



# 中航國際控股股份有限公司 AVIC INTERNATIONAL HOLDINGS LIMITED

(Stock Code : 0161)

Interim Report  
2016

## BASIC INFORMATION OF THE COMPANY

Listing stock exchange : The Stock Exchange of Hong Kong Limited  
Stock short name : AVIC IHL  
Stock Code : 00161  
Website : [www.avic161.com](http://www.avic161.com)

## EXECUTIVE DIRECTORS

Mr. Wu Guang Quan, *chairman*  
Mr. Lai Wei Xuan, *vice chairman*  
Mr. You Lei, *vice chairman*  
Mr. Pan Lin Wu  
Mr. Chen Hong Liang  
Mr. Liu Jun

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Wong Wai Ling  
Mr. Wu Wei  
Mr. Wei Wei

## SUPERVISORS

Mr. Cao Jiang, *chairman*  
Mr. Liang Chi  
Mr. Liu Yongze  
Mr. Yang Xi

## COMPANY SECRETARY

Mr. Zhong Si Jun

## AUDIT COMMITTEE

Ms. Wong Wai Ling, *chairman*  
Mr. Wu Wei  
Mr. Wei Wei

## REMUNERATION COMMITTEE

Mr. Wei Wei, *chairman*  
Mr. Wu Guang Quan  
Mr. Chen Hong Liang  
Ms. Wong Wai Ling  
Mr. Wu Wei

## NOMINATION COMMITTEE

Mr. Wu Wei, *chairman*  
Mr. Wu Guang Quan  
Mr. Chen Hong Liang  
Ms. Wong Wai Ling  
Mr. Wei Wei

## REGISTERED ADDRESS OF THE COMPANY

Level 25, Hangdu Building, Catic Zone,  
Shennan Road Central,  
Futian Dist., Shenzhen, China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1603, 16/F,  
China Building,  
29 Queen's Road Central,  
Hong Kong

## STOCK-H SHARE REGISTRAR (FOR STOCK TRANSFER)

Hong Kong Registrars Limited  
Shops 1712-1716, 17th Floor,  
Hopewell Centre,  
183 Queen's Road East,  
Wanchai,  
Hong Kong

## INDEPENDENT AUDITOR

PricewaterhouseCoopers

## LEGAL ADVISER AS TO HONG KONG LAWS

LOONG & YEUNG

## PRINCIPAL BANKS

Bank of China  
Agricultural Bank of China  
Industrial and Commercial Bank of China  
Bank of Shanghai

The board (the “Board”) of directors (the “Directors”) of AVIC International Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016 prepared in accordance with the International Financial Reporting Standards as follows:

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights		2,163,031	2,195,127
Goodwill		963,389	945,168
Intangible assets		957,198	774,812
Property, plant and equipment		12,615,901	12,965,842
Investment properties		2,321,871	2,321,920
Construction-in-progress		3,734,550	3,175,032
Investments accounted for using the equity method		4,896,189	4,853,629
Trade and other receivables	7	1,832,862	1,778,825
Available-for-sale financial assets		606,351	604,151
Deferred income tax assets		652,231	670,315
Other non-current assets		390,799	331,343
		<b>31,134,372</b>	<b>30,616,164</b>
<b>Current assets</b>			
Inventories		5,997,261	5,794,711
Properties under development		630,550	777,822
Trade and other receivables	7	13,876,714	13,040,885
Amounts due from customers for contract work		2,832,296	2,284,105
Financial assets at fair value through profit or loss		204,145	4,385
Pledged bank deposits		464,005	327,132
Cash and cash equivalents		8,490,501	11,780,904
		<b>32,495,472</b>	<b>34,009,944</b>
<b>Total assets</b>		<b>63,629,844</b>	<b>64,626,108</b>

		Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
	Note		
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital		1,166,162	1,166,162
Share premium		1,512,380	1,512,380
Perpetual subordinated convertible securities		2,781,674	2,781,674
Other reserves		1,267,170	1,234,425
Retained earnings		5,027,367	4,845,122
		11,754,753	11,539,763
<b>Non-controlling interests</b>		12,957,883	12,801,353
<b>Total equity</b>		24,712,636	24,341,116
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		11,514,911	10,221,222
Deferred income tax liabilities		797,863	802,870
Deferred income on government grants		1,030,943	1,281,023
Provisions		102,921	200,998
Trade and other payables	8	85,873	52,354
Retirement and other supplemental benefit obligations		443,371	379,244
Other non-current liabilities		48,255	91,010
		14,024,137	13,028,721
<b>Current liabilities</b>			
Trade and other payables	8	15,378,083	17,082,183
Amounts due to customers for contract work		638,705	737,526
Borrowings		8,394,215	8,772,371
Financial liabilities at fair value through profit or loss		15	3,122
Current income tax liabilities		110,083	207,568
Retirement and other supplemental benefit obligations		11,970	15,865
Other current liabilities		360,000	437,636
		24,893,071	27,256,271
<b>Total liabilities</b>		38,917,208	40,284,992
<b>Total equity and liabilities</b>		63,629,844	64,626,108

# INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Unaudited  
Six months ended 30 June

	Note	2016 RMB'000	2015 Restated RMB'000
<b>Continuing operations</b>			
Revenue	6	14,663,812	15,810,970
Cost of sales		(12,165,964)	(13,107,698)
<b>Gross profit</b>		<b>2,497,848</b>	2,703,272
Distribution costs		(880,948)	(949,503)
Administrative expenses		(1,452,339)	(1,404,115)
Other income		400,768	315,563
Other gains/(losses) – net		11,327	(13,009)
<b>Operating profit</b>	9	<b>576,656</b>	652,208
Finance income		274,081	185,900
Finance costs		(519,756)	(526,320)
<b>Finance costs – net</b>		<b>(245,675)</b>	(340,420)
Share of profit of investments accounted for using the equity method		186,726	24,786
<b>Profit before income tax</b>		<b>517,707</b>	336,574
Income tax expense	10	(107,861)	(63,200)
<b>Profit for the period from continuing operations</b>		<b>409,846</b>	273,374
<b>Discontinued operations</b>			
Loss for the period from discontinued operations		–	(118,353)
<b>Profit for the period</b>		<b>409,846</b>	155,021
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		182,245	(45,419)
Non-controlling interests		227,601	200,440
		<b>409,846</b>	155,021



Unaudited  
Six months ended 30 June

	<i>Note</i>	2016 <i>RMB'000</i>	2015 Restated <i>RMB'000</i>
<b>Profit/(loss) attributable to owners of the Company arises from:</b>			
Continuing operations		182,245	(38,494)
Discontinued operations		–	(6,925)
		182,245	(45,419)
<b>Earnings/(losses) per share from continuing and discontinued operations attributable to the owners of the Company during the period (RMB per share)</b>			
<b>Basic earnings/(losses) per share</b>	11		
Continuing operations		0.15	(0.04)
Discontinued operations		–	(0.01)
		0.15	(0.05)
<b>Diluted earnings/(losses) per share</b>	11		
Continuing operations		0.09	–
Discontinued operations		–	–
		0.09	–

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited  
Six months ended 30 June

	2016 RMB'000	2015 Restated RMB'000
<b>Profit for the period</b>	<b>409,846</b>	155,021
<b>Other comprehensive income/(loss):</b>		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<b>55,705</b>	(204,750)
<b>Other comprehensive income/(loss) for the period, net of tax</b>	<b>55,705</b>	(204,750)
<b>Total comprehensive income for the period, net of tax</b>	<b>465,551</b>	(49,729)
<b>Attributable to:</b>		
– Owners of the Company	<b>214,518</b>	(224,875)
– Non-controlling interests	<b>251,033</b>	175,146
<b>Total comprehensive income for the period</b>	<b>465,551</b>	(49,729)
<b>Total comprehensive income/(loss) attributable to owners of the Company arises from:</b>		
Continuing operations	<b>214,518</b>	(218,017)
Discontinued operations	<b>–</b>	(6,858)
	<b>214,518</b>	(224,875)

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Attributable to owners of the Company							Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Perpetual subordinated convertible securities RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interest RMB'000	
Balance as at 1 January 2015, as restated	1,110,632	1,294,633	2,781,674	683,289	3,778,032	9,648,260	8,769,837	18,418,097
Comprehensive income								
Profit for the period ended 30 June 2015	-	-	-	-	(45,419)	(45,419)	200,440	155,021
Other comprehensive income	-	-	-	(179,456)	-	(179,456)	(25,294)	(204,750)
Total comprehensive income	-	-	-	(179,456)	(45,419)	(224,875)	175,146	(49,729)
Transactions with owners								
Capital contributed by non-controlling interest	-	-	-	-	-	-	4,847	4,847
Transactions with non-controlling interest	-	-	-	-	-	-	(6,032)	(6,032)
Proceeds from shares issued	55,530	217,747	-	-	-	273,277	-	273,277
Dividends relating to 2015	-	-	-	-	-	-	(113,486)	(113,486)
Total transactions with owners	55,530	217,747	-	-	-	273,277	(114,671)	158,606
Balance as at 30 June 2015	1,166,162	1,512,380	2,781,674	503,833	3,732,613	9,696,662	8,830,312	18,526,974



	Unaudited							
	Attributable to owners of the Company							
	Perpetual subordinated						Non- controlling interest	Total equity
	Share capital RMB'000	Share premium RMB'000	convertible securities RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance as at 1 January 2016	1,166,162	1,512,380	2,781,674	1,234,425	4,845,122	11,539,763	12,801,353	24,341,116
<b>Comprehensive income</b>								
Profit for the period ended 30 June 2016	-	-	-	-	182,245	182,245	227,601	409,846
Other comprehensive income	-	-	-	32,273	-	32,273	23,432	55,705
<b>Total comprehensive income</b>	-	-	-	32,273	182,245	214,518	251,033	465,551
<b>Transactions with owners</b>								
Capital contributed by non-controlling interest	-	-	-	-	-	-	40,000	40,000
Disposal of subsidiaries	-	-	-	-	-	-	(6,905)	(6,905)
Special reserve-safety production fund	-	-	-	472	-	472	6	478
Dividends relating to 2016	-	-	-	-	-	-	(127,604)	(127,604)
<b>Total transactions with owners</b>	-	-	-	472	-	472	(94,503)	(94,031)
<b>Balance as at 30 June 2016</b>	<b>1,166,162</b>	<b>1,512,380</b>	<b>2,781,674</b>	<b>1,267,170</b>	<b>5,027,367</b>	<b>11,754,753</b>	<b>12,957,883</b>	<b>24,712,636</b>

# INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Unaudited  
Six months ended 30 June

	2016 RMB'000	2015 RMB'000
<b>Cash flows from operating activities:</b>		
Cash (used in)/generated from operations	(1,506,720)	634,546
Interest paid	(423,197)	(511,463)
Income tax paid	(190,300)	(211,063)
<b>Cash flows used in operating activities</b>	<b>(2,120,217)</b>	<b>(87,980)</b>
<b>Cash flows from investing activities:</b>		
Net proceeds from disposal of associates	19,361	98,311
Net proceeds from disposal of property, plant and equipment and investment properties	2,637	7,750
Contribution to associates	(9,860)	(10,250)
Contribution to jointly controlled entities	(34,000)	(15,300)
Purchase of land use rights	(32,096)	(214,367)
Additions to property, plant and equipment and construction in process	(1,742,467)	(979,601)
Additions to available-for-sale financial assets	(2,200)	(330,000)
Additions to financial assets at fair value through profit or loss	(200,000)	–
Government grants received	35,398	271,586
Loan to related parties	–	(428,712)
Interest received	162,122	129,622
Dividends received	257,668	194,294
<b>Cash flows used in investing activities</b>	<b>(1,543,437)</b>	<b>(1,276,667)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	8,668,863	10,829,947
Repayments of borrowings	(8,568,415)	(7,840,048)
Borrowings from related parties	2,079,823	3,629,175
Repayments of borrowings from related parties	(1,873,943)	(4,030,075)
Proceeds from shares issued	–	273,277
Consideration paid to non-controlling interests	(6,540)	(6,032)
Capital contribution to subsidiaries from non-controlling interests	20,000	4,847
Dividends paid to non-controlling interests of subsidiaries	(55,089)	(6,986)
<b>Cash flows generated from financing activities</b>	<b>264,699</b>	<b>2,854,105</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(3,398,955)</b>	<b>1,489,458</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>11,780,904</b>	<b>4,828,610</b>
Exchange gains/(losses) on cash and bank overdrafts	108,552	(27,081)
<b>Cash and cash equivalents at end of period</b>	<b>8,490,501</b>	<b>6,290,987</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 1 General information

AVIC International Holdings Limited (the “Company”) was established as a joint stock limited company in the People’s Republic of China (the “PRC”) and its H shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the manufacturing and sales of flat panel displays, printed circuit boards and watches, property development, logistic and shipping building service relating to engineering, procurement and construction projects (“EPC projects”) development in the PRC.

The office address of the Company is 25/F, Hangdu Building, CATIC Zone, Shennan Road Central, Futian District, Shenzhen, PRC.

This interim condensed consolidated financial information is prepared in RMB thousands, unless otherwise stated. This interim condensed consolidated financial information has not been audited.

The interim condensed consolidated financial statements have been approved for issue on 26 August 2016.

## 2 Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2016 have been prepared in accordance with IAS 34, ‘Interim financial reporting’. These unaudited interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with IFRS.

## 3 Accounting policies

The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2015, as described therein. Newly effective standards and interpretations and amendments to IFRS effective for the financial year ending 31 December 2016 are not excepted to have a material impact on the Group.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to the expected total annual earnings.

## 4 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

## 5 Financial risk management

### 5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

There have been no changes in the risk management policies since 31 December 2015.

### 5.2 Liquidity risk

Compared to 31 December 2015, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

### 5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 30 June 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Assets</b>				
Financial assets at fair value through profit or loss	4,145	–	200,000	204,145
Available-for-sale financial assets	–	–	606,351	606,351
<b>Total assets</b>	<b>4,145</b>	<b>–</b>	<b>806,351</b>	<b>810,496</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	15	–	–	15
<b>Total liabilities</b>	<b>15</b>	<b>–</b>	<b>–</b>	<b>15</b>

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Assets</b>				
Financial assets at fair value through profit or loss	4,385	–	–	4,385
Available-for-sale financial assets	–	–	604,151	604,151
<b>Total assets</b>	<b>4,385</b>	<b>–</b>	<b>604,151</b>	<b>608,536</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	3,122	–	–	3,122
<b>Total liabilities</b>	<b>3,122</b>	<b>–</b>	<b>–</b>	<b>3,122</b>



## 6 Segment information

The chief operating decision-makers have been identified as the board of directors of the Company. Management has determined the operating segments based on the reports reviewed by the board of directors that are used to make strategic decisions.

The board considers the business from a product perspective. On 2 November 2015, the Group entered into an agreement to dispose of its entire equity interest in Shenzhen AVIC Resources Co., Ltd. and its subsidiaries ("Disposal Group" or "Resources Investment and Development Segment"). The transaction has been completed on 29 December 2015 and the results of Disposal Group have been presented as discontinued operations. Comparative figures of the Group's segment information have been restated accordingly. The Group is reorganised into the five business segments below:

- High-tech Electronic Products:
  - Manufacture and sales of flat panel displays and modules ("FPD") products
  - Manufacture and sales of printed circuit boards ("PCB") products
- Retails and Consumer Products – manufacture of middle to high-end wrist watches and chain store sales of luxury watches
- Real Estate – real estate development and construction engineering work
- Trading and Logistics – trading, logistics and shipping building business related to Engineering, Procurement and Construction Projects ("EPC Projects")

The hotel business and fastener are included in all other segments as they do not meet the quantitative threshold of separation.

The board assesses the performance of the operating segments based on the profit.

The revenue and profit/(loss) after taxation of the Group for the six months ended 30 June 2016 and 2015 by activities are classified as follows:

	Revenue Six months ended 30 June		Profit/(loss) after taxation Six months ended 30 June	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
<b>Continuing Operations</b>				
<b>High-tech Electronic Products</b>				
– Manufacture and Sales of FPD Products	4,922,742	5,074,073	258,720	257,860
– Manufacture and Sales of PCB Products	2,042,751	1,594,592	138,840	30,158
Retails and Consumer Products	1,469,081	1,673,028	64,755	77,852
Real Estate <sup>(a)</sup>	1,709,820	1,686,399	161,307	53,390
Trading and Logistics	4,196,051	5,476,651	(164,509)	(45,053)
All other Segments	323,367	306,227	(49,267)	(100,833)
Subtotal	14,663,812	15,810,970	409,846	273,374
<b>Discontinued Operations</b>				
Resources Investment and Development	–	215,019	–	(118,353)
Total	14,663,812	16,025,989	409,846	155,021

(a) Profit after tax contains investment gain of AVIC Vanke Company Limited amounting to RMB40,075,000 (2015: RMB22,928,000) and investment gain of AVIC Real Estate Holding Company Limited amounting to RMB751,000 (2015: investment loss RMB24,906,000).

## 7 Trade and other receivables

As at		
	30 June 2016 RMB'000	31 December 2015 RMB'000
Trade receivables	8,075,191	7,753,155
Less: provision for impairment of receivables	(159,699)	(154,650)
Trade receivables – net	7,915,492	7,598,505
Other receivables	4,499,403	4,629,901
Notes receivables	195,067	295,218
Prepayments to suppliers	2,041,127	1,388,527
Excess of input over output value added tax	821,166	574,131
Interest receivables	21,771	29,762
Dividend receivables	8,000	47,120
Deposits	178,714	226,188
Financial lease receivables	28,836	30,358
	15,709,576	14,819,710
Less: non-current portion		
– Excess of input over output value added tax	(143,850)	(5,564)
– Deposits	(129,251)	(176,244)
– Other receivables	(1,530,925)	(1,566,659)
– Financial lease receivables	(28,836)	(28,484)
– Others	–	(1,874)
	(1,832,862)	(1,778,825)
Current portion	13,876,714	13,040,885

The Group's credit term on sale of goods is from 1 month to 12 months. The aging analysis of trade receivables is as follows:

As at		
	30 June 2016 RMB'000	31 December 2015 RMB'000
<b>Trade receivables</b>		
Within 1 year	7,016,338	6,819,205
Between 1 and 2 years	521,655	533,507
Between 2 and 3 years	178,931	194,121
Over 3 years	358,267	206,322
	8,075,191	7,753,155
Less: provision for impairment losses	(159,699)	(154,650)
	7,915,492	7,598,505

## 8 Trade and other payables

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Trade payables	6,885,610	8,494,093
Salaries and staff welfare payable	495,137	613,113
Notes payable	1,749,679	1,555,344
Advance from customers	4,181,981	3,170,880
Interest payable	202,845	106,286
Dividend payable	93,619	21,104
Other taxes payable	52,048	200,493
Accruals and other payables	1,526,870	2,817,874
Deposits	276,167	155,350
	15,463,956	17,134,537
Less: non-current portion – Deposits	(85,873)	(52,354)
Current portion	15,378,083	17,082,183

As at 30 June 2016 and 31 December 2015, the aging analysis of the trade payables are as follows:

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
<b>Trade payables</b>		
Within 1 year	6,265,919	7,802,339
Between 1 and 2 years	360,304	501,024
Between 2 and 3 years	252,791	135,416
Over 3 years	6,596	55,314
	6,885,610	8,494,093

## 9 Operating profit

The following items have been charged/(credited) to the operating loss/(profit) during the period:

Six months ended 30 June		
	2016 RMB'000	2015 RMB'000
Provision for/(reversal of) impairment of inventory	42,518	(3,504)
Provision for impairment of trade receivables	16,587	25,664
Amortisation of land use rights	22,968	15,330
Amortisation of other non-current assets	70,195	114,372
Depreciation of fixed assets	716,995	813,242
Losses/(gains) on disposals of property, plant and equipment	1,535	(1,564)
Gain on disposals of associates	—	(7,687)

## 10 Income tax charge

Pursuant to the relevant income tax law of PRC, the subsidiaries of the Group established in the PRC were subject to income tax at a rate of 25% unless preferential rates were applicable.

