



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
2017

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CORPORATE INFORMATION

DIRECTORS

Liu Hongde (*Chairman*)

Pan Linwu (*Deputy Chairman*)

Lai Weixuan

Zhou Chunhua

Xu Hongge (*Chief Executive Officer*)

Chow Wai Kam*

Chu Yu Lin, David**

Li Ka Fai, David**

Zhang Ping**

* *Non-executive Director*

** *Independent Non-executive Directors*

AUDIT COMMITTEE

Chu Yu Lin, David (*Chairman*)

Li Ka Fai, David

Zhang Ping

REMUNERATION COMMITTEE

Chu Yu Lin, David (*Chairman*)

Liu Hongde

Li Ka Fai, David

COMPANY SECRETARY

Tsui Choi Yee, Connie

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

SHARE REGISTRARS

Principal registrar

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

Hong Kong registrar

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

WEBSITE

www.avic.com.hk

STOCK CODE

232

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the board (the "Board") of directors (the "Directors") of AVIC International Holding (HK) Limited (the "Company"), I am pleased to present the interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017.

OVERALL REVIEW

For the first half of 2017, the Group recorded revenue from continuing operations of HK\$29,740,000 (2016: HK\$64,587,000) and loss attributable to owners of the parent of HK\$57,374,000 (2016: HK\$353,498,000). Basic loss per share amounted to HK¢1.04 (2016: HK¢6.40). The return on equity, calculated on the basis of profit attributable to owners of the parent as a percentage of equity attributable to owners of the parent, was -3% (2016: -15%). The improvement in loss position was mainly attributable to the decrease in the losses of certain investments held by the Group for the six months ended 30 June 2017 as compared to the same period in 2016, as well as a one-off gain on disposal of convertible loans recorded.

BUSINESS REVIEW

Property development and investment business

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

Property development and investment business (cont'd)

For the first half of 2017, the control policies of the Chinese government on the real estate industry continued to vary according to the segments and cities in general. On the one hand, the Chinese government continued to promote destocking in the high-inventory second-tier, third-tier and fourth-tier cities and promote property upgrade among buyers for their own use. On the other hand, the contractionary control measures featuring “purchase restriction, credit restriction, price restriction and sales restriction” were intensively introduced in the first-tier and popular second-tier and third-tier cities. At the same time, to deleverage the financial system, the Chinese government tightened the credit policies on real estate industry by stricter monitoring of banks’ credit extension to real estate industry. Affected by this external environment, the trading volume of Dalian Project showed a downward trend.

Dalian Project comprises four parcels of land having a total site area of approximately 46,938 square meter (excluding communal site area). A large-scale development project, the International Square, is being constructed comprising offices, retail shops and residential buildings. The total saleable area of Dalian Project upon completion is approximately 350,488 square meter. Dalian Project is currently in the normal development and construction phase, and pre-sale of certain residential and office space of the International Square has commenced since June 2013. Saleable area of 142,311 square meter has been completed as at 30 June 2017, of which 92,175 square meter was sold, 18,299 square meter was available for rent and included in investment properties, and the remaining was included in completed properties held for sale. As at 30 June 2017, the total saleable area of properties under development was approximately 208,177 square meter.

Chongqing Project comprises twelve parcels of land with a total site area of approximately 375,252 square meter and is currently in the early development phase.

As at 30 June 2017, the properties under development and completed properties held for sale amounted to HK\$4,326,947,000 (31 December 2016: HK\$4,105,317,000) and investment properties amounted to HK\$325,391,000 (31 December 2016: HK\$315,866,000). The customer deposits, which represent the proceeds of the pre-sale of properties, amounted to HK\$1,367,722,000 (31 December 2016: HK\$920,238,000). For the first half of 2017, the property development and investment business segment recognised revenue and gross profit of HK\$29,740,000 (2016: HK\$64,587,000) and HK\$8,760,000 (2016: HK\$28,559,000), respectively, and recorded loss of HK\$46,841,000 (2016: profit of HK\$2,288,000).

Trading business

The trading business segment recorded no revenue (2016: Nil) and no profit or loss (2016: Nil) for the period.

FINANCIAL REVIEW

Assignment of convertible loans

The fully-impaired convertible loans to 上海藍沛新材料科技股份有限公司, an available-for-sale investment, were assigned to an independent third party at a consideration of HK\$87,151,000 during the period. As a result, a gain on disposal of convertible loans of HK\$87,151,000 (2016: Nil) was recognised.

