



AviChina

AviChina Industry & Technology Company Limited
中国航空科技工业股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code : 2357)

2017

Interim Report

Contents

| | |
|----|---|
| 2 | Highlights of Interim Results |
| 3 | Management Discussion and Analysis |
| 9 | Disclosure of Interests and Other Information |
| 13 | Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income |
| 15 | Interim Condensed Consolidated Statement of Financial Position |
| 17 | Interim Condensed Consolidated Statement of Changes in Equity |
| 19 | Interim Condensed Consolidated Statement of Cash Flows |
| 20 | Notes to the Interim Condensed Consolidated Financial Statements |
| 45 | Corporate Information |

Highlights of Interim Results

The board of directors (the “**Board**”) of AviChina Industry & Technology Company Limited (the “**Company**”) hereby announces the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2017 prepared according to International Accounting Standards.

| | |
|--|-------------------|
| Revenue | RMB13,842 million |
| Profit attributable to equity holders of the Company | RMB550 million |
| Earnings per share attributable to ordinary equity holders of the Company – Basic and diluted | RMB0.0922 |
| Equity attributable to equity holders of the Company | RMB13,779 million |

INTERIM DIVIDEND

The Board proposed that no interim dividend would be declared and paid for the six months ended 30 June 2017.

Management Discussion and Analysis

BUSINESS REVIEW

In the first half of 2017, the national economy recorded steady development, and the supply-side structural reform gradually showed its effect. Following the Company's strategic positioning of building a platform for China's aviation and related high-tech industries, the Company proactively conducted the initiatives of "leaner and healthier", improved the qualities and efficiencies of the economic operation, enhanced the competitiveness of major businesses, perfected the management and control on operations, and realized stable development on all businesses.

For the six months ended 30 June 2017, the Group recorded a revenue of RMB13,842 million, representing a decrease of 10.06% as compared with that of RMB15,391 million in the corresponding period of 2016. The profit attributable to the equity holders of the Company for the reporting period was RMB550 million, representing an increase of 9.13% as compared with that of RMB504 million in the corresponding period of 2016.

In terms of the helicopter business, the Group continued to focus on the construction of systems, build up the product brand and establish and improve the product research and development ("R&D") system, the marketing system and the customer services system. In the first half of 2017, the Group continued to strengthen the R&D capabilities for helicopter, explore the market and launch products in line with the market demands. Upon awarded the civil aviation type certification and AEG (Aircraft Evaluation Group) review, AC311A helicopter products have been officially delivered to the customers for the first time, marking a milestone for this model of helicopter officially stepping from manufacturing phase to market operation phase. At the same time, AC311 police helicopter products have been delivered smoothly and came into services officially, which will play its role in emergency reaction, social prevention and control, combating crime and terrorism, and emergency rescue.

The R&D innovation of the aviation parts and components business of the Group also achieved good progress. In the first half of 2017, China Aviation Optical-Electrical Technology Co., Ltd.* ("**JONHON Optronics**") signed a strategic cooperation agreement with XJ Electric Co., Ltd.*, an electrical equipment manufacturer and system resolution provider, to improve the R&D capabilities and efficiency of the integrated products of JONHON Optronics. The TS Series Quick Plug Fluid connectors independently developed by JONHON Optronics reached advanced level globally and the successful R&D of automated pressure-relief fluid connectors and pressure quick-disconnect connectors filled in the blank of domestic technology. The establishment program of lean manufacturing model in aviation circuit breakers of Tianjin Aviation Mechanical and Electrical Co., Ltd.* won the "excellent project in lean management of quality and technology award" granted by China Association for Quality. The establishment of this lean manufacturing model has important guiding significance to improve the products with the same characteristics.

In the first half of 2017, C919 large scale passenger aircraft successfully made its first flight. Several subsidiaries of the Group participated in the subcontracting manufacture, equipment technology R&D and assembly test, providing solid guarantee for the first flight of C919. Jiangxi Hongdu Aviation Industry Co., Ltd.* and Harbin Hafei Aviation Industry Limited Liability Company* are both the major suppliers of aircraft body of C919. JONHON Optronics successfully supplied products in pairing parts of front and middle electronic compartment and rear cargo compartment of the first aircraft. Chengdu CAIC Electronics Co., Ltd.* supplied air data heater controllers for C919.

In June 2017, AVIC Guohua (Shanghai) Laser Display Technology Co., Ltd.* ("**AVIC Guohua**"), in which the Group invested, was established. As a gold sponsor of China pavilion of 2017 Astana World Expo, the Guohua series laser projectors of AVIC Guohua will be the designated projectors for China pavilion. At that time, all the projection display and fusion solutions in China pavilion will use Guohua series laser projectors, which is also the first time that China self-brand projectors will be used in China pavilion in World Expo.