For continuing operations, Tianma Company and its subsidiaries Shanghai Tianma, Chengdu Tianma, Wuhan Tianma, Shanghai Opto-electronics, SCC, Shenzhen Fiyta Technology Development Co., Ltd, Beijing Company and Shenzhen Fiyta Chronometer Manufacture Co., Ltd. were qualified as High and New Technology Enterprises in the PRC and were entitled to a preferential income tax rate of 15% in 2016 (2015: 15%).

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Six months ended		
	30 June 2016 RMB'000	30 June 2015 RMB'000
Current income tax	92,814	128,134
Deferred income tax charge/(credit)	15,047	(64,934)
	107,861	63,200



## 11 Earnings per share

### (a) Basic

Basic and diluted earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended	
	30 June 2016 RMB'000	30 June 2015 RMB'000
Profit/(loss) from continuing operations attributable to owners of the Company (RMB'000)	182,245	(45,419)
Less: Profit attributable to perpetual subordinated convertible securities holders (RMB'000)	(13,908)	(13,908)
Profit/(loss) from continuing operations attributable to ordinary shares holders of the Company (RMB'000)	168,337	(52,402)
Profit/(loss) from discontinued operations attributable to ordinary shares holders of the Company (RMB'000)	—	(6,925)
Profit/(loss) attributable to the owners of the Company (RMB'000)	168,337	(59,327)
Weighted average number of ordinary shares in issue (thousands)	1,149,427	1,132,108
Basic earnings/(losses) per share (RMB per share)		
Continuing operations	0.15	(0.04)
Discontinued operations	—	(0.01)

**(b) Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: perpetual subordinated convertible securities. The perpetual subordinated convertible securities are assumed to have been converted into ordinary shares.

	Six months ended 30 June 2016 RMB'000
Profit attributable to owners of the Company (RMB'000)	182,245
Weighted average number of ordinary shares in issue (thousands)	1,149,427
Adjustments for: Perpetual subordinated convertible securities (thousands)	801,635
Weighted average number of ordinary share for diluted earnings per share (thousands)	1,951,062
Diluted earnings per share (RMB per share)	0.09

Perpetual subordinated convertible securities could potentially dilute basic earnings per share in the future, but were not included in the computation of diluted earnings per share as they were anti-dilutive for the six months ended 30 June 2015 presented.

## 12 Dividends

The directors did not propose an interim dividend for the six months ended 30 June 2016. (30 June 2015: Nil).

### 13 Contingencies

As at 30 June 2016, the Group has the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's relationship with the Group	Outstanding amounts guaranteed (RMB'000)
The Company	Holding Company	Qinghai CATIC Resources Company Limited* (青海中航資源有限公司)	Related enterprise	802,550
The Company	Holding Company	Kunming AVIC Phosphorus Chemical Co., Ltd.* (昆明市中航磷化工有限公司)	Related enterprise	35,000
The Company	Holding Company	Yunnan Hongfu Fertilizer Co., Ltd.* (雲南紅富化肥有限公司)	Related enterprise	44,000
The Company	Holding Company	Shenzhen AVIC Resources Co., Ltd.* (深圳中航資源有限公司)	Related enterprise	870,000
Shanghai Tianma Microelectronics Co., Ltd.	Subsidiary of the Group	Shanghai Tianma organic light emitting display technology Co., Ltd.* (上海天馬有機發光顯示技術有限公司)	Associate	582,800
Xiamen Company	Subsidiary of the Group	Xiamen Tianma Microelectronics Co., Ltd.* (廈門天馬微電子有限公司)	The guarantor holds 6% equity interest in the guaranteee	176,000
Engineering Company	Subsidiary of the Group	CATIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associate	53,900
Beijing Company	Subsidiary of the Group	Taizhou AVIC Shipbuilding Heavy Industry Limited* (泰州中航船舶重工有限公司)	Third party	536,580
Beijing Company	Subsidiary of the Group	Zhengli Ocean Engineering Company Limited* (正力海洋工程有限公司)	Third party	17,180
				3,118,010

As at 31 December 2015, the Group has the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's relationship with the Group	Outstanding amounts guaranteed (RMB'000)
Beijing Company	Subsidiary of the Group	Taizhou AVIC Shipbuilding Heavy Industry Limited* (泰州中航船舶重工有限公司)	Third party	729,450
Beijing Company	Subsidiary of the Group	Zhengli Ocean Engineering Company Limited* (正力海洋工程有限公司)	Third party	22,650
Shanghai Tianma Microelectronics Co., Ltd.	Subsidiary of the Group	Shanghai Tianma Organic Light-Emitting Technology Company Limited* (上海天馬有機發光顯示技術有限公司)	Associate	550,000
Xiamen Company	Subsidiary of the Group	Xiamen Tianma Microelectronics Company Limited* (廈門天馬微電子有限公司)	The guarantor holds 6% equity interests in the guarantee	176,000
Engineering Company	Subsidiary of the Group	CATIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associate	53,900
				1,532,000

\* The English names of these companies are management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

## 14 Commitments

### (a) Capital commitments

Capital commitments at the balance sheet date but not yet incurred are as follows:

As at		
	30 June 2016 RMB'000	31 December 2015 RMB'000
Contracted but not provided for		
Land use rights	–	34,544
Property, plant and equipment	4,676,448	656,274
Equity interest Investments	11,050	523,255
	4,687,498	1,214,073

As at		
	30 June 2016 RMB'000	31 December 2015 RMB'000
Authorised but not contracted for		
Property, plant and equipment	37,535	55,485

### (b) Operating lease commitments

The Group has commitments under non-cancellable operating leases in respect of office premises as follows:

As at		
	30 June 2016 RMB'000	31 December 2015 RMB'000
Not later than one year	115,523	82,679
Later than one year and not later than five years	105,258	113,561
More than five years	27,951	31,323
	248,732	227,563



## 15 Related party transactions

The Group is controlled by AVIC International Holding Corporation (“AVIC International”), a state-controlled company established in the PRC which directly and indirectly hold 71.43% of the Company’s shares. The remaining 28.57% of the shares are widely held. The directors regard AVIC International and Aviation Industry Corporation of China (“Aviation Industry”) as the holding company and ultimate holding company of the Group respectively.

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions:

### (a) Transactions with related parties

Six months ended 30 June		
	2016 RMB'000	2015 RMB'000
Revenue:		
Sales of goods		
– Associates	826	128
– Fellow subsidiaries of Aviation Industry	799,907	572,147
– Holding company	420	21,191
– Ultimate holding company	92	130
– Joint ventures	25,652	14,856
	826,897	608,452
Service income		
– Fellow subsidiaries of Aviation Industry	323,143	381,588
– Non-controlling interests	–	333
– Associates	8	75
	323,151	381,996
Rental income		
– Fellow subsidiaries of Aviation Industry	2,787	–
	2,787	–
Interest income		
– Fellow subsidiaries of Aviation Industry	10,787	20,828
	10,787	20,828

**Six months ended 30 June**

	<b>2016</b> <b>RMB'000</b>	2015 <i>RMB'000</i>
Purchase of goods and services:		
Purchases of goods		
– Holding company	<b>11,006</b>	–
– Fellow subsidiaries of Aviation Industry	<b>448,616</b>	158,523
– Associates	<b>118</b>	3,567
– Joint ventures	<b>22,607</b>	17,948
– Non-controlling interests	<b>–</b>	2,977
	<b>482,347</b>	183,015
Service costs		
– Fellow subsidiaries of Aviation Industry	<b>291,541</b>	22,255
– Associates	<b>12</b>	–
– Holding company	<b>9</b>	566
– Non-controlling interests	<b>1,576</b>	–
	<b>293,138</b>	22,821
Interest expenses		
– Fellow subsidiaries of Aviation Industry	<b>12,208</b>	71,731
– Holding company	<b>14,887</b>	5,763
– AVIC International Shenzhen Company Limited (“AVIC Shenzhen”), the Company’s shareholder holding the equity interests of the Company (30 June 2016, 33.93%, 31 December 2015, 33.93%)	<b>2,495</b>	2,447
	<b>29,590</b>	79,941

**(b) Balances with related parties**

The balances with related parties companies are non-interest bearing and repayable on demand.

	As at	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Other receivables		
– Fellow subsidiaries of Aviation Industry	193,230	568,866
– Associates	178,153	182,279
– Holding company	39,455	47,433
– AVIC Shenzhen	–	5,500
– Non-controlling interests	–	1,240
– Jointly controlled entities	20,300	–
	431,138	805,318
Interest receivables		
– Fellow subsidiaries of Aviation Industry	6,002	10,870
– Jointly controlled entities	5,784	–
	11,786	10,870
Prepayments		
– Fellow subsidiaries of Aviation Industry	14,521	86,881
– Associates	–	60,000
– Holding company	–	881
– AVIC Shenzhen	35,000	–
	49,521	147,762
Accounts receivable		
– Fellow subsidiaries of Aviation Industry	1,490,907	841,858
– Jointly controlled entities	49,338	37,918
– Associates	714	37,375
– Holding company	156	7,099
– Non-controlling interests	–	943
– Ultimate holding company	32	–
	1,541,147	925,193

As at		
	30 June 2016 RMB'000	31 December 2015 RMB'000
Accruals and other payables		
– Fellow subsidiaries of Aviation Industry	41,692	99,086
– AVIC Shenzhen	12,299	23,230
– Associates	8,941	10,500
– Holding company	2	535
– Jointly controlled entities	200	16
– Non-controlling interests	2,284	–
	65,418	133,367
Accounts payable		
– Fellow subsidiaries of Aviation Industry	241,037	530,910
– Associates	–	24,024
– Holding company	4,569	–
	245,606	554,934
Advance from customers		
– Fellow subsidiaries of Aviation Industry	178,972	199,148
– Associates	30,595	4,780
– Holding company	343	–
	209,910	203,928
Interest payables		
– Fellow subsidiaries of Aviation Industry	–	1,185
	–	1,185
Borrowings from related parties		
– Holding company	819,375	1,210,000
– AVIC Shenzhen	25,000	100,000
– Fellow subsidiaries of Aviation Industry	2,986,523	2,309,360
– Non-controlling interests	10,418	16,076
	3,841,316	3,635,436
Loan to related parties		
– Associates	385,005	385,005
– Fellow subsidiaries of Aviation Industry	1,134,280	1,224,280
	1,519,285	1,609,285

