period for Germany CGU. Management determined budgeted gross margins based on past performance and its expectations of market development. The discount rates used are before tax and reflect specific risks relating to the relevant units. The cash flows beyond the forecast period are extrapolated using the growth rates stated above. These growth rates are based on relevant industry growth forecasts and do not exceed the average growth rate of the industry in which the units operate.

For Germany CGU, a rise in the pre-tax discount rate to 16.8% would result in an impairment.

12. TRADE RECEIVABLES

	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Trade receivables	180,520	108,066
Impairment losses under expected credit loss model	(4,254)	(4,394)
	<u>176,266</u>	<u>103,672</u>

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 2020, the Group had certain concentrations of credit risk as 33% (31 December 2019: 32%) 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.

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 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 1 month	132,602	76,361
1 to 2 months	15,027	11,726
2 to 3 months	7,138	2,441
Over 3 months	21,499	13,144
	<u>176,266</u>	<u>103,672</u>

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 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Within 1 month	57,528	57,815
1 to 2 months	13,062	22,559
2 to 3 months	8,972	3,409
Over 3 months	<u>13,786</u>	<u>1,436</u>
	<u>93,348</u>	<u>85,219</u>

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

14. COMPARATIVE INFORMATION

Certain comparative financial information has been reclassified in order to conform with the current period's presentation.

OVERALL REVIEW

For the first half of 2020, the Group recorded revenue of HK\$651,410,000 (2019: HK\$764,471,000) and gross profit of HK\$175,634,000 (2019: HK\$209,147,000). Nevertheless, the Group recorded loss for the period of HK\$395,852,000 (2019: profit of HK\$37,895,000), which was mainly because:

- (1) as a result of the COVID-19 Pandemic and the deteriorated economic environment, the general aviation aircraft piston engine business recorded loss for the period of HK\$391,280,000 (2019: profit of HK\$24,002,000); and
- (2) a fair value loss on an investment property of HK\$14,400,000 (2019: Nil) was recorded for the period;

which were partly offset by the reversal of impairment of an other receivable of HK\$11,268,000 (2019: impairment of HK\$57,000).

Basic loss per share amounted to HK¢4.25 (2019: basic earnings per share of HK¢0.41). 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 -12% (2019: 1%).

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 2020, the general aviation aircraft piston engine business recognised revenue of HK\$651,410,000 (2019: HK\$764,471,000) and gross profit of HK\$175,634,000 (2019: HK\$209,147,000), and recorded loss for the period of HK\$391,280,000 (2019: profit of HK\$24,002,000). Impairment of goodwill of HK\$377,336,000 (2019: Nil) was recorded mainly due to the COVID-19 Pandemic and the deteriorated economic environment. Had the effect from the fair value adjustments on the identifiable assets acquired from the acquisition of the business in 2018 charged to current period's profit or loss of HK\$22,991,000 (2019: HK\$31,301,000) been excluded, the general aviation aircraft piston engine business would have recorded loss of HK\$368,289,000 (2019: profit of HK\$55,303,000).

General Aviation Manufacturers Association (GAMA) reported that piston airplane deliveries experienced an 11.7% decline during the first quarter of 2020 as compared with the same period of 2019 due to the outbreak of the COVID-19 Pandemic. Along with the piston market, turboprop, business jet, and rotorcraft deliveries also declined during the first quarter of 2020 as compared with the same period of 2019. As a result of the COVID-19 Pandemic, many Original Equipment Manufacturer ("OEM") customers have shut down or furloughed employees. Orders have been moved to 2021 or in more severe cases, canceled. Market demand continued to decrease. In this context, the general aviation aircraft piston engine business' revenue declined by 15% for the first half of 2020 as compared with the same period of 2019.

2020 has been challenging from the beginning, as the COVID-19 Pandemic brought forth further unforeseen headwinds. We confronted the evolving epidemic by implementing appropriate measures in accordance with local governmental policies and focusing on ensuring business continuity and stability. In the second quarter, a new management personnel was appointed for the general aviation aircraft piston engine business. The new management put forward the initiatives of demanding quality and practising business simplification to navigate the short-term pandemic induced market and financial volatility while simultaneously enhance long-term profitable growth and cash flows.

To preserve cash, we took actions to rightsize and eliminate 79 permanent positions. Additionally, team members went on furlough or received a reduction in pay. These efforts resulted in annual savings of millions of US dollars. We also secured the local government aids.

We began the initiative to clear past due engine backlog on 27 April 2020. In less than 60 days, we successfully delivered US\$6.2 million in engines ahead of the goal date of 30 June 2020. Currently, we are diligently working to clear the past due aftermarket spare part backlog of US\$6.6 million, which started on 27 April 2020, with the goal of completion by the end of the third quarter.

International and domestic travel restrictions resulted from the COVID-19 Pandemic has led to a delay in the deliveries of equipment for the Blue Marlin factory modernisation program. The completion date of the program is now expected to be 2021.