Management Discussion and Analysis

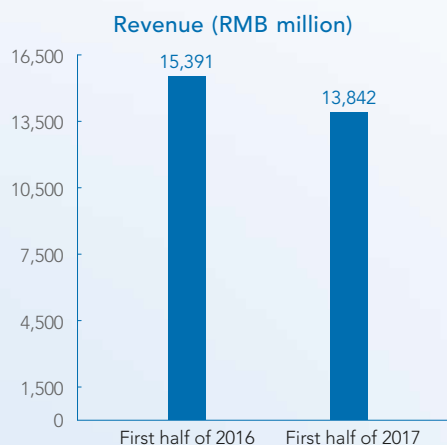
FUTURE OUTLOOK

2017 is a key connecting year to implement the 13th Five-Year Plan for National Economic and Social Development (“**13th Five-Year Plan**”) and a year to deepen the supply-side structural reform. In the second half of 2017, the Company will continue to proactively push forward the initiatives of “leaner and healthier” and implement the requirements of the supply-side structural reform, enhance the specialized integration of aviation industry to improve the core competitiveness. The Company will consistently carry reform through to the end, stimulate the vitality of working and businesses promotion and speed up all reforms. Following the strategy of civil-military integration in aviation industry, the Company will create new model of industry development to set the business of civil-military integration as a new strategic increasing point of the Company, continue to explore new aviation manufacturing business and create core competitiveness of the aviation products.

FINANCIAL REVIEW

During the period of the first half of 2017, the business segments of the Group were divided into aviation entire aircraft segment, aviation parts and components segment and aviation engineering services segment.

Revenue

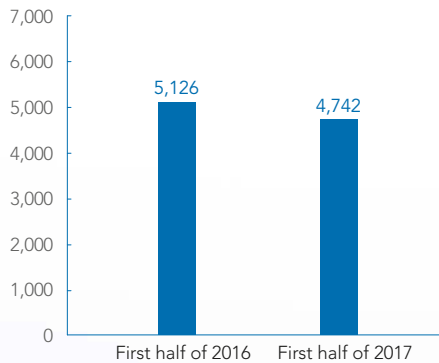


For the six months ended 30 June 2017, the Group achieved a revenue of RMB13,842 million, representing a decrease of RMB1,549 million or 10.06% as compared with that of RMB15,391 million in the corresponding period of last year, which was mainly attributable to the decrease in revenue of the aviation engineering services.

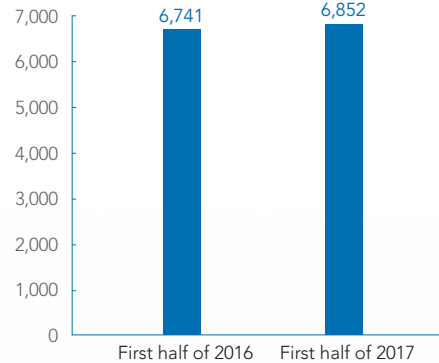
Management Discussion and Analysis

Segment Information

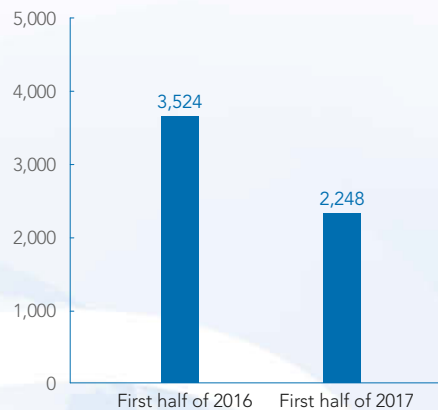
Revenue of Aviation Entire Aircraft Segment
(RMB million)



Revenue of Aviation Parts and Components Segment
(RMB million)



Revenue of Aviation Engineering Services Segment
(RMB million)



For the six months ended 30 June 2017, the revenue of the aviation entire aircraft segment of the Group amounted to RMB4,742 million, representing a decrease of 7.49% as compared with that in the corresponding period of last year as certain entire aircraft products were in the course of upgrading. The revenue of the aviation entire aircraft segment accounted for 34.26% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB6,852 million, representing an increase of 1.65% as compared with that in the corresponding period of last year and accounting for 49.50% of the total revenue of the Group. The revenue of the aviation engineering services segment of the Group amounted to RMB2,248 million, representing a decrease of 36.21% as compared with that in the corresponding period of last year, which was mainly attributable to the decrease in the revenue of engineering constructions business due to the slowdown of progress in certain construction projects. Meanwhile, the revenue of the aviation engineering planning, designing and consulting business with relatively high gross profit margin remained stable as compared with that in the corresponding period of last year. The revenue of the aviation engineering services segment accounted for 16.24% of the total revenue of the Group.

Management Discussion and Analysis

The segment results of the aviation entire aircraft segment of the Group amounted to RMB161 million, representing a decrease of RMB77 million or 32.35% as compared with that of RMB238 million in the corresponding period of last year, which was mainly attributable to the decrease in the scale of revenue and gross profit margin of aviation entire aircraft segment. The segment results of the aviation parts and components segment of the Group amounted to RMB1,015 million, representing an increase of RMB85 million or 9.14% as compared with that of RMB930 million in the corresponding period of last year, which was mainly attributable to the increase in the revenue and gross profit margin of avionics business. The segment results of the aviation engineering services segment of the Group amounted to RMB161 million, representing an increase of RMB51 million or 46.36% as compared with that of RMB110 million in the corresponding period of last year. The main reasons for the increase were: on the one hand, the revenue from the aviation engineering planning, designing and consulting business with relatively high gross profit margin remained stable as compared with that in the corresponding period of last year; and on the other hand, the transforming and upgrading of the aviation engineering construction business was actively pushed forward to expand the businesses of value-added services, increase gross profit margin and thus drive the increase of the results.