## BUSINESS REVIEW

The consolidated revenue and profit contribution of the Company in its interim condensed consolidated results for the six months ended 30 June 2016 (the "Reporting Period") were primarily derived from the following business sections and subsidiaries:

Business sections	Name of subsidiaries	Percentages of equity interests held by the Company	Principal activities
<b>High-tech Electronic Products</b>	Tian Ma Microelectronics Co., Ltd. ("Tianma Company")	20.81%	Manufacture and sales of flat panel displays and modules (FPD)
	Shennan Circuits Co., Ltd. ("SCC")	92.99%	Manufacture and sales of printed circuit boards and packaging substrate (PCB)
<b>Retails and Consumer Products</b>	Fiyta Holdings Limited ("Fiyta")	37.15%	Manufacture of middle to high-end wrist watches and chain store sales of luxury watches
<b>Trading and Logistics</b>	China National Aero-Technology Beijing Company Limited ("Beijing Company")	100%	Trading and logistics of cement engineering and machinery vehicles, etc.
	AVIC International Maritime Holdings Limited ("AVIC Maritime")	73.87%	Shipping engineering
	AVIC Weihai Shipyard Co., Ltd. ("Weihai Shipyard")	69.77%	Shipping construction
	China National Aero Technology Guangzhou Company Limited ("Guangzhou Company")	100%	Trading and logistics of medical facilities and bitumen engineering



Business sections	Name of subsidiaries	Percentages of equity interests held by the Company	Principal activities
	China National Aero Technology Xiamen Company Limited ("Xiamen Company")	100%	Trading and logistics of stone materials
	China National Aero Technology Trade and Economic Development Company Limited ("TED Company")	100%	Tendering agency and automated control service
	AVIC International Renewable Energy Development Co., Ltd. ("RED Company")	100%	Sales and purchase of energy equipment, energy management and new energy equipment
<b>Real Estate</b>	Beijing AVIC Ruixin Investment and Management Company Limited ("Beijing Ruixin")	90%	Mainly engages in residential premises development business and industrial property development
	Chengdu AVIC Raise Real Estate Company Limited ("Chengdu Raise")	60%	Mainly engages in residential premises development business and industrial property development
	China National Aero Technology International Engineering Company Limited ("Engineering Company")	100%	Mainly engages in general contracting of international engineering construction, overseas property development and general contracting of domestic construction engineering

During the first half of 2016, there had been re-balancing and deep adjustment of the global economy while the fluctuation of exchange rate intensified, showing the weakening of recovery of global economy. The domestic economic development has experienced a slowdown as the effective market demand continued to subside. Facing the adverse condition in domestic and global economic environments, the Group has focused on the strategy of “Reformation and Innovation, Reinforcement of Execution, Concentration on Value Adding”, to actively cope with the internal and external challenges while leveraging on the market opportunities. During the Reporting Period, consolidated revenue recorded from continuous operation was approximately RMB14,663,812,000, representing a decrease of approximately 7.3% over the previous year of approximately RMB15,810,970,000. The profit attributable to shareholders of the Group (net of minority interests) was approximately RMB182,245,000, representing an increase of approximately RMB227,664,000 from the losses of approximately RMB45,419,000 over the corresponding period of previous year.

## High-tech Electronic Products

As for the business of high-tech electronic products, the Group engages in research and development (R&D), design, production, sales and service of FPD and PCB products mainly through its subsidiaries, such as Tianma and SCC. During the Reporting Period, the Group's turnover generated from high-tech electronic products section was approximately RMB6,965,493,000, representing an increase of approximately 4.5% as compared with the corresponding period of previous year of approximately RMB6,668,665,000. The profit after tax was approximately RMB397,560,000, representing an increase of approximately 38.0% over the same period of previous year of approximately RMB288,018,000.

### (1) FPD

The display products of Tianma comprise small-to-medium size liquid crystal displays and flat panel displays (FPD), which are mainly used in consumer electronic products and professional display fields such as consumer electronics and industrial control and medical services. During the Reporting Period, Tianma continued to optimize the product structure and customer structure with transformation to professional display products and high value-added products, which led to a continued increase in the proportion of medium-to-high end smartphone applications. The growth of professional application of displays in vehicles led to a significant increase in orders. Benefited from the adjustment of product structure, total profit recorded an increase as compared with that of the corresponding period of previous year. During the Reporting Period, the product line of the Wuhan 6th generation of low-temperature polysilicon project (LTPS TFT-LCD) (武漢第6代低溫多晶硅液晶顯示) and Color Filter (CF), which are optimized as the product line of active-matrix organic light-emitting diode (AM-OLED) with the drive substrate of LTPS, have been progressing in an orderly manner. The AM-OLED back-end production line of Shanghai has commenced bulk production smoothly, showing our technological capabilities and product competitiveness. Our global leading position in small-to-medium size display devices has been further enhanced.

## **(2) PCB**

SCC's PCB products comprise medium-to-high end multi-layer PCB products and packaging substrate, which are mainly used in high technology fields such as telecommunication, aeronautics and astronautics, medical services and industrial control. During the Reporting Period, PCB business had seized the opportunities and actively captured purchase orders generated from the customer demands of telecommunication sector, while accelerating the market exploration with new targets, such as service routers and vehicles and enhancing the level of delivery and quality performance continuously, which generated a significant increase in turnover and profit as compared with those of the corresponding period of previous year. The optimization of product structure of electronic assembly started to yield results, with the record high in marginal profit and gross profit. The production base in Wuxi has experienced a rapid rise in productivity, and ground-breaking progress was achieved in bulk production.

During the Reporting Period, the proposed spin-off of SCC for listing on the Shenzhen Stock Exchange has been approved by The Stock Exchange of Hong Kong, and approved at the extraordinary general meeting of the Company held on 26 July 2016. The proposed spin-off is currently undergoing the relevant approval procedures in the PRC.

## **Retails and Consumer Products**

The retails and consumer products section of the Group engages in the production and brand operation of medium-to-high end watches and chain sales of prestigious watches through its subsidiary, Fiyta. During the Reporting Period, the turnover generated from the retails and consumer products section of the Group amounted to approximately RMB1,469,081,000, representing a decrease of approximately 12.2% over the same period of previous year of approximately RMB1,673,028,000. The profit after tax amounted to approximately RMB64,755,000, representing a decrease of approximately 16.82% over the same period of previous year of approximately RMB77,852,000.

In the first half of 2016, Fiyta had proactively coped with difficult challenges in the market, so as to capture the synergies of traditional offline retails with core theme of increasing the numbers of order and productivity while combining innovation of business model to develop new businesses which involve new channels and new brands. During the Reporting Period, Fiyta had continued to facilitate the coordination of product structure and channel optimization and actively adjusted the selling model of its own brand. The favorable development of our own brand and overseas business has resulted in the steady growth of the consolidated revenue as compared with that of the corresponding period of previous year. The brand of Harmony has devoted great effort on upgrading the sales efficiency of luxury watches in single store, which started marketing campaigns and races in resisting the declining momentum of sales volume with the orientation of profit making. During the same period, e-commerce and repair businesses had continued to record a rapid growth.

## Trading and Logistics

The Group engages in the business of mechatronics engineering, ship engineering and tendering agency through its subsidiaries, including Beijing Company, AVIC Maritime, Guangzhou Company, Xiamen Company, TED Company and RED Company. During the Reporting Period, the Group's income generated from trading and logistics section was approximately RMB4,196,051,000, representing a decrease of approximately 23.38% over the same period of previous year of approximately RMB5,476,651,000. The losses after tax was approximately RMB164,509,000, representing an increase of approximately RMB119,456,000 from the losses of approximately RMB45,053,000 over the same period of previous year.

### **(1) Ship Engineering**

The shipping business of the Group has actively coped with the downturn of global shipping market, focused on the high value-added shipping structure and put effort into business transformation and increased its corresponding operation capability. During the Reporting Period, Weihai Shipyard had achieved a breakthrough in exploring high value-added shipping structure, by entering into contract with StenaRORO Group from Sweden to jointly develop 3100m lane high-end Ro-Pax vessel (Ro-Pax Project). Through centralized resource procurement, optimization of operation procedures, capability enhancement of technological teams and acceleration of enhancing ability of precision manufacturing, the Group steadily enhanced its ability to deliver sophisticated shipping structure on a timely manner. Meanwhile, the Group strived to utilize the professional design capability of Deltamarin Oy and optimize vessel design solutions. Integrated control in single vessel cost has begun to reap results. During the Reporting Period, 15 new shipping orders were signed under the Group's shipping business and 10 shipping orders were in effect. Orders on hand accumulated to over 50 ships. Ships under construction were in good progress and delivery of 10 ships was achieved. 1 jack-up platform order was delivered.

### **(2) Mechatronics Engineering**

The mechatronics engineering business of the Group mainly comprises elementary performing constructions (EPC) including cement plant and power station, and the export of machinery vehicles. During the Reporting Period, market expansion and project implementation of cement EPC business progressed smoothly. First-tier project in Venezuela, waste heat power generation project in Turkey and expressway project in Myanmar had been delivered. In the first half of the year, Beijing Company had accelerated the improvement in integration and operation with KHD and reviewed and affirmed the development direction of business, while concentrating on progressing with the joint market development and the implementation of existing projects.