Convertible bonds

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

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

The Group’s portfolio of derivative financial instruments as at 30 June 2017 consisted of the derivatives at fair values of HK\$68,000 (31 December 2016: HK\$9,277,000) and HK\$184,000 (31 December 2016: HK\$2,061,000) embedded in the convertible bonds issued by PMH and AVIC Joy, respectively. During the period, a fair value loss on derivative financial instruments of HK\$11,086,000 (2016: HK\$72,027,000) was recognised in respect of the derivatives embedded in the convertible bonds issued to PMH and AVIC Joy, which was mainly due to the drop in the share prices of both companies.

Equity investment at fair value through profit or loss

The Group held shares issued by PMH and classified the investment as an equity investment at fair value through profit or loss. During the period, the Group recorded a fair value loss on equity investment at fair value through profit or loss of HK\$25,905,000 (2016: HK\$137,904,000) due to the drop in the share price of PMH.

Impairment of an available-for-sale investment

The Group held shares issued by AVIC Joy and classified the investment as an available-for-sale investment. Due to the significant decline in the share price of AVIC Joy during the period, an impairment of an available-for-sale investment of HK\$48,485,000 (2016: HK\$94,907,000) was recorded.

Joint venture and associates

During the period, the Group recorded share of losses of the joint venture and associates in an aggregate of HK\$11,047,000 (2016: HK\$45,855,000).

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 June 2017, the Group had current assets of HK\$5,294,512,000 (31 December 2016: HK\$4,969,966,000), including cash and bank balances and time deposits in an aggregate of HK\$670,377,000 (31 December 2016: HK\$605,925,000). The Group's current liabilities as at 30 June 2017 were HK\$2,211,905,000 (31 December 2016: HK\$1,692,802,000).

LIQUIDITY, CAPITAL STRUCTURE AND FINANCIAL RESOURCES *(cont'd)*

As at 30 June 2017, the Group's equity attributable to owners of the parent amounted to HK\$1,968,232,000 (31 December 2016: HK\$1,973,272,000), comprising issued capital of HK\$551,959,000 (31 December 2016: HK\$551,959,000) and reserves of HK\$1,416,273,000 (31 December 2016: HK\$1,421,313,000). The Group's interest-bearing debts, including loans from a fellow subsidiary of HK\$1,162,523,000 (31 December 2016: HK\$1,234,637,000), loans from an intermediate holding company of HK\$489,756,000 (31 December 2016: HK\$475,419,000) and interest-bearing bank borrowings of Nil (31 December 2016: HK\$230,134,000) are mainly denominated in Renminbi and arranged on a fixed rate basis. The Group's gearing ratio, calculated on the basis of the interest-bearing debts as a percentage of equity attributable to owners of the parent plus the interest-bearing debts, was 46% (31 December 2016: 50%).

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

EXPOSURE TO FOREIGN CURRENCY RISK

The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the unit's functional currency. In view of the fact that the Group tries to match its assets and liabilities with the same currency, the Group's exposure to foreign currency risk is minimal.

MATERIAL ACQUISITIONS AND DISPOSALS

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

As set out in the Company's announcement dated 7 September 2016, the Company is considering a series of business and asset reorganisation proposals which include the acquisition of certain assets and the disposal of the Group's real estate development business in China.

CONTINGENT LIABILITIES

Details of the significant contingent liabilities of the Group are set out in note 14 to the interim financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, there were 66 (31 December 2016: 73) employees in the Group. The employee wages and salaries, excluding directors' remuneration, amounted to HK\$14,376,000 (2016: HK\$13,135,000) 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 Group, as an investment holding company, is committed to invest in the property development and investment business, the aero-technology related business and other fields, and aims to enhance its value and create long-term return for its shareholders in terms of returns on investments and operating profits. Given that China is encouraging the development of its aviation industry, particularly the reform of low-altitude airspace management, the aero-technology related business will have a golden opportunity for development in future. The Group will identify the projects with a bright development prospect, and will continue to review and optimise its business portfolio.

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, 25 August 2017

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 2017, 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 2017.