Gross profit

For the six months ended 30 June 2017, the Group recorded a gross profit of RMB2,925 million, representing an increase of RMB46 million or 1.60% as compared with that of RMB2,879 million in the corresponding period of last year. The gross profit margin is 21.13% during the reporting period, representing an increase of 2.42 percentage points as compared with that in the corresponding period of last year.

Selling and distribution expenses

For the six months ended 30 June 2017, the selling and distribution expenses of the Group amounted to RMB253 million, representing a relatively flat level with that of RMB252 million in the corresponding period of last year. The selling and distribution expenses accounted for 1.83% of the revenue during the reporting period, basically same as that in the corresponding period of last year.

Administrative expenses

For the six months ended 30 June 2017, the administrative expenses of the Group amounted to RMB1,554 million, representing an increase of RMB96 million or 6.58% as compared with that of RMB1,458 million in the corresponding period of last year, which was mainly attributable to the increase in R&D investment as compared with that of the corresponding period of last year. The administrative expenses accounted for 11.23% of the revenue during the reporting period, representing an increase of 1.76 percentage points as compared with that of 9.47% in the corresponding period of last year.

Finance costs, net

For the six months ended 30 June 2017, the net finance costs of the Group amounted to RMB128 million, representing an increase of RMB32 million or 33.33% as compared with that of RMB96 million in the corresponding period of last year, which was mainly attributable to the decrease of interest income resulted from the decrease of average daily bank deposits as compared with those of the corresponding period of last year. Please refer to note 7 to the financial statements for details.

Management Discussion and Analysis

Profit attributable to the equity holders of the Company

For the six months ended 30 June 2017, the profit attributable to the equity holders of the Company amounted to RMB550 million, representing an increase of RMB46 million or 9.13% as compared with that of RMB504 million in the corresponding period of last year. Although the revenue of the Group recorded a decrease as compared with that in the corresponding period of last year, the gross profit and subsidies increased, the investment loss and impairment decreased as a result of the initiatives of “leaner and healthier” and the works of cleaning up the investments during the first half of 2017 started to take effect. All these factors have led to the increase in the profit attributable to the equity holders of the Company as compared with that in the corresponding period of last year.

Liquidity and financial resources

As at 30 June 2017, the cash and cash equivalents of the Group amounted to RMB7,527 million, which were mainly derived from cash and bank deposits at the beginning of 2017 and proceeds generated from business operations during the reporting period.

As at 30 June 2017, the Group’s total borrowings amounted to RMB10,109 million, among which short-term borrowings amounted to RMB4,907 million, current portion of long-term borrowings amounted to RMB862 million and non-current portion of long-term borrowings amounted to RMB4,340 million.

As at 30 June 2017, the Group’s bank borrowings amounted to RMB3,920 million with an average interest rate of 4% per annum, representing an increase of RMB1,383 million as compared with that at the beginning of the reporting period; and other borrowings amounted to RMB6,189 million with an average interest rate of 5% per annum, representing an increase of RMB15 million as compared with that at the beginning of the reporting period.

Seasonal influence on the Group’s borrowings demand was relatively insignificant.

CAPITAL STRUCTURE

As at 30 June 2017, the Group’s borrowings were mainly to be settled in Renminbi and cash and cash equivalents were mainly held in Renminbi.

MORTGAGE AND PLEDGE ON ASSETS

As at 30 June 2017, the Group’s secured borrowings amounted to RMB197 million, which were mortgaged and pledged by pledged deposits, accounts receivable and notes receivable with a net book value of RMB206 million.

GEARING RATIO

As at 30 June 2017, the Group’s gearing ratio was 13.84% (as at 31 December 2016 was 12.53%), which was derived from dividing the total borrowings by the total assets as at 30 June 2017.

Management Discussion and Analysis

EXCHANGE RATE RISKS

The Group mainly operates in the People's Republic of China (the "PRC") and most of its transactions are settled in Renminbi. The directors (the "Director(s)") of the Company are of the opinion that the exchange rate risks to the Group are not significant and will not have any material adverse impact on the Group's financial positions.

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2017, the Group did not provide any guarantees in favor of any third party and had no significant contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

1. On 15 March 2017, AviChina Industrial Investment Co., Ltd.* ("**AviChina Industrial Investment**"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (the "**Joint Venture Agreement**") with Shanghai Aviation Electric Co., Ltd.* ("**Shanghai Aviation Electric**"), a subsidiary of the Company, AVIC Avionics Systems Co., Ltd.*, a subsidiary of Aviation Industry Corporation of China* ("**AVIC**"), and Shanghai Jiliang Photoelectric Technology Co., Ltd.* in relation to the proposed establishment of AVIC Guohua. Pursuant to the Joint Venture Agreement, the Company agreed to make indirect capital contributions of RMB76.674 million in aggregate, including a contribution of RMB55.324 million through Shanghai Aviation Electric and a contribution of RMB21.35 million through AviChina Industrial Investment, respectively. Upon establishment of AVIC Guohua, AVIC Guohua became a subsidiary of the Company, which was owned as to 47.77% and 18.44% by Shanghai Aviation Electric and AviChina Industrial Investment, respectively. For details, please refer to the announcement of the Company dated 15 March 2017.
2. On 10 April 2017, the Company entered into an investor agreement (the "**Investor Agreement**") with AVIC Xi'an Flight Automatic Control Research Institute*, BUAA Holdings Co., Ltd.* and BUAA electrooptical technology team*. Pursuant to the Investor Agreement, the Company agreed to contribute RMB60 million for participation in the capital increase of Aviation Gyro (Beijing) Photoelectricity Technology Co., Ltd.* ("**AVIC Gyro**"). Upon completion of the capital increase, the Company, AVIC Xi'an Flight Automatic Control Research Institute*, BUAA Holdings Co., Ltd.* and BUAA electrooptical technology team* held 23.45%, 53.59%, 11.48% and 11.48% of the equity interest of AVIC Gyro, respectively. For details, please refer to the announcement of the Company dated 10 April 2017.