## Real Estate

The Group engages in domestic real estate development business through its subsidiaries Chengdu Raise and Beijing Ruixin, and engages in domestic and overseas engineering contracting and overseas development through Engineering Company. During the Reporting Period, the real estate business of the Group recorded a turnover of approximately RMB1,709,820,000, representing an increase of approximately 1.39% over the same period of previous year of approximately RMB1,686,399,000. The profit after tax amounted to approximately RMB161,307,000, representing an increase of approximately 202.13% over the same period of previous year of approximately RMB53,390,000. Profit after taxation comprises investment gain from the jointly controlled entities, AVIC Vanke Company Limited ("AVIC Vanke"), and the associate, AVIC Real Estate Company Limited ("AVIC Real Estate"), of approximately RMB40,826,000.

### **(1) Real Estate Development**

The domestic real estate development projects of the Group are mainly commercial complex in small to medium cities. During the Reporting Period, regional diversion intensified in the domestic real estate market. Real estate industry in first-and-second-tier cities maintained a slight increase while de-stocking pressure of real estate industry in certain third-and-fourth-tier cities remained relatively high. Domestic real estate development projects under the Group were progressing on schedule, while the overall sales remained weak.

### **(2) Engineering Contracting**

The engineering contracting business of the Group mainly comprises contracting of international construction projects and gradually expands into domestic construction project contracting business. The Group focused on developing regional markets such as Africa, South Asia and Middle East, and undertook numerous medium and large international general contracting projects. During the Reporting Period, the engineering contracting business focused on aviation infrastructure and servicing business in international sectors. The Group has accelerated the capability building in certain key fields, including design consultation, construction progress and operation maintenance. 17 new international and domestic engineering projects with contract value of over RMB2.6 billion were signed. Projects on hand have been progressing smoothly.

## Business Prospects

Looking forward into the second half of 2016, the global economy will still be in the stage of re-balancing and deep adjustment while China's economy is faced with the downturn pressure. To cope with the adverse condition, the Group will continue to maintain our annual strategic theme to accelerate market exploration and project implementation. The Group will strive to enhance the business scale and recurring profitability of high-tech electronic and retail and consumer products businesses, while improving the operational results of loss-making businesses. Meanwhile, we will integrate our commercial models with innovation and put effort into promoting streamlining of structure and procedure optimization, strengthen the control in terms of cost, expense and risks and enhance our corporate governance level to achieve whole-year operational target.



## High-tech Electronic Products

### (1) *FPD*

The FPD business of the Group will capture orders to continuously promote the upgrading of products and optimization of customer structure. In respect of mobile smart-end market, we will continue to cultivate our strategic core customers, accelerate the exploration of new customers and increase of the numbers of orders, and will proactively explore AM-OLED smartphones and smart wear markets, to capture more opportunities in high-end smartphone markets. We will also speed up the professional display market transformation from traditional non-crystal silicon products to achieve a rapid growth in markets, such as vehicle display, industrial and medical industries. We will continue to strengthen our research and development and mass production of advanced technology, including AM-OLED, flexible display and VR, and proceed with the construction of Wuhan Tianma G6 AM-OLED production line project on schedule and in an orderly manner.

### (2) *PCB*

The PCB business of the Group will focus on the adjustment on market demand to capture more orders, strengthen the indoctrination of customers and new market exploration for vehicle electronics and servicing devices and put effort into market expansion. We will continue to enhance our key technology and operation capabilities of high-speed and high-frequency PCB and packaging substrate and speed up the numerical manufacturing system of substrate, to achieve the production target of Wuxi production base, increase our overall output synergies. In the second half of the year, SCC will continue to facilitate the domestic approval procedures for listing on the Shenzhen Stock Exchange.

## Retails and Consumer Products

Facing with difficult market environment, Fiyta will strive to seek for market opportunities and speed up the execution of omni-channel commercial models. In the second half of the year, Fiyta will continue to establish all-round customer research, innovate products and services, develop a close relationship with customers, explore businesses and optimize the setting, with enhancement in single store being the initiative. We will strive to develop businesses in regard to e-commerce and repairing, expand our investments in the brand of Harmony and outstanding repairing services. At the same time, we will speed up the information system construction of supply chain and financial system, so as to facilitate the integrated synergies among online and offline businesses.

## Trading and Logistics

### (1) *Shipping Engineering*

In the second half of the year, the Group will enhance our market expansion strengths in shipping business, continue to facilitate the acquisition of high value-added orders, speed up the enhancement in management ability in supply chain and precise productivity of shipyards, and safeguard the timely construction and delivery of core ship structure. Meanwhile, we will strengthen the optimization on shipping design, adopt more focused measures to decrease the cost charges and promote cost-saving and enhancement of efficiency.

### (2) *Mechatronics Engineering*

The mechatronics engineering business of the Group will cultivate the core markets along the strategy of “One Belt, One Road” and push forward the contract signing in Venezuela and Cuba, and the petroleum project execution in West Asia. We will actively develop the project on technological improvement of backup equipment, push forward the execution of projects on hand in an orderly manner, while accelerating the merger and integration and strategic synergies with KHD Humboldt Wedag International AG.

## Real Estate

### (1) *Real Estate Development*

In the second half of the year, there will remain an upward trend in the diversion of domestic real estate market. Integration and transformation of real estate enterprises will accelerate. The Group will strive to develop and collect sales proceeds in the domestic projects, including the Pixian China Aviation City project and overseas real estate development projects in Nairobi, Sri Lanka and Tanzania. We will capture the best opportunities to promote the integration of real estate development business.

### (2) *Engineering Contracting*

The engineering contracting business of the Group will continue to focus on the overseas aviation infrastructure construction and services, put large effort into promotion in the markets along with the “One Belt, One Road” and Africa and enlarge our market share. We will also speed up the commencement of key contracted projects, such as the national road network re-development in Sri Lanka and hangar in Ethiopia, proceed with the overseas engineering contracting construction in an orderly manner, strengthen risk control and ensure on-time delivery with high quality.

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2016, the cash and cash equivalents of the Group amounted to approximately RMB8,490,501,000 (31 December 2015: approximately RMB11,780,904,000), including cash in Hong Kong dollars, US dollars, Japanese Yen and Korean Won which have been converted into Renminbi. The Group's total current borrowings amounted to approximately RMB8,394,215,000; and total non-current borrowings amounted to approximately RMB11,514,911,000 with an annual interest rate not exceeding 8.4%. The Group has strengthened and perfected its regulations in respect of the management of tradable financial assets, defining the procedures of decision-making, implementation and risk control.

As at 30 June 2016, the capital expenditure of the Group amounted to approximately RMB1,136,451,000. The details of which are set forth below:

Company Name	Project Name	Expenditure Amount (RMB'000)
Beijing Company	Aviation City Project; expenditure on equipment and machinery, other fixed assets and intangible assets	26,056
Fiyta	Timepiece Industrial Base in Guang Ming New District	48,735
Engineering Company	Golf Apartment Project	5,700
Guangzhou Company	Construction of asphalt warehouse and purchase of certain fixed assets	39,760
Shenzhen Aero Fasteners MFG Co., Ltd. ("AFM Company")	Hunan Fasteners Project (Phase 1); Electroplating Sewage Treatment Station Project (Phase 1); equipment and machinery; and transportation facilities	35,195
TED Company	Purchase of plants, land use rights and equipment previously held by AVIC Wangxin	46,412
Xiamen Company	Office premises owned by the Xiamen Zijin AVIC Square Project; and Tongan Stone Exposition Park Project	20,399
Tianma Company	The investment project of the 6th generation line of Wuhan Tianma; and projects including technical transformation of the special line and purchase of certain fixed assets	536,191
Weihai Shipyard	Breakwater, pier and production facilities	79,511
RED	Equipment for energy-saving projects	3,066
SCC	Project of research and development and project of technological transformation, project of Nantong Base and project of Wuxi Shennan Base	295,426
<b>Total</b>		<b>1,136,451</b>

## LOAN-TO-EQUITY RATIO

As at 30 June 2016, the loan-to-equity ratio of the Group (calculated by dividing the bank loans by the shareholders' equity) was approximately 80.56% (31 December 2015: approximately 84.03%).

## PLEDGED ASSETS

As at 30 June 2016, certain subsidiaries of the Group had secured bank loans totaling approximately RMB1,736,764,000 (31 December 2015: approximately RMB1,780,077,000). The loans were secured by plants, buildings and land use rights, etc. of the Group. The details are as follows:

Company Name	Collateral category	Borrowing category	The net value of the collateral (RMB'000)	Borrowing amount (RMB'000)
Beijing Company	Land of the AVIC International Beijing Aviation City Project and the buildings thereon	Pledged against long-term borrowing	1,061,913	470,000
Fiyta	Buildings in Hong Kong	Pledged against long-term borrowing	2,987	351
Fiyta	Buildings in Switzerland	Pledged against long-term borrowing	17,610	5,633
GIB Company	Guangdong International Building	Pledged against long-term borrowing	472,141	1,247,400
Weihai Shipyard	China Sea Reclamation certificate (Guo Hai Zheng) and land use rights	Long-term borrowing	37,988	13,380
<b>Total</b>			<b>1,592,639</b>	<b>1,736,764</b>



## ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSIT

During the Reporting Period, the Company did not have any entrusted deposit and overdue term deposit in any form.

## MANAGEMENT CONTRACTS

During the Reporting Period, the Company had not entered into nor maintained any contracts in respect of the management or administration of its overall business or any major business.