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

As at 30 June 2017, 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 2017
Tacko International Limited ("Tacko")	(1)	Beneficial owner	1,895,559,000	34.34
AVIC International (HK) Group Limited ("AVIC International (HK) Group")	(1)	Through a controlled corporation	1,895,559,000	34.34
AVIC International Holding Corporation ("AVIC International")	(1)	Through a controlled corporation	1,895,559,000	34.34
Aviation Industry Corporation of China ("AVIC")	(1)	Through a controlled corporation	1,895,559,000	34.34
Cheung Kong (Holdings) Limited ("CKH")	(2)	Through controlled corporations	450,000,000	8.15
CK Hutchison Holdings Limited ("CKHH")	(2)	Through controlled corporations	450,000,000	8.15

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(cont'd)*

Notes:

- (1) According to notices of disclosure of interests filed with the Company, Tacko is a wholly-owned subsidiary of AVIC International (HK) Group, which in turn is a wholly-owned subsidiary of AVIC International. AVIC International is a non-wholly-owned subsidiary of AVIC (62.52% interest controlled by AVIC as at 30 June 2017). Accordingly, each of AVIC International (HK) Group, AVIC International and AVIC is deemed to be interested in the shares held by Tacko.
- (2) According to notices of disclosure of interests filed with the Company, 225,000,000 shares are held by Worsdale Investments Limited ("Worsdale") and 225,000,000 shares are held by Hutchison International Limited ("HIL").

Worsdale is a wholly-owned subsidiary of Arra International Limited, which in turn is a wholly-owned subsidiary of Cheung Kong Investment Company Limited ("CKIV"). CKIV is a wholly-owned subsidiary of CKH. CKH is deemed to be interested in 225,000,000 shares held by Worsdale. Meanwhile, HIL is a wholly-owned subsidiary of Hutchison Whampoa Limited ("HWL"). HWL is deemed to be interested in 225,000,000 shares held by HIL. CKH is entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL. Accordingly, CKH is also deemed to be interested in 225,000,000 shares held by HIL. In addition, CKH is a wholly-owned subsidiary of CKHH and accordingly, CKHH is deemed to be interested in the aggregate shares directly held by Worsdale and HIL.

Save as disclosed above, as at 30 June 2017, 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 2017, the Company applied the principles of, and complied with all the code provisions and, where applicable, the recommended best practices of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules, except as noted hereunder.

Other than the Non-executive Director appointed on 23 June 2015 and the Independent Non-executive Director appointed on 26 May 2017, the other two Independent Non-executive Directors are appointed without specific terms, a requirement provided by code provision A.4.1 of the CG Code. In accordance with the Bye-laws of the Company, one-third of the directors (including non-executive directors) for the time being shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at least once every three years. The retiring directors shall be eligible for re-election. Therefore, the Company is of the view that it has adopted adequate measures to ensure the corporate governance of the Company complies with the same level to that required under the CG Code.

The Company does not have a nomination committee as provided for in code provisions A.5.1 to A.5.4 of the CG Code. At present, the Company does not consider it necessary to have a nomination committee as the Board is responsible for reviewing the structure, size, diversity and composition of the Board and the appointment of new Directors from time to time to ensure that it has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company. The Board is also responsible for assessing the independence of each Independent Non-executive Director and reviewing the succession plan for the Directors, in particular the Chairman and the Chief Executive Officer.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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 2017.

AUDIT COMMITTEE

The Company has an 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 2017 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

		For the six months ended 30 June	
	Notes	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
CONTINUING OPERATIONS			
Revenue	3	29,740	64,587
Cost of sales		(20,980)	(36,028)
Gross profit		8,760	28,559
Other income	4	4,570	9,846
Selling and distribution expenses		(14,716)	(8,927)
Administrative expenses		(31,511)	(24,106)
Other operating expenses	6	(347)	(934)
Finance costs	5	(22,089)	(38)
Gain on disposal of convertible loans		87,151	–
Gain on deemed disposal of interest in an associate		–	3,386
Share of profits and losses of:			
Joint venture		(9,934)	(43,232)
Associates		(1,113)	(2,623)
Impairment of an available-for-sale investment (transfer from available-for-sale investment revaluation reserve)		(48,485)	(94,907)
Fair value loss on derivative financial instruments		(11,086)	(72,027)
Fair value loss on equity investment at fair value through profit or loss		(25,905)	(137,904)
Loss before tax from continuing operations	6	(64,705)	(342,907)
Income tax expense	7	(2,302)	(5,761)
Loss for the period from continuing operations		(67,007)	(348,668)
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	8	–	(5,091)
LOSS FOR THE PERIOD		(67,007)	(353,759)