USE OF PROCEEDS

As at 30 June 2017, a total of RMB3,736 million out of the proceeds raised by the Company had been utilised in the manufacturing and R&D of advanced trainers, helicopters and aviation composite materials as well as the acquisition of assets in aviation business and equity investments. The remaining balance was deposited in banks in the PRC as interest-bearing short-term deposits.

EMPLOYEES

As at 30 June 2017, the Group had approximately 50,070 employees. The Group's staff costs amounted to RMB2,666 million for the six months ended 30 June 2017, representing an increase of RMB155 million or 6.17% as compared with that of RMB2,511 million in the corresponding period of last year.

The remuneration policies and employee training programs of the Company remained the same as those set out in the 2016 annual report of the Company.

Disclosure of Interests and Other Information

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Gu Huizhong applied to the Board for the resignation from his position as the non-executive Director and related duties due to his age, and Mr. Gao Jianshe and Mr. Kiran Rao also applied to the Board for the resignation from their positions as the non-executive Directors and related duties due to other business commitments. At the annual general meeting convened on 18 May 2017 (the “**AGM**”), Mr. Wu Xiandong, Mr. Li Yao and Mr. Patrick de Castelbajac were appointed as the new non-executive Directors of the Company.

After the conclusion of the AGM, Mr. Gu Huizhong ceased to be a non-executive Director and a member of the development and strategy committee and the audit committee of the Board, Mr. Gao Jianshe ceased to be a non-executive Director and a member of the remuneration committee and the nomination committee of the Board, and Mr. Kiran Rao ceased to be a non-executive Director and a member of the development and strategy committee of the Board.

At the Board meeting convened following the AGM on the same date, Mr. Wu Xiandong was appointed as a member of the remuneration committee and the nomination committee of the Board, Mr. Li Yao was appointed as a member of the development and strategy committee and the audit committee of the Board, Mr. Patrick de Castelbajac was appointed as a member of the development and strategy committee of the Board, and Mr. He Zhiping was appointed as a member of the development and strategy committee and the remuneration committee of the Board.

Due to other business commitments, Mr. Chen Yuanxian and Mr. Chen Guanjun tendered their resignation to the Board to resign from their positions of the general manager and chief financial officer of the Company, and the deputy general manager of the Company, respectively. At the Board meeting convened following the AGM on the same date, the Board considered and approved the resolution of changes in certain senior management of the Company that: Mr. Chen Yuanxian ceased to be appointed as the general manager and chief financial officer of the Company, and Mr. Chen Guanjun ceased to be appointed as the deputy general manager of the Company; Mr. Qu Jingwen was appointed as the general manager and chief financial officer of the Company, and Mr. Yu Feng was appointed as the deputy general manager of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”), and the Shares Trading Management Rules of the Company as its own guidelines for securities transactions by the Directors, supervisors and relevant employees of the Company. The Board has also confirmed that, having made specific enquiries of all the Directors and supervisors, all the Directors and supervisors of the Company had complied with the required standards for securities transactions by Directors and supervisors set out in the Model Code for the six months ended 30 June 2017.

Disclosure of Interests and Other Information

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2017, save as disclosed below, none of the Directors, supervisors or chief executive of the Company had interests or held short positions in the shares (“Shares”), underlying Shares and/or debentures of the Company and/or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO.

| Name of Director | Class of Shares | Capacity | Number of Shares | Approximate percentage of shareholdings to the same class of Shares | Approximate percentage of shareholdings to share capital in issue | Nature of Shares held |
|------------------|-----------------|------------------|------------------|---|---|-----------------------|
| Lin Zuoming | H Share | Beneficial owner | 462,005 | 0.020% | 0.008% | Long position |
| Tan Ruisong | H Share | Beneficial owner | 563,811 | 0.024% | 0.009% | Long position |
| Wu Xiandong | H Share | Beneficial owner | 191,811 | 0.008% | 0.003% | Long position |
| Li Yao | H Share | Beneficial owner | 174,910 | 0.007% | 0.003% | Long position |
| Yeung Chi Wai | H Share | Beneficial owner | 248,000 | 0.011% | 0.004% | Long position |

Notes:

- Based on the relevant disclosure of interests filed on the website of the Hong Kong Stock Exchange, as at 30 June 2017, Mr. Lin Zuoming held 2,000 A shares in AVICOPTER PLC* (“**AVICOPTER**”) (listed on Shanghai Stock Exchange with the stock code: 600038) and 5,000 A shares in China Avionics Systems Co., Ltd.* (“**AVIC Avionics**”) (listed on Shanghai Stock Exchange with the stock code: 600372), representing approximately 0.0003% and 0.0003% of the total issued share capital of AVICOPTER and AVIC Avionics, respectively. AVICOPTER and AVIC Avionics are subsidiaries of the Company, and therefore they are associated corporations (within the meaning of Part XV of the SFO) of the Company.
- Based on the relevant disclosure of interests filed on the website of the Hong Kong Stock Exchange, as at 30 June 2017, Mr. Li Yao held 10,000 A shares in AVIC Capital Co., Ltd.* (“**AVIC Capital**”) (listed on Shanghai Stock Exchange with the stock code: 600705), representing approximately 0.0001% of the total issued share capital of AVIC Capital. AVIC Capital is a subsidiary of AVIC, and therefore it is an associated corporation (within the meaning of Part XV of the SFO) of the Company.
- Based on the relevant disclosure of interests filed on the website of the Hong Kong Stock Exchange, as at 30 June 2017, the spouse of Mr. Qu Jingwen, the general manager of the Company, held 11,100 A shares in AVIC Sanxin Co., Ltd.* (“**AVIC Sanxin**”) (listed on Shenzhen Stock Exchange with the stock code: 002163), representing approximately 0.0014% of the total issued share capital of AVIC Sanxin. AVIC Sanxin is a subsidiary of the Company, and therefore it is an associated corporation (within the meaning of Part XV of the SFO) of the Company.

Disclosure of Interests and Other Information

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, pursuant to the register of members kept under section 336 of the SFO, shareholders holding 5% or more than 5% equity interests in the Company and its associated corporations were as follows:

| Name of Shareholders | Class of Shares | Capacity | Number of Shares | Approximate percentage of shareholdings to the same class of Shares | Approximate percentage of shareholdings to share capital in issue | Nature of Shares held |
|-----------------------|-----------------|--|------------------|---|---|-----------------------|
| AVIC (Note 1) | Domestic Share | Beneficial owner; interest in controlled corporation | 3,481,185,569 | 96.44% | 58.35% | Long position |
| | H Share | Interest in controlled corporation | 13,076,000 | 0.55% | 0.22% | Long position |
| Airbus Group (Note 2) | H Share | Beneficial owner | 274,909,827 | 11.67% | 4.61% | Long position |
| GIC Private Limited | H Share | Investment manager | 119,300,000 | 5.06% | 2.00% | Long position |

Notes:

1. Among the 3,481,185,569 domestic Shares held by AVIC, 3,297,780,902 domestic Shares were directly held by it as beneficial owner and 183,404,667 domestic Shares were held through AVIC Electromechanical Systems Company Limited*, its wholly-owned subsidiary. Meanwhile, AVIC held 13,076,000 H Shares in the Company through China Aviation Industry (HK) Co., Ltd.*, its wholly-owned subsidiary.
2. European Aeronautic Defence and Space Company – EADS N.V. officially changed its name to Airbus Group on 1 January 2014.

Save as disclosed above, as at 30 June 2017, the Company had not been notified of any other interests and short positions in 5% or more than 5% of the Shares and underlying Shares of the Company which had been recorded in the register of members kept under section 336 of the SFO.

AUDIT COMMITTEE

The Board has established an audit committee and set out the Terms of Reference of the Audit Committee in accordance with "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and other rules. The audit committee had reviewed the Company's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2017.

CORPORATE GOVERNANCE

The Company has strictly complied with various applicable laws, rules and regulations as well as its Articles of Association to standardize its operation. After reviewing the corporate governance arrangement adopted by the Company, the Board is of the view that the Company has complied with the requirements of the principles and code provisions set out in the Corporate Governance Code under the Listing Rules for the six months ended 30 June 2017, except for the deviation that the chairman of the Board was not able to attend the AGM of the Company held on 18 May 2017 due to health reason. As such, the vice chairman of the Board was authorized to chair the AGM and answer the questions raised at the meeting.

Disclosure of Interests and Other Information

OTHER EVENT

On 18 January 2017, pursuant to the restricted share incentive scheme of JONHON Optronic, JONHON Optronic conducted the initial grant of a total of 6,001,000 restricted shares to 266 selected scheme participants, representing approximately 0.9960% of the issued share capital of JONHON Optronic, with the grant date as 18 January 2017 and at the grant price of RMB28.19 per restricted share (the “**Initial Grant**”). Upon completion of the Initial Grant, the equity interest in JONHON Optronic held by the Company was diluted from 41.57% to 41.16%. The Initial Grant also involved the grant of 115,000 restricted shares to Mr. Guo Zeyi, the chairman of JONHON Optronic, and the grant of 110,000 restricted shares to Mr. Zhao Yong, the general manager of JONHON Optronic. For details, please refer to the relevant announcements of the Company dated 27 October 2016 and 18 January 2017.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

For the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

* For identification purpose only

Interim condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2017

| | NOTES | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| Revenue | 4 | 13,842,176 | 15,391,169 |
| Cost of sales | | (10,917,411) | (12,512,079) |
| Gross profit | | 2,924,765 | 2,879,090 |
| Other income and gains | 6 | 137,931 | 121,356 |
| Other expenses | | (11,227) | (59,435) |
| Other income and gains, net | | 126,704 | 61,921 |
| Selling and distribution expenses | | (253,169) | (252,207) |
| Administrative expenses | | (1,554,069) | (1,457,851) |
| Operating profit | | 1,244,231 | 1,230,953 |
| Finance income | | 74,079 | 112,039 |
| Finance costs | | (202,366) | (207,948) |
| Finance costs, net | 7 | (128,287) | (95,909) |
| Share of results of joint ventures | | 5,400 | 13,124 |
| Share of results of associates | | 72,261 | 25,089 |
| Profit before tax | | 1,193,605 | 1,173,257 |
| Income tax expense | 8 | (182,392) | (181,189) |
| Profit for the period | 9 | 1,011,213 | 992,068 |
| Attributable to: | | | |
| Equity holders of the Company | | 550,217 | 504,202 |
| Non-controlling interests | | 460,996 | 487,866 |
| | | 1,011,213 | 992,068 |
| Earnings per share attributable to ordinary equity holders of the Company | | | |
| Basic and diluted | 11 | RMB0.0922 | RMB0.0845 |