## ISSUE, PURCHASE, SALE OR REDEMPTION OF SHARES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, to the best knowledge of the Directors or the chief executive of the Company, the following parties (other than the Directors, supervisors or chief executive of the Company) had interests, or short positions in the shares of the Company (the "Shares") and underlying shares of the Company which would fall to be disclosed to the Company or otherwise notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"):

### Long positions in the Shares:

Name of shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total registered share capital
Aviation Industry Corporation of China ("Aviation Industry")	Interest of controlled corporation	1,634,608,792 domestic shares (Note 1)	196.24%	140.17%
AVIC International Holding Corporation ("AVIC International")	Beneficial owner & interest of controlled corporation	1,329,499,564 domestic shares (Note 1)	159.61%	114.01%
AVIC International Shenzhen Company Limited ("AVIC Shenzhen")	Beneficial owner	429,774,574 domestic shares (Note 1)	51.60%	36.85%



Name of shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total registered share capital
Beijing Raise Technology Company Limited ("Beijing Raise")	Beneficial owner	305,109,228 domestic shares (Note 1)	36.63%	26.16%
<b>Other shareholders</b>				
CK Hutchison Holdings Limited	Interest of controlled corporation	57,144,000 H shares (Note 2)	17.15%	4.90%
Cheung Kong (Holdings) Limited	Interest of controlled corporation	57,144,000 H shares (Note 2)	17.15%	4.90%
Cheung Kong Investment Company Limited	Interest of controlled corporation	28,573,000 H shares (Note 2)	8.58%	2.45%
Empire Grand Limited	Beneficial owner	28,573,000 H shares (Note 2)	8.58%	2.45%
Hutchison Whampoa Limited	Interest of controlled corporation	28,571,000 H shares (Note 2)	8.58%	2.45%
Hutchison International Limited	Beneficial owner	28,571,000 H shares (Note 2)	8.58%	2.45%
Jiang Jian Jun	Beneficial owner & interest of controlled corporation	18,396,000 H shares (Note 3)	5.52%	1.58%
China Silver Investments Development Ltd	Beneficial owner	18,210,000 H shares (Note 3)	5.47%	1.56%

*Notes:*

1. Aviation Industry owns 62.52% of the equity interest in AVIC International which in turn owns 100% equity interest in AVIC Shenzhen. Hence, Aviation Industry is deemed, or taken to be, interested in all the Shares in which AVIC International and AVIC Shenzhen are interested in, respectively.

Aviation Industry owns 60% of the equity interest in Beijing Raise. Hence, Aviation Industry is deemed, or taken to be, interested in all the Shares in which Beijing Raise is interested in.

AVIC International owns 100% of the equity interest in AVIC Shenzhen. Hence, AVIC International is deemed, or taken to be, interested in all the Shares in which AVIC Shenzhen is interested in.

As at 30 June 2016:

- (1) AVIC International held: (A) 437,264,906 domestic Shares, representing approximately 37.50% of the issued share capital of the Company; and (B) perpetual subordinated convertible securities in the outstanding amount of RMB1,604,736,493 which may be converted into 462,460,084 domestic Shares at the initial conversion price of RMB3.47 (subject to the adjustment pursuant to the terms of perpetual subordinated convertible securities).
  - (2) AVIC Shenzhen held: (A) 395,709,091 domestic shares, representing approximately 33.93% of the issued share capital of the Company; and (B) perpetual subordinated convertible securities in the outstanding amount of RMB118,207,225 which may be converted into 34,065,483 domestic Shares at the initial conversion price of RMB3.47 (subject to the adjustment pursuant to the terms of perpetual subordinated convertible securities).
  - (3) Beijing Raise held perpetual subordinated convertible securities in the amount of RMB1,058,729,021 which may be converted into 305,109,228 domestic Shares at the initial conversion price of RMB3.47 (subject to the adjustment pursuant to the terms of perpetual subordinated convertible securities).
2. Empire Grand Limited ("Empire Grand") holds 28,573,000 H Shares and Empire Grand is a wholly-owned subsidiary of Cheung Kong Investment Company Limited, which in turn is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited. Accordingly, Cheung Kong (Holdings) Limited was deemed to be interested in the 28,573,000 H Shares held by Empire Grand.

Hutchison International Limited ("HIL") holds 28,571,000 H Shares and HIL is a wholly-owned subsidiary of Hutchison Whampoa Limited. Hutchison Whampoa Limited was deemed to be interested in the 28,571,000 H shares held by HIL. Cheung Kong (Holdings) Limited is entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of Hutchison Whampoa Limited. Accordingly, Cheung Kong (Holdings) Limited was deemed to be interested in the 28,571,000 H Shares held by HIL. In addition, Cheung Kong (Holdings) Limited is a wholly-owned subsidiary of CK Hutchison Holdings Limited. Accordingly, CK Hutchison Holdings Limited was deemed to be interested in the 57,144,000 H Shares in total held by Empire Grand and HIL.

3. Mr. Jiang Jian Jun ("Mr. Jiang") beneficially owned 186,000 H Shares.

Mr. Jiang beneficially owned the entire equity interest of China Silver Investments Development Ltd., which held 18,210,000 H Shares. Accordingly, Mr. Jiang was deemed to be interested in the H Shares held by China Silver Investments Development Ltd..

## **DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE**

As at 30 June 2016, so far as is known to the Directors and chief executives of the Company, none of the Directors, supervisors or chief executive of the Company was interested in the Shares, underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or supervisors or chief executives of the Company were taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## **CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

During the Reporting Period, there was no change of the Directors, supervisors and senior management of the Company.

## **DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the Reporting Period was the Company and its subsidiaries or its holding company a party to any arrangement to enable any Directors, supervisors or senior management members of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## **DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS**

During the six months ended 30 June 2016, no Director or supervisor of the Company had any significant interest, either direct or indirect, in any contract or arrangement of significance to the business of the Group.

## **EMPLOYEES AND REMUNERATION**

As at 30 June 2016, the Group had approximately 37,523 employees (as at 31 December 2015: 41,058 employees), with employee-related costs for the Reporting Period of approximately RMB2,035,380,000 (the corresponding period of 2015: approximately RMB1,998,910,000). The Group formulated its competitive remuneration policy based on market conditions and individual employee's performance.

## **FOREIGN EXCHANGE RISK**

The Group's products are mainly distributed in domestic market and its export business is mainly settled in US dollar, Euro or HK dollar, so the Group may be subject to fluctuations of foreign exchange rates, but it has no material foreign exchange risk.

## CONTINGENT LIABILITIES

As at 30 June 2016, the Group had the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's relationship with the Group	Outstanding amounts guaranteed (RMB'000)
The Company	Holding Company	Qinghai CATIC Resources Company Limited (青海中航資源有限公司)	Related enterprise	802,550
The Company	Holding Company	Kunming AVIC Phosphorus Chemical Co., Ltd. (昆明市中航磷化工有限公司)	Related enterprise	35,000
The Company	Holding Company	Yunnan Hongfu Fertilizer Co., Ltd. (雲南紅富化肥有限公司)	Related enterprise	44,000
The Company	Holding Company	Shenzhen AVIC Resources Co., Ltd. (深圳中航資源有限公司)	Related enterprise	870,000
Shanghai Tianma Microelectronics Co., Ltd.	Subsidiary of the Group	Shanghai Tianma Organic Light Emitting Display Technology Co., Ltd. (上海天馬有機發光顯示技術有限公司)	Associate	582,800
Xiamen Company	Subsidiary of the Group	Xiamen Tianma Microelectronics Co., Ltd. (廈門天馬微電子有限公司)	The guarantor holds 6% equity interest in the guarantee	176,000
Engineering Company	Subsidiary of the Group	CATIC Construction Engineering Company Limited (中航建築工程有限公司)	Associate	53,900
Beijing Company	Subsidiary of the Group	Taizhou AVIC Shipbuilding Heavy Industry Limited (泰州中航船舶重工有限公司)	Third party	536,580
Beijing Company	Subsidiary of the Group	Zhengli Ocean Engineering Company Limited (正力海洋工程有限公司)	Third party	17,180
				3,118,010



## INTERIM DIVIDEND

The Board did not propose an interim dividend for the Reporting Period (six months ended 30 June 2015: nil).

## MAJOR LITIGATION

On 13 June 2014, Tang Energy Group Limited, Soaring Wind Energy LLC. and its other members filed an arbitration claim with the American Arbitration Association against certain members of the Group in respect of a dispute arising out of a joint venture agreement (the “Arbitration Claim”) (details of which are set out in the announcements of the Company dated 29 April 2015 and 22 December 2015). After the receipt of final award on the Arbitration Claim issued by the International Centre for Dispute Resolution of International Arbitration Tribunal in December 2015 (the “Decision”), the Group had engaged an additional law firm to assist in the Arbitration Claim. In March 2016, the Group had filed an application to the court with jurisdiction to oppose the enforcement of the Decision and request the revocation of the Decision (the “Opposition Application”). As at the date of this report, the Opposition Application is at the preliminary reply stage and has no significant progress. The impact of the Arbitration Claim on the Company is subject to the results of the Opposition Application and other progress in the future. Therefore, the Directors consider that the Arbitration Claim does not have any material adverse impact on the Company as at the date of this report.

So far as the Directors are aware, save as disclosed above, there is no other litigation or claims of material importance pending or threatened against any member of the Group as at the date of this report.

## SIGNIFICANT EVENTS

### Material events

#### 1. *Discloseable Transaction – Provision of Guarantee*

On 8 March 2016, Shanghai Tianma Microelectronics Co., Ltd. (上海天馬微電子有限公司) (“Shanghai Tianma”) entered into the guarantee agreement with Agricultural Bank of China Limited (the “Bank”), pursuant to which Shanghai Tianma guaranteed to pay an aggregate amount of not exceeding RMB40,000,000 in respect of the debt with an aggregate amount of not exceeding RMB100,000,000 due and owing to the Bank by Shanghai Tianma Organic Light-Emitting Technology Company Limited (上海天馬有機發光顯示技術有限公司) (“Tianma Technology Company”) (“Debt”) in proportion of Shanghai Tianma’s shareholding in Tianma Technology Company to settle the guaranteed liabilities. The term shall be two years commencing from the expiry date of the Debt (the “Provision of Guarantee”).



Tianma Technology Company is owned as to 40%, 20% and 40% by Shanghai Tianma, Shanghai Zhang Jiang (Group) Co., Ltd. (上海張江(集團)有限公司) and Shanghai Industrial Investment (Group) Co., Ltd. (上海工業投資(集團)有限公司) respectively. As the applicable percentage ratios under the Listing Rules in relation to the Provision of Guarantee, when aggregated with the guarantee provided by Shanghai Tianma in favour of a bank on 19 March 2015 in relation to the debt of Tianma Technology Company (details of which are set out in the announcement of the Company dated 19 March 2015), are more than 5% but less than 25%, the transactions contemplated under the Provision of Guarantee constitute a discloseable transaction of the Company. For details, please refer to the announcement of the Company dated 8 March 2016.