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

		For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
<i>Note</i>			
<hr/>			
Attributable to:			
		(57,374)	(353,498)
		(9,633)	(261)
<hr/>			
		(67,007)	(353,759)
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LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
	9		
	Basic and diluted		
	– For loss for the period	(HK1.04 cents)	(HK6.40 cents)
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	– For loss from continuing operations	(HK1.04 cents)	(HK6.36 cents)
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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(67,007)	(353,759)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(37,212)	(89,224)
Reclassification adjustment for losses included in the condensed consolidated statement of profit or loss		
– Impairment loss	48,485	94,907
	11,273	5,683
Share of other comprehensive income of a joint venture	1,468	–
Exchange differences on translation of foreign operations	59,570	(33,077)
NET OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	72,311	(27,394)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	5,304	(381,153)
Attributable to:		
Owners of the parent	(5,040)	(370,392)
Non-controlling interests	10,344	(10,761)
	5,304	(381,153)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>Note</i>	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
NON-CURRENT ASSETS		
	23,425	24,975
	325,391	315,866
	50,137	58,602
	12,265	13,378
	–	–
	192,897	278,745
	68	11,338
<i>11</i>	–	20,178
	10,327	10,025
	614,510	733,107
CURRENT ASSETS		
	4,326,947	4,105,317
<i>11</i>	88,307	69,442
	2,646	10,960
	–	5,282
	9,783	9,497
	17,265	16,760
	45,575	42,978
	48,636	–
	184	–
	61,714	87,619
	23,078	16,186
	670,377	605,925
	5,294,512	4,969,966

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

* These reserve accounts comprise the consolidated reserves of HK\$1,416,273,000 in the condensed consolidated statement of financial position as at 30 June 2017.

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

	Attributable to owners of the parent							Total equity (Unaudited) HK\$'000
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Available-for-sale investment revaluation reserve (Unaudited) HK\$'000	Reserve fund (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total controlling interests (Unaudited) HK\$'000	
At 1 January 2016	551,959	609,080	10,665	18,477	(23,199)	1,570,552	594,124	3,331,658
Loss for the period	-	-	-	-	-	(353,498)	(261)	(353,759)
Other comprehensive income for the period:								
Changes in fair value of available-for-sale investments, net of tax	-	-	5,683	-	-	-	-	5,683
Exchange differences on translation of foreign operations	-	-	-	-	(22,577)	-	(10,500)	(33,077)
Total comprehensive income for the period	-	-	5,683	-	(22,577)	(353,498)	(10,761)	(361,153)
At 30 June 2016	551,959	609,080	16,348	18,477	(45,776)	1,217,054	583,363	2,950,505

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
	<i>Notes</i>		
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax:			
From continuing operations		(64,705)	(342,907)
From a discontinued operation	<i>8</i>	–	(5,075)
Adjustments for:			
Finance costs	<i>5, 8</i>	22,089	1,226
Share of profits and losses of a joint venture and associates		11,047	45,855
Bank interest income		(3,091)	(818)
Interest income on a convertible bond		(518)	(518)
Interest income on loans to associates		(282)	(284)
Interest income on loans to related companies		(511)	(833)
Gain on disposal of convertible loans		(87,151)	–
Gain on deemed disposal of interest in an associate		–	(3,386)
Depreciation		681	1,462
Amortisation of customer relationship		–	95
Recognition of prepaid land lease payments		–	13
Provision for impairment of a loan to a related company		–	934
Provision for impairment of prepayments and other receivables		–	4,112
Loss on disposal of items of property, plant and equipment		347	–
Impairment of an available-for-sale investment		48,485	94,907
Fair value loss on derivative financial instruments		11,086	72,027
Fair value loss on equity investment at fair value through profit or loss		25,905	137,904
		(36,618)	4,714