Interim condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2017

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| Profit for the period | 1,011,213 | 992,068 |
| Other comprehensive income (loss) | | |
| <i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods (net of tax):</i> | | |
| Net loss on changes in fair value of available-for-sale financial assets, net of tax | (87,112) | (157,987) |
| Exchange differences on translation of foreign operations | (5,668) | 3,415 |
| Other comprehensive loss, net of tax | (92,780) | (154,572) |
| Total comprehensive income for the period | 918,433 | 837,496 |
| Attributable to: | | |
| Equity holders of the Company | 496,634 | 424,163 |
| Non-controlling interests | 421,799 | 413,333 |
| | 918,433 | 837,496 |

Interim condensed consolidated statement of financial position

As at 30 June 2017

| | NOTES | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|---|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 12 | 12,515,554 | 12,395,357 |
| Investment properties | 12 | 283,038 | 301,877 |
| Land use rights | 12 | 1,687,696 | 1,704,798 |
| Goodwill | | 69,188 | 69,188 |
| Other intangible assets | 12 | 120,974 | 118,709 |
| Investments in joint ventures | | 90,091 | 95,200 |
| Investments in associates | | 876,515 | 839,427 |
| Available-for-sale investments | | 1,406,509 | 1,477,284 |
| Deferred tax assets | | 233,446 | 231,356 |
| Prepayments, deposits and other receivables | 14 | 693,810 | 638,067 |
| Total non-current assets | | 17,976,821 | 17,871,263 |
| Current assets | | | |
| Inventories | | 24,813,210 | 21,652,915 |
| Accounts and notes receivable | 13 | 16,750,573 | 16,147,794 |
| Prepayments, deposits and other receivables | 14 | 3,044,666 | 3,288,497 |
| Financial assets held for trading | | 26,934 | 31,057 |
| Pledged deposits | | 695,159 | 1,035,307 |
| Term deposits with initial terms of over three months | | 2,187,066 | 709,047 |
| Cash and cash equivalents | | 7,526,694 | 8,772,885 |
| Total current assets | | 55,044,302 | 51,637,502 |
| Total assets | | 73,021,123 | 69,508,765 |

Interim condensed consolidated statement of financial position

As at 30 June 2017

| | NOTES | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|---|-------|---|---|
| Current liabilities | | | |
| Accounts and notes payable | 15 | 24,421,074 | 23,953,202 |
| Other payables and accruals | | 7,147,332 | 6,247,523 |
| Interest-bearing bank and other borrowings | 16 | 5,769,181 | 4,336,590 |
| Tax payable | | 183,645 | 252,200 |
| Total current liabilities | | 37,521,232 | 34,789,515 |
| Net current assets | | 17,523,070 | 16,847,987 |
| Total assets less current liabilities | | 35,499,891 | 34,719,250 |
| Non-current liabilities | | | |
| Interest-bearing bank and other borrowings | 16 | 4,340,305 | 4,374,148 |
| Deferred income from government grants | | 850,260 | 869,321 |
| Deferred tax liabilities | | 101,019 | 117,595 |
| Other payables and accruals | | 1,021,802 | 1,021,531 |
| Total non-current liabilities | | 6,313,386 | 6,382,595 |
| Total liabilities | | 43,834,618 | 41,172,110 |
| Net assets | | 29,186,505 | 28,336,655 |
| Capital and reserves | | | |
| Share capital | 17 | 5,966,122 | 5,966,122 |
| Reserves | | 7,813,119 | 7,433,659 |
| Equity attributable to equity holders of the Company | | 13,779,241 | 13,399,781 |
| Non-controlling interests | | 15,407,264 | 14,936,874 |
| Total equity | | 29,186,505 | 28,336,655 |