## **2. *Proposed spin-off and separate listing of shennan circuits co., Ltd (“shennan circuits”) on the shenzhen stock exchange and possible major disposal***

On 13 May 2016, the Board issued an announcement in relation to possible spin-off and separate listing of Shennan Circuits, a subsidiary of the Company which is mainly engaged in the PCB business, on the Shenzhen Stock Exchange (the “Proposed Spin-off”). It is proposed that Shennan Circuits will offer not more than 70,000,000 shares of Shennan Circuits (the “Offer Shares”), including new shares to be issued by Shennan Circuits and up to 35,000,000 existing shares to be sold by the Company. The indicative offer price per A share of Shennan Curcuits is expected to be RMB32.86 per share and the expected maximum proceeds raised from the proposed A share listing of Shenan Curcuits will be RMB2,300,000,000. The offer price per A share of Shennan Curcuits will depend on the domestic market condition of China at the time of the proposed A share listing with reference to the quotation from target subscribers or determined otherwise as agreed between Shennan Curcuits and lead underwriter. The Board expected that the Company will have an interest of not less than 50% in Shennan Curcuits upon the completion of the Proposed Spin-off and proposed A share listing, Shennan Curcuits will thus remain as a non wholly-owned subsidiary of the Company. The Proposed Spin-off was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 26 July 2016. Please refer to the announcements of the Company dated 10 April 2015 and 13 May 2016, the poll result of general meeting of the Company dated 26 July 2016 and the circular of the Company dated 21 June 2016, respectively, for more details.

## **SUBSEQUENT EVENTS**

There had been no important events affecting the Group after the end of the Reporting Period and up to the date of this report.

## CONNECTED TRANSACTIONS

### Continuing Connected Transactions

**Continuing Connected Transactions Under The Agreements Entered Into By The Group During The Prior Years And Performed During The Reporting Period Are Set Out As Follows:**

**1. Continuing Connected Transactions – Supplemental Aviation Industry Agency Services Framework Agreement**

With the continuing development of the Group, and based on estimates of demand and operating conditions, the Directors expect that the Existing Annual Caps (as defined in the announcement of the Company dated 16 October 2014) would be insufficient for the Group's requirements. On 16 June 2015, the Company and Aviation Industry Corporation of China ("Aviation Industry") entered into the supplemental agreement, ("Supplemental Aviation Industry Agency Services Framework Agreement"), pursuant to which the Existing Annual Caps would be revised as follows:

	For the year ended 31 December 2015 (RMB)	For the year ending 31 December 2016 (RMB)	For the year ending 31 December 2017 (RMB)
Acceptance of the services by the Group	90,000,000	100,000,000	118,000,000

Further, pursuant to the Supplemental Aviation Industry Agency Services Framework Agreement, the scope of services to be provided by Aviation Industry and/or its associates (other than AVIC International Holding Corporation ("AVIC International") and its associated companies) to the Group is extended to include financial consulting and advisory services.

As one or more of the applicable percentage ratios for the transactions contemplated under the Supplemental Aviation Industry Agency Services Framework Agreement (including the revised annual caps) exceed 5%, the Supplemental Aviation Industry Agency Services Framework Agreement (including the revised annual caps) were subject to, among other things, the independent shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The Supplemental Aviation Industry Agency Services Framework Agreement and the transactions contemplated thereunder were approved by the independent shareholders at the extraordinary general meeting of the Company on 7 August 2015. For details, please refer to the announcements of the Company dated 16 June 2015 and 7 August 2015 and the circular of the Company dated 17 July 2015.

## 2. **Continuing Connected Transactions – Supplemental Xiamen Tianma Entrusted Management Agreement and Revision of the Management Fees**

On 21 August 2015, Shanghai Tianma and Xiamen Tianma Microelectronics Co., Ltd. (廈門天馬微電子有限公司) (“Xiamen Tianma”) entered into the supplemental agreement (“Supplemental Xiamen Tianma Entrusted Management Agreement”), pursuant to which the management fee payable by Xiamen Tianma to Shanghai Tianma for the provision of management services by Shanghai Tianma under the Xiamen Tianma Entrusted Management Agreement (as defined in the announcement of the Company dated 4 March 2014) for the period from 5 March 2015 to 29 February 2016 will be increased from RMB15,000,000 to RMB35,000,000, which shall be payable by Xiamen Tianma to Shanghai Tianma on or before 31 March 2016. Xiamen Tianma is directly owned as to 15.3%, 14.7%, 6% and 64% by AVIC Shenzhen Company Limited (“AVIC Shenzhen”), AVIC International, Xiamen Company and Xiamen Jincai Investment Company Limited (“Xiamen Jincai”) respectively. Each of AVIC International and AVIC Shenzhen is a controlling shareholder of the Company and accordingly, Xiamen Tianma is a connected person of the Company, and the Supplemental Xiamen Tianma Entrusted Management Agreement constitutes a continuing connected transaction of the Company. For details, please refer to the announcements of the Company dated 23 August 2015 and 26 August 2015.

## 3. **Continuing Connected Transactions – Renewal of the Financial Services Framework Agreement**

On 29 September 2015, the Company and AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司) (“AVIC Finance”) entered into the financial services agreement (the “2015 Financial Services Agreement”) for renewal of the 2013 Financial Services Agreement (as defined in the announcement of the Company dated 3 April 2013). Pursuant to the 2015 Financial Services Agreement, AVIC Finance would provide to the Group a range of financial services as the Company may request from time to time for a term commencing from the date on which all the conditions under the 2015 Financial Services Agreement having been satisfied (the “Effective Date”) to 31 December 2018. The financial services provided by AVIC Finance to the Group are set out as below:

	For the period from the Effective Date to 31 December 2016 (RMB)	For the period from the Effective Date to 31 December 2017 (RMB)	For the period from the Effective Date to 31 December 2018 (RMB)
Deposit services (the maximum daily outstanding balances) (the “Deposit Cap”)	2,000,000,000	2,200,000,000	2,500,000,000

	For the period from the Effective Date to 31 December 2016 (US\$)	For the period from the Effective Date to 31 December 2017 (US\$)	For the period from the Effective Date to 31 December 2018 (US\$)
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Foreign exchange settlement and sale  
(the maximum daily transaction amount)  
(the "Spot FX Trading Cap")

60,000,000

60,000,000

60,000,000

As one or more of the applicable percentage ratios of the Deposit Cap are more than 25% but less than 75%, the deposit services contemplated under the 2015 Financial Services Agreement constituted a major transaction of the Company under Chapter 14 of the Listing Rules. Aviation Industry is an ultimate holding company of the Company and AVIC Finance. Under the Listing Rules, AVIC Finance is a connected person of the Company. As each of the applicable percentage ratios of Deposit Cap and Spot FX Trading Cap exceed 5%, the deposit services and foreign exchange services under the 2015 Financial Services Agreement are subject to the reporting, announcement and the independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

The 2015 Financial Services Agreement and the transactions contemplated thereunder were approved by the independent shareholders at the extraordinary general meeting of the Company on 29 December 2015. For details, please refer to the announcements of the Company dated 29 September 2015 and 29 December 2015 and the circular of the Company dated 24 November 2015.

#### **4. Continuing Connected Transactions – Framework Agreements in relation to Leasing and Management of Properties**

On 13 January 2014, the Company and AVIC International entered into a rental framework agreement (the "Rental Framework Agreement"), pursuant to which the Group agreed to lease to AVIC International and/or its associated companies real estate properties from 13 January 2014 to 31 December 2016.

On 13 January 2014, the Company and Beijing Raise Science Company Limited ("Beijing Raise") entered into a tenancy framework agreement (the "Beijing Raise Tenancy Framework Agreement"), pursuant to which Beijing Raise and/or its subsidiaries agreed to lease to the Group real estate properties from 13 January 2014 to 31 December 2016.



On 13 January 2014, the Company and AVIC International entered into a tenancy framework agreement (the “AVIC International Tenancy Framework Agreement”, together with the “Beijing Raise Tenancy Framework Agreement”, the “Tenancy Framework Agreements”), pursuant to which AVIC International and/or its associated companies agreed to lease to the Group real estate properties from 13 January 2014 to 31 December 2016.

On 13 January 2014, the Company and Beijing Raise entered into a property management framework agreement (the “Beijing Raise Property Management Framework Agreement”), pursuant to which Beijing Raise and/or its subsidiaries will provide property management services to the Group from 13 January 2014 to 31 December 2016.

On 13 January 2014, the Company and AVIC International entered into a property management framework agreement (the “AVIC International Property Management Framework Agreement”, together with the “Beijing Raise Property Management Framework Agreement”, the “Property Management Framework Agreements”), pursuant to which AVIC International and/or its associated companies will provide property management services to the Group from 13 January 2014 to 31 December 2016.

Pursuant to the Rental Framework Agreement, the annual cap amounts in respect of the leasing of real estate properties by the Group to AVIC International and its associated companies in the years ended 31 December 2014, 2015 and 2016 shall not exceed RMB35,000,000, RMB40,000,000 and RMB45,000,000 respectively.

Pursuant to the Tenancy Framework Agreements, the annual cap amounts in respect of leasing of real estate properties agreed by each of Beijing Raise and its subsidiaries and AVIC International and/or its associated companies to the Group in the years ended 31 December 2014, 2015 and 2016 shall not exceed (i) RMB5,000,000, RMB5,000,000 and RMB5,000,000 respectively; and (ii) RMB75,000,000, RMB80,000,000 and RMB85,000,000 respectively.

Pursuant to the Property Management Framework Agreements, the annual cap amounts in respect of the provision of property management services by each of Beijing Raise and/or its subsidiaries and AVIC International and/or its associated companies to the Group in the years ended 31 December 2014, 2015 and 2016 shall not exceed (i) RMB5,000,000, RMB5,000,000 and RMB5,000,000 respectively; and (ii) RMB60,000,000, RMB60,000,000 and RMB60,000,000 respectively.