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Increase in properties under development and completed properties held for sale	(50,019)	(98,302)
Decrease in inventories	–	501
Decrease in trade receivables	3,898	27,472
Decrease in amounts due from fellow subsidiaries	8,314	5,806
Decrease/(increase) in prepayments, deposits and other receivables	(2,467)	13,693
Decrease in an amount due from a non-controlling shareholder of a subsidiary	–	323
Decrease in trade payables	(7,065)	(22,974)
Increase/(decrease) in other payables and accruals	4,344	(12,480)
Increase in customer deposits	407,446	276,530
Cash generated from operations	327,833	195,283
Overseas tax paid	(8,898)	(33,222)
Net cash flows from operating activities	318,935	162,061
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(26)	(102)
Proceeds from disposal of items of property, plant and equipment	548	–
Proceeds from disposal of convertible loans	87,151	–
Repayment of a loan from a related company	–	24
Bank interest received	3,094	818
Interest received on a convertible bond	518	518
Interest received on loans to associates	570	344
Interest received on loans to related companies	1,065	–
Increase in pledged time deposits	–	(2,815)
Net cash flows from/(used in) investing activities	92,920	(1,213)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	–	354,455
Repayment of bank loans	(230,134)	–
Repayment of loans from a fellow subsidiary	(106,145)	(265,792)
Increase in amounts due to non-controlling shareholders of subsidiaries	25,891	58,216
Increase/(decrease) in an amount due to an intermediate holding company	7,535	(14,163)
Increase in amounts due to fellow subsidiaries	1,830	–
Interest paid	(56,083)	(93,535)
Net cash flows from/(used in) financing activities	(357,106)	39,181
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,749	200,029
Cash and cash equivalents at 1 January	605,925	473,330
Effect of foreign exchange rate changes, net	9,703	(7,164)
CASH AND CASH EQUIVALENTS AT 30 JUNE	670,377	666,195
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	370,086	643,902
Non-pledged time deposit with original maturity of less than three months when acquired	300,291	20,359
Cash and cash equivalents as stated in the statement of financial position	670,377	664,261
Cash and bank balances attributable to a discontinued operation	–	1,934
Cash and cash equivalents as stated in the statement of cash flows	670,377	666,195

NOTES TO INTERIM FINANCIAL STATEMENTS

1. Accounting policies and basis of preparation

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

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2016, except for the adoption of certain revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include HKASs and Interpretations) for the first time in the current period as disclosed in note 2 below.

2. Changes in accounting policies and disclosures

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

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
<i>Annual Improvements 2014-2016 Cycle</i>	Amendments to HKFRS 12 <i>Clarification of the scope of disclosure requirements in HKFRS 12</i>

The adoption of the revised HKFRSs has had no significant financial effect on these condensed consolidated interim financial statements.

3. Operating segment information

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) for the period from continuing operations. The adjusted profit/(loss) for the period from continuing operations is measured consistently with the Group's profit/(loss) for the period from continuing operations except that certain income and gains or losses relating to investments in a joint venture and associates and financial instruments, the gain on disposal of convertible loans, as well as head office and corporate expenses and unallocated 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 segments.

For the six months ended 30 June 2017

	Property development and investment business (Unaudited) HK\$'000	Trading business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Segment revenue:			
Sales to external customers	19,760	–	19,760
Gross rental income	9,980	–	9,980
Revenue from continuing operations	29,740	–	29,740
Segment results	(46,841)	–	(46,841)
<i>Reconciliation:</i>			
Unallocated other income			3,311
Corporate and other unallocated expenses			(14,105)
Gain on disposal of convertible loans			87,151
Share of profits and losses of:			
Joint venture			(9,934)
Associates			(1,113)
Impairment of an available-for-sale investment			(48,485)
Fair value loss on derivative financial instruments			(11,086)
Fair value loss on equity investment at fair value through profit or loss			(25,905)
Loss for the period from continuing operations			(67,007)

3. Operating segment information (cont'd)

For the six months ended 30 June 2016

	Property development and investment business (Unaudited) <i>HK\$'000</i>	Trading business (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Segment revenue:			
Sales to external customers	56,431	–	56,431
Gross rental income	8,156	–	8,156
Revenue from continuing operations	64,587	–	64,587
Segment results	2,288	–	2,288
<i>Reconciliation:</i>			
Unallocated other income			4,551
Corporate and other unallocated expenses			(8,195)
Gain on deemed disposal of interest in an associate			3,386
Share of profits and losses of:			
Joint venture			(43,232)
Associates			(2,623)
Impairment of an available-for-sale investment			(94,907)
Fair value loss on derivative financial instruments			(72,027)
Fair value loss on equity investment at fair value through profit or loss			(137,904)
Unallocated income tax expense			(5)
Loss for the period from continuing operations			<u>(348,668)</u>