Interim condensed consolidated statement of changes in equity

For the six months ended 30 June 2017

| | Attributable to equity holders of the Company | | | | | | Non- | Total | |
|---|---|--------------------|-----------------------|-------------|-------------------|----------------------|------------|------------|--------------------------|
| | Share capital | Capital reserve | Fair value reserve | Currency | Other reserves | Retained earnings | Total | | controlling interests |
| | | | | translation | | | | | |
| | | | | reserve | | | | | |
| RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| As at 1 January 2017 (Audited) | 5,966,122 | 3,808,534 | (36,006) | 15,434 | 187,277 | 3,458,420 | 13,399,781 | 14,936,874 | 28,336,655 |
| Profit for the period | - | - | - | - | - | 550,217 | 550,217 | 460,996 | 1,011,213 |
| Other comprehensive loss | - | - | (47,937) | (5,646) | - | - | (53,583) | (39,197) | (92,780) |
| Total comprehensive income (loss) for the period | - | - | (47,937) | (5,646) | - | 550,217 | 496,634 | 421,799 | 918,433 |
| 2016 final dividend | - | - | - | - | - | (119,322) | (119,322) | - | (119,322) |
| Capital injection by non-controlling interests of subsidiaries | - | - | - | - | - | - | - | 196,786 | 196,786 |
| Contribution from non-controlling interests of subsidiaries (Note b) | - | - | - | - | - | - | - | 50,250 | 50,250 |
| Recognition of equity-settled share-based payment expenses of a subsidiary | - | 2,424 | - | - | - | - | 2,424 | 1,330 | 3,754 |
| Dividends paid to non-controlling interests of subsidiaries | - | - | - | - | - | - | - | (200,051) | (200,051) |
| Appropriation | - | - | - | - | 16,004 | (16,004) | - | - | - |
| Transactions with non-controlling interests | - | - | - | - | (276) | - | (276) | 276 | - |
| As at 30 June 2017 (Unaudited) | 5,966,122 | 3,810,958 | (83,943) | 9,788 | 203,005 | 3,873,311 | 13,779,241 | 15,407,264 | 29,186,505 |

Interim condensed consolidated statement of changes in equity

For the six months ended 30 June 2017

| | Attributable to equity holders of the Company | | | | | | | Non- | Total |
|--|---|-----------------|--------------------|---------------------|----------------|-------------------|-------------|-----------------------|-------------|
| | Share capital | Capital reserve | Fair value reserve | Currency | | Retained earnings | Total | controlling interests | |
| | | | | translation reserve | Other reserves | | | | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| As at 1 January 2016 (Audited) | 5,474,429 | 4,300,227 | 186,271 | 3,857 | 208,315 | 2,486,595 | 12,659,694 | 13,759,865 | 26,419,559 |
| Profit for the period | - | - | - | - | - | 504,202 | 504,202 | 487,866 | 992,068 |
| Other comprehensive income (loss) | - | - | (83,454) | 3,415 | - | - | (80,039) | (74,533) | (154,572) |
| Total comprehensive income (loss) for the period | - | - | (83,454) | 3,415 | - | 504,202 | 424,163 | 413,333 | 837,496 |
| Issue of shares | 491,693 | 1,681,589 | - | - | - | - | 2,173,282 | - | 2,173,282 |
| Business combinations involving entities under common control (Note a) | - | (2,173,282) | - | - | - | - | (2,173,282) | - | (2,173,282) |
| 2015 final dividend | - | - | - | - | - | (109,489) | (109,489) | - | (109,489) |
| Contribution from non-controlling interests of subsidiaries (Note b) | - | - | - | - | - | - | - | 149,233 | 149,233 |
| Dividends paid to non-controlling interests of subsidiaries | - | - | - | - | - | - | - | (206,692) | (206,692) |
| Appropriation | - | - | - | - | 11,076 | (11,076) | - | - | - |
| As at 30 June 2016 (Unaudited) | 5,966,122 | 3,808,534 | 102,817 | 7,272 | 219,391 | 2,870,232 | 12,974,368 | 14,115,739 | 27,090,107 |

Notes:

- (a) On 28 June 2016, the Company obtained the control over China Aviation Planning and Design Institute Co., Ltd. ("AVIC Planning") through business combinations involving entities under common control. Refer to Note 3 below.
- (b) Contribution from non-controlling interests of subsidiaries mainly represented the state-owned interests in infrastructure projects upon completion.

Interim condensed consolidated statement of cash flows

For the six months ended 30 June 2017

| | Six months ended 30 June | |
|--|--------------------------|--------------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash used in operations | (538,585) | (1,890,857) |
| Interest received | 74,079 | 112,039 |
| Interest paid | (199,559) | (201,620) |
| Income tax paid | (254,240) | (263,763) |
| NET CASH FLOWS USED IN OPERATING ACTIVITIES | (918,305) | (2,244,201) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (589,173) | (495,239) |
| Purchase of land use rights | (4,294) | – |
| Addition of other intangible assets | (59) | (116) |
| Purchase of available-for-sale investments | (31,710) | – |
| Purchase of financial assets held for trading | – | (17,925) |
| Disposal of financial assets held for trading | 6,789 | 1,483 |
| Redemption of term deposits with initial term of over three months | 709,047 | 851,160 |
| Addition of term deposits with initial term of over three months | (2,187,066) | (824,537) |
| Government grant for purchase of property, plant and equipment | 22,363 | 84,018 |
| Proceeds from disposal of property, plant and equipment | 38,075 | 7,584 |
| Addition of investments in associates | (81,350) | – |
| Disposal of investments in associates | 9,996 | 1,450 |
| Dividends received from joint ventures | 9,689 | 9,683 |
| Dividends received from available-for-sale investments | 5,206 | 14,591 |
| Dividends received from associates | 74,412 | 54,283 |
| NET CASH FLOWS USED IN INVESTING ACTIVITIES | (2,018,075) | (313,565) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 4,075,804 | 4,730,341 |
| Repayments of borrowings | (2,679,863) | (3,160,449) |
| Capital injection by non-controlling interests of subsidiaries | 182,157 | 14,549 |
| Advance from non-controlling interests of subsidiaries | 167,933 | – |
| Dividends paid to non-controlling interests of subsidiaries | (52,870) | (56,421) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | 1,693,161 | 1,528,020 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (1,243,219) | (1,029,746) |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | 8,772,885 | 9,535,436 |
| Effect of foreign exchange rate changes | (2,972) | (1,457) |
| CASH AND CASH EQUIVALENTS AT 30 JUNE | 7,526,694 | 8,504,233 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

1. CORPORATE INFORMATION

AviChina Industry & Technology Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on 30 April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation of China Aviation Industry Corporation II (“AVIC II”). AVIC II merged with China Aviation Industry Corporation I (“AVIC I”) to form Aviation Industry Corporation of China (“AVIC”) on 6 November 2008, and AVIC became the holding company of the Company thereafter. The Company’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) on 30 October 2003. The address of its registered office is 8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing, the PRC.

The Company and its subsidiaries (the “Group”) are principally involved in the research, development, manufacture and sale of aviation products and the delivery of aviation engineering services such as planning, design, consultation, construction and operation etc.

The Company’s directors regard AVIC, a company established in the PRC, as being the ultimate holding company of the Company. AVIC is a state-owned enterprise under control of the State Council of the PRC government.

The interim condensed consolidated financial statements have been approved for issue by the Board of Directors on 30 August 2017.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on Hong Kong Stock Exchange (the “Listing Rules”) and with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standard Board (“IASB”).

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

The accounting policies used in the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2016.

In the current period, the Group has applied, for the first time, the following new standards, amendments and interpretation (“new IFRSs”) issued by the IASB which are effective for the Group’s financial year beginning 1 January 2017.

| | |
|----------------------|---|
| Amendments to IAS 7 | <i>Disclosure Initiative</i> |
| Amendments to IAS 12 | <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> |
| Amendments to IFRSs | <i>Annual Improvements to IFRSs 2014-2016 Cycle</i> |

The application of the new and revised IFRSs in the current period has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

3. BUSINESS COMBINATION UNDER COMMON CONTROL

On 30 September 2015 and 10 March 2016, the Company entered into an Equity Acquisition and Share Issuance Agreement and a Supplementary Agreement (collectively “the Agreements”) with its ultimate holding company AVIC to acquire 100% of the equity interest of AVIC Planning at the consideration of RMB2,173,281,600. The number of consideration shares issued by the Company to AVIC was 491,692,669 shares at the issue price of RMB4.42 per consideration share. AVIC Planning is a subsidiary of AVIC. It is controlled by AVIC before and after the combination, and that control is not temporary, therefore the business combination is involving entities under common control. In accordance with the Agreements, the consideration shares were fully issued by the Company on 28 June 2016, by when the Company obtained the control over AVIC Planning. 28 June 2016 is determined to be the date of acquisition.

| | Book value recognised on acquisition (Unaudited) RMB'000 |
|---|--|
| Inventories | 3,109,187 |
| Other non-current assets | 762,296 |
| Accounts and notes receivable | 2,297,958 |
| Cash and cash equivalents | 884,382 |
| Other current assets | 562,323 |
| Total liabilities | (6,751,760) |
| Net assets | 864,386 |
| Non-controlling interests | (693) |
| Consolidation difference (recorded in equity) | 1,309,589 |
| Consideration transferred | 2,173,282 |

The consideration transferred consists of equity instrument issued amounting to RMB2,173,281,600.

Net cash inflow on acquisition of AVIC Planning:

| | Unaudited RMB'000 |
|---|----------------------|
| Cash consideration paid | — |
| Add: cash and cash equivalent balances acquired | 884,382 |
| | 884,382 |

For the period from 1 January 2016 to 28 June 2016, AVIC Planning had contributed RMB3,438,906,000 of revenue and RMB135,926,000 to the profit for the period of the Group.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

4. REVENUE

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts, an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the period. An analysis of the Group's revenue for the period is as follows:

| | Six months ended 30 June | |
|-----------------------|--------------------------|-------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Sales of goods | 11,813,077 | 12,394,008 |
| Rendering of services | 2,029,099 | 2,997,161 |
| | 13,842,176 | 15,391,169 |

An analysis of the Group's revenue by segments is set out in Note 5.

5. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under IFRS 8 are as follows:

1. Aviation entire aircraft – manufacturing, assembly, sales and servicing of helicopters, trainers and other aircraft;
2. Aviation parts and components – manufacturing and sales of aviation parts and components; and
3. Aviation engineering services – delivery of aviation engineering services such as planning, design, consultation, construction and operation etc.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

5. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following table presents revenue and results information regarding the Group's operating segments for the six months ended 30 June 2017 and 2016 respectively:

For six months ended 30 June 2017

| | Aviation entire aircraft RMB'000 (Unaudited) | Aviation parts and components RMB'000 (Unaudited) | Aviation engineering services RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|--------------------------------|---|---|---|---------------------------------|
| Segment Revenue: | | | | |
| External sales | 4,741,717 | 6,851,801 | 2,248,658 | 13,842,176 |
| Inter-segment sales | | | | 405,244 |
| Segment revenue | | | | 14,247,420 |
| Eliminations | | | | (405,244) |
| Group revenue | | | | 13,842,176 |
| Segment results | 161,082 | 1,015,135 | 161,347 | 1,337,564 |
| Interest income | | | | 74,079 |
| Unallocated corporate expenses | | | | (15,672) |
| Finance costs | | | | (202,366) |
| Profit before tax | | | | 1,193,605 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

5. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For six months ended 30 June 2016

| | Aviation entire aircraft RMB'000 (Unaudited) | Aviation parts and components