During the period, we continued to develop relationships with new and existing OEM customers through successful project collaboration. We formed a new partnership with Tecnam, an Italian aeronautics manufacturer, to launch the P2010 TDI with our CD-170 engine. The CD-170 recently received approval from European Union Aviation Safety Agency for the Type Certificate validation. Another OEM partner, Diamond Aircraft Industries, recently introduced the DA50 RG powered by our CD-300 engine. The selection of the Jet-A engines by these customers reinforces the global demand for jet-fueled piston engines from general aviation industry.

FINANCIAL REVIEW

Convertible bonds

As at 30 June 2020, the Group held convertible bonds issued by Peace Map Holding Limited (“PMH”) (stock code: 402) which was listed on the Stock Exchange but was subsequently delisted on 3 August 2020, and a convertible bond issued by an unlisted company in 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 2019 and 30 June 2020. As at 30 June 2020, the convertible bond issued by the unlisted company was stated at fair value of HK\$1,938,000 (31 December 2019: HK\$1,938,000).

Listed equity investments

As at 31 December 2019 and 30 June 2020, the Group held shares issued by PMH and AVIC Joy Holdings (HK) Limited (“AVIC Joy”) (stock code: 260), also listed on the Stock Exchange, which were classified 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 will not be recycled to profit or loss when the investments are derecognised.

As at 30 June 2020, the fair values of the shares issued by PMH and AVIC Joy were assessed to be Nil (31 December 2019: Nil) and HK\$22,694,000 (31 December 2019: HK\$34,041,000) respectively.

Joint ventures and associates

During the period, the Group recorded share of losses of the joint ventures and an associate in an aggregate of HK\$730,000 (2019: HK\$405,000).

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 of HK\$149,661,000 (2019: HK\$148,237,000).

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 June 2020, the Group had current assets of HK\$1,688,846,000 (31 December 2019: HK\$1,654,279,000), including cash and bank balances and time deposits in an aggregate of HK\$937,688,000 (31 December 2019: HK\$990,386,000). The Group’s current liabilities as at 30 June 2020 were HK\$597,146,000 (31 December 2019: HK\$527,355,000).

As at 30 June 2020, the Group’s total equity amounted to HK\$3,168,513,000 (31 December 2019: HK\$3,573,694,000), comprising issued capital of HK\$930,337,000 (31 December 2019: HK\$930,337,000) and reserves of HK\$2,238,176,000 (31 December 2019: HK\$2,643,357,000). The Group’s interest-bearing debts included interest-bearing bank borrowings of HK\$311,637,000 (31 December 2019: HK\$225,161,000) and lease liabilities of HK\$318,301,000 (31 December 2019: HK\$320,610,000). The Group’s gearing ratio, calculated on the basis of the interest-bearing debts as a percentage of total equity plus the interest-bearing debts, was 17% (31 December 2019: 13%).

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

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2020, the following Group's assets were pledged to secure the Group's bank facilities:

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Property, plant and equipment	393,917	319,807
Right-of-use assets	309,233	317,270
Other intangible assets	1,276,219	1,299,802
Inventories	413,811	376,842
Trade receivables	146,219	97,449
Other assets	68,867	54,787
	<u>2,608,266</u>	<u>2,465,957</u>

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 described elsewhere in this announcement, the Group had no material acquisitions or disposals during the period.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities (31 December 2019: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2020, there were 577 (31 December 2019: 650) employees in the Group. The employees' wages and salaries, excluding directors' remuneration, amounted to HK\$96,833,000 (2019: HK\$148,208,000) 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

Like other competitors, for the second half of 2020, the Group will continue to face the severe challenges brought by COVID-19 Pandemic. Additionally, we have also been experiencing supply chain issues that started in late 2019. Corrective actions are in place, but the issues continue to impact our performance in 2020 negatively. We expect the revenue for 2020 will be lower than last year.

We will continue to take stringent cost control measures, including further adjustments to our workforce globally. In addition, we will focus on Accounts Payable/Accounts Receivable management along with inventory control to effectively manage the cash position.

In summary, 2020 is a year full of uncertainty. The Group will continue to focus on cash preservation and generation so as to cope with any sudden challenge.

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 2020, 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.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as the Company’s code of conduct regarding securities transactions by the Directors. 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 2020.

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 the 2020 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 2020 has been reviewed by the Audit Committee, and has also been reviewed by Deloitte Touche Tohmatsu 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.

PUBLICATION OF INTERIM REPORT

The 2020 interim report will be published on the websites of the Company (www.avic.com.hk) and the Stock Exchange (www.hkexnews.hk) and dispatched to the shareholders of the Company in due course.

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
Lai Weixuan
Chairman

Hong Kong, 31 August 2020

As at the date of this announcement, the Board comprises Mr. Lai Weixuan, Mr. Fu Fangxing, Mr. Zhang Zhibiao, Mr. Yu Xiaodong and Mr. Zhao Yang as executive Directors; Mr. Chow Wai Kam as non-executive Director; Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Zhang Ping as independent non-executive Directors.