4. Other income

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

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Bank interest income	3,091	816
Interest income on a convertible bond	518	518
Interest income on loans to associates	282	284
Interest income on loans to related companies	511	833
Government grant*	168	7,245
Others	–	150
	4,570	9,846

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

5. Finance costs

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

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Interest on bank loans and other loans	60,772	97,139
Less: Interest capitalised	(38,683)	(97,101)
	22,089	38

6. Loss before tax

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

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Cost of properties sold*	20,980	36,028
Depreciation	681	1,150
Other operating expenses:		
Loss on disposal of items of property, plant and equipment	347	–
Provision for impairment of a loan to a related company	–	934
	347	934

* 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 2017 and 2016 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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Current – Elsewhere	1,714	1,471
Deferred	(25)	(989)
Land Appreciation Tax in Mainland China	613	5,279
Total tax charge for the period	2,302	5,761

8. Discontinued operation

On 29 June 2016, the Group signed an agreement with an independent third party to dispose of 浙江東陽金牛針織製衣有限公司 (“Zhejiang Dongyang Jinniu”), a 51%-owned subsidiary. Zhejiang Dongyang Jinniu engaged in the production and distribution of knitting and textile products, knitted fabrics and clothing. The Group decided to dispose of this subsidiary and cease its knitting and textile business because it had been loss-making in recent years.

8. Discontinued operation (cont'd)

The results of Zhejiang Dongyang Jinniu 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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Revenue	-	18,616
Cost of sales	-	(17,621)
Gross profit	-	995
Other income	-	112
Administrative expenses	-	(882)
Other operating expenses, net	-	(4,112)
Finance costs	-	(1,188)
Loss before tax from the discontinued operation	-	(5,075)
Income tax expense	-	(16)
Loss after tax from the discontinued operation	-	(5,091)
Attributable to:		
Owners of the parent	-	(2,596)
Non-controlling interests	-	(2,495)
	-	(5,091)
Loss per share:		
Basic and diluted, from the discontinued operation	-	(HK0.04 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	
	2017 (Unaudited)	2016 (Unaudited)
Loss attributable to ordinary equity holders of the parent from the discontinued operation	–	(HK\$2,596,000)
Weighted average number of ordinary shares in issue during the period	5,519,591,000	5,519,591,000

The net cash flows incurred by Zhejiang Dongyang Jinniu are as follows:

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Operating activities	–	5,354
Investing activities	–	(2,814)
Financing activities	–	(962)
Net cash inflow	–	1,578

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

The calculation of the basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 5,519,591,000 (2016: 5,519,591,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2017 and 2016 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 loss per share is based on:

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Loss attributable to ordinary equity holders of the parent		
From continuing operations	(57,374)	(350,902)
From a discontinued operation	–	(2,596)
	(57,374)	(353,498)

	For the six months ended 30 June	
	2017 (Unaudited)	2016 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period	5,519,591,000	5,519,591,000

10. Dividend

The Directors do not declare an interim dividend for the six months ended 30 June 2017 (2016: Nil).

11. Trade receivables

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Trade receivables	88,307	89,620
Less: Non-current portion	–	(20,178)
Current portion	88,307	69,442

The Group has different credit policies for different business operations depending on the requirements of the markets and businesses in which the subsidiaries operate. Trade receivables from sale of properties in respect of the property development and investment business are payable pursuant to the terms of sale and purchase agreements. The Group's trading terms with its customers in the trading business are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit.

The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

11. Trade receivables (cont'd)

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within 1 month	1,713	2,089
1 to 2 months	–	–
2 to 3 months	–	–
Over 3 months	86,594	87,531
	88,307	89,620

12. Trade payables

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

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Within 1 month	5,167	10,249
1 to 2 months	–	28,005
2 to 3 months	–	–
Over 3 months	30,011	2,959
	35,178	41,213

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

13. Commitments

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Contracted, but not provided for: Property development expenditure	309,435	328,655

14. Contingent liabilities

As at 30 June 2017, the Group has given guarantees of HK\$73,081,000 (31 December 2016: HK\$76,085,000) to banks for housing loans extended by the banks to the purchasers of the Group's properties for a period from the date of loans being granted to the purchasers up to the date of issuance of property title certificates to the purchasers.