As AVIC International (including its associated companies) and Beijing Raise (including its subsidiaries) are connected persons of the Company, each of (i) the Rental Framework Agreement; (ii) the Tenancy Framework Agreements; and (iii) the Property Management Framework Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. As the applicable percentage ratios for each of the above transactions exceed 0.1% but are less than 5%, such transactions are subject to the reporting, announcement and annual review requirements, but are exempted from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 13 January 2014.



## 5. Continuing Connected Transactions – Framework Agreements for the Continuing Connected Transactions of the Group in the coming three years

The existing framework agreements, setting out the basic content of the transactions between the Group on one hand, and AVIC Industry or AVIC International (including their respective associates, where applicable) on the other hand, were entered into on 5 September 2012. As each of the aforesaid agreements would expire on 31 December 2014, the Company (or its subsidiary) entered into: (i) the “New Aviation Industry Sale Framework Agreement”, “New Aviation Industry Purchase Framework Agreement”, “New Aviation Industry Agency Services Framework Agreement” and “New Aviation Industry Financial Framework Agreement” with AVIC Industry; and (ii) the “New AVIC International Sale Framework Agreement”, “New AVIC International Purchase Framework Agreement”, “New AVIC International Agency Services Framework Agreement” and “New AVIC International Financial Framework Agreement” with AVIC International on 16 October 2014. The Engineering Company, a wholly-owned subsidiary of the Company, entered into the “New AVIC International Construction Services Framework Agreement” with AVIC International on the same date. Details of each of these framework agreements are set out as below:

Name of Agreement	Content of Agreements	Annual Cap Amount		
		2015 (RMB)	2016 (RMB)	2017 (RMB)
New Aviation Industry Sale Framework Agreement	Sales of goods	150,000,000	180,000,000	200,000,000
New Aviation Industry Purchase Framework Agreement	Procurement of goods	200,000,000	300,000,000	400,000,000
New AVIC International Sale Framework Agreement	Sales of goods	3,000,000,000	3,200,000,000	3,500,000,000
New AVIC International Purchase Framework Agreement	Procurement of goods	3,500,000,000	4,000,000,000	4,500,000,000
New Aviation Industry Agency Services Framework Agreement <sup>(Note 1)</sup>	Provision of agency services	120,000,000	150,000,000	200,000,000
	Acceptance of agency services	35,000,000	38,000,000	40,000,000
New AVIC International Agency Services Framework Agreement	Provision of agency services	160,000,000	200,000,000	220,000,000
	Acceptance of agency services	120,000,000	150,000,000	160,000,000
New Aviation Industry Financial Framework Agreement	Provision of borrowings/guarantee	1,200,000,000	1,300,000,000	1,500,000,000
	Acceptance of borrowings/guarantee	4,500,000,000	5,000,000,000	5,000,000,000
	Provision of the collected interest/guarantee fees	80,000,000	90,000,000	90,000,000
	Acceptance of the collected interest/guarantee fees	300,000,000	350,000,000	350,000,000
New AVIC International Financial Framework Agreement	Provision of borrowings/guarantee	3,000,000,000	3,500,000,000	4,000,000,000
	Acceptance of borrowings/guarantee	15,000,000,000	18,000,000,000	22,000,000,000
	Provision of the collected interest/guarantee fees	200,000,000	230,000,000	280,000,000
	Acceptance of the collected interest/guarantee fees	500,000,000	600,000,000	800,000,000
New AVIC International Construction Services Framework Agreement	Provision of construction services	1,000,000,000	1,200,000,000	1,500,000,000

For details of the aforementioned continuing connected transactions, please refer to the announcement of the Company dated 16 October 2014 and the circular of the Company dated 25 November 2014. The abovementioned connected transactions had been approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 30 December 2014.

*Note:*

1. The New Aviation Industry Agency Services Framework Agreement was amended and supplemented by the supplemental agreement entered into between the Company and Aviation Industry on 16 June 2015. For details, please refer to the announcement of the Company dated 16 June 2015.

## **6. Continuing Connected Transaction – Concessionaire Framework Agreement and Aviation Industry Property Rental (leasing) Framework Agreement**

On 30 December 2014, Rainbow Department Store Co., Ltd. (天虹商場股份有限公司) (formerly known as Shenzhen Rainbow Department Stores Co. Ltd. (深圳天虹商場有限責任公司)) (“Rainbow Department Store Company”) and Fiyta (a subsidiary of the Company) entered into a concessionaire framework agreement (the “Rainbow Concessionaire Framework Agreement”), pursuant to which Rainbow Department Store Company agreed to allow Fiyta to occupy areas in the department stores owned and managed by Rainbow Department Store Company and located in various cities in the PRC and to establish its own sales counters for the sale of Fiyta watches and world famous watches, etc. for a term of 3 years commencing on 1 January 2015 and expiring on 31 December 2017. According to the Rainbow Concessionaire Framework Agreement, the annual cap amounts in respect of the concessionaire by Fiyta to Rainbow Department Store Company in the year ended 31 December 2015 and the years ending 31 December 2016 and 2017 shall not exceed RMB32,000,000, RMB35,000,000 and RMB40,000,000, respectively.

On 30 December 2014, the Company and Aviation Industry entered into a property rental (leasing) framework agreement (the “Property Rental (Leasing) Framework Agreement”), pursuant to which the Group agreed to lease property from Aviation Industry and/or its associated companies (other than AVIC International and its associated companies) for a term of three years commencing on 1 January 2015 and ending on 31 December 2017. According to the Property Rental (Leasing) Framework Agreement, the annual cap amounts in respect of leasing of real estate properties by the Group to Aviation Industry and/or its associated companies (other than AVIC International and its associated companies) in the year ended 31 December 2015 and the years ending 31 December 2016 and 2017 shall not exceed RMB5,000,000, RMB5,000,000 and RMB5,000,000, respectively.

On 30 December 2014, the Company and Aviation Industry entered into a property rental (letting) framework agreement (the “Property Rental (Letting) Framework Agreement”), pursuant to which the Group agreed to let property to Aviation Industry and/or its associated companies (other than AVIC International and its associated companies) for a term of three years commencing on 1 January 2015 and ending on 31 December 2017. According to the Property Rental (Letting) Framework Agreement, the annual cap amounts in respect of leasing of real estate properties by Aviation Industry and/or its associated companies (other than AVIC International and its associated companies) to the Group in the year ended 31 December 2015 and the years ending 31 December 2016 and 2017 shall not exceed RMB5,000,000, RMB5,000,000 and RMB5,000,000, respectively.

Approximately 43.40% of the equity interest of Rainbow Department Store Company is owned by AVIC Shenzhen and hence Rainbow Department Store Company and Aviation Industry are the connected persons of the Company and accordingly the Rainbow Concessionaire Framework Agreement, the Property Rental (Leasing) Framework Agreement and the Property Rental (Letting) Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company according to Chapter 14A of the Listing Rules. As the applicable percentage ratios for the above transactions are more than 0.1% but less than 5%, such transactions are subject to the reporting and announcement requirements but are exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 30 December 2014.

#### **7. Continuing Connected Transaction – Renewal of 2014 Xiamen Tianma Entrusted Management Agreement**

On 4 March 2016, Shanghai Tianma and Xiamen Tianma entered into the entrusted management agreement (the “Xiamen Tianma Entrusted Management Agreement”) for renewal of the 2014 Entrusted Management Agreement (as defined in the announcement of the Company dated 4 March 2014), pursuant to which Shanghai Tianma will provide management services to Xiamen Tianma for a term commencing from 1 March 2016 and ending on 28 February 2019, and the management fee caps commencing from 1 March 2016 to 28 February 2017, from 1 March 2017 to 28 February 2018 and from 1 March 2018 to 28 February 2019 will amount to RMB20,000,000, RMB20,000,000 and RMB30,000,000, respectively.

Xiamen Tianma is directly owned as to 15.3%, 14.7%, 6% and 64% by AVIC Shenzhen, AVIC International, Xiamen Company and Xiamen Jincui, respectively. Accordingly, Xiamen Tianma is a connected person of the Company and the Xiamen Tianma Entrusted Management Agreement constitutes a continuing connected transaction of the Company under the Listing Rules. For details, please refer to the announcement of the Company dated 4 March 2016.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In accordance with the code provision A.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “Code”), the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. The responsibility of the chairman and the chief executive should be clearly established in writing. During the Reporting Period, the executive Directors exercise the function of the management of the Company and the Company did not appoint any chief executive. The executive Director and chairman of the Company, Mr. Wu Guang Quan and the Board hold meetings regularly to consider major matters that influence the operation of the Group. The Board considers that such structure will not impair the balance of authority and power between the Board and the management of the Company. Each executive Director being assigned with different functions will complement the role of the chairman. The Board believes that this structure is beneficial for establishing a stable and consistent leadership, which will enable an effective operation of the Group. Except for the aforesaid, for the Reporting Period, the Company has complied with all the provisions of the Code.

## SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) has been adopted as a code of securities transactions for the Directors and supervisors. The Company, having made specific enquiries with all Directors and supervisors, confirmed that, during the Reporting Period, all Directors and supervisors had complied with the required standards of dealing in securities specified in the Model Code.

## AUDIT COMMITTEE

The Board has established an audit committee (the “Audit Committee”) in compliance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting processes and internal control of the Company. The members of the Audit Committee currently comprise the independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Wei Wei. The Audit Committee had reviewed and confirmed the unaudited interim condensed consolidated results of the Group for the Reporting Period and this report.



## PUBLIC FLOAT

Based on the public information available to the Board and within the best knowledge of the Board, the Company has maintained sufficient level of public float as at the date of this report.

By Order of the Board  
**AVIC International Holdings Limited**  
**Wu Guang Quan**  
*Chairman*

Shenzhen, the People's Republic of China, 26 August 2016

*As at the date of this report, the Board comprises a total of 9 Directors, Mr. Wu Guang Quan, Mr. Lai Wei Xuan, Mr. You Lei, Mr. Pan Lin Wu, Mr. Chen Hong Liang and Mr. Liu Jun as executive Directors; and Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Wei Wei as independent non-executive Directors.*