15. 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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Interest income on loans to related companies	511	833
Interest income on loans to associates	282	284
Fellow subsidiaries:		
Interest expense on loans from fellow subsidiaries	(34,726)	(87,622)
Management fee paid to a fellow subsidiary	(1,148)	(4,566)
Agency fee paid to a fellow subsidiary	(56)	(93)
Interest expenses on loans from an intermediate holding company	(21,956)	(5,449)

These related party transactions were conducted in accordance with the terms as disclosed in the last annual report.

15. Related party transactions *(cont'd)*

- (b) Outstanding balances with related parties:
- (i) The loans to associates are unsecured and bear interest at 6% (31 December 2016: 4.5% to 6%) per annum.
 - (ii) The loan to a related company is unsecured, bears interest at 6.15% (31 December 2016: 6.15%) per annum and is repayable within one year.
 - (iii) The balances with non-controlling shareholders of subsidiaries are unsecured, non-interest-bearing and have no fixed terms of repayment.
 - (iv) The amounts due from and to an intermediate holding company are unsecured, non-interest-bearing and have no fixed terms of repayment. The loans from an intermediate holding company are unsecured, bear interest at 6% (31 December 2016: 6%) per annum and are not repayable within one year.
 - (v) The amounts due from and to fellow subsidiaries are unsecured and non-interest-bearing. The loans from a fellow subsidiary are unsecured and bear interest at 6% (31 December 2016: 6%) per annum.
- (c) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Short term employee benefits	785	280
Post-employment benefits	18	14
Total compensation paid to key management personnel	803	294

16. 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 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Financial assets				
Trade receivable (non-current portion)	-	20,178	-	18,862
Available-for-sale investments	241,533	278,745	241,533	278,745
Equity investment at fair value through profit or loss	61,714	87,619	61,714	87,619
Derivative financial instruments	252	11,338	252	11,338
	303,499	397,880	303,499	396,564
Financial liabilities				
Loans from an intermediate holding company	489,756	475,419	487,645	473,114
Loans from a fellow subsidiary (non-current portion)	540,976	648,045	537,796	646,682
Interest-bearing bank borrowings	-	230,134	-	227,430
	1,030,732	1,353,598	1,025,441	1,347,226

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

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

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

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

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

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

The fair values of trade receivable (non-current portion), loans from an intermediate holding company, loans from a fellow subsidiary (non-current portion) and interest-bearing bank borrowings 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 loans from an intermediate holding company and loans from a fellow subsidiary as at 30 June 2017 was assessed to be insignificant.

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

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments were measured using valuation models which incorporate various market observable inputs including the credit quality of counterparties and interest rate curves. The carrying amounts of derivative financial instruments were the same as their fair values. As at 30 June 2017, the marked to market value of the above derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk.

16. 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			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
As at 30 June 2017 (Unaudited)				
Available-for-sale investments:				
Equity investments	149,732	-	-	149,732
Debt investments	-	91,801	-	91,801
Equity investment at fair value through profit or loss	61,714	-	-	61,714
Derivative financial instruments	-	252	-	252
	211,446	92,053	-	303,499
As at 31 December 2016 (Audited)				
Available-for-sale investments:				
Equity investments	149,581	-	-	149,581
Debt investments	-	129,164	-	129,164
Equity investment at fair value through profit or loss	87,619	-	-	87,619
Derivative financial instruments	-	11,338	-	11,338
	237,200	140,502	-	377,702

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

Fair value hierarchy *(cont'd)*

The Group did not have any financial liabilities measured at fair value as at 30 June 2017 and 31 December 2016.

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 (2016: Nil).

Assets for which fair values are disclosed:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
As at 31 December 2016				
(Audited)				
Trade receivable (non-current portion)	–	18,862	–	18,862

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

Fair value hierarchy (cont'd)

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
As at 30 June 2017 (Unaudited)				
Loans from an intermediate holding company	-	487,645	-	487,645
Loans from a fellow subsidiary (non-current portion)	-	537,796	-	537,796
	-	1,025,441	-	1,025,441
As at 31 December 2016 (Audited)				
Loans from an intermediate holding company	-	473,114	-	473,114
Loans from a fellow subsidiary (non-current portion)	-	646,682	-	646,682
Interest-bearing bank borrowings	-	227,430	-	227,430
	-	1,347,226	-	1,347,226

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 44 which comprises the condensed consolidated statement of financial position of AVIC International Holding (HK) Limited (the “Company”) and its subsidiaries as at 30 June 2017 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 2017 is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

25 August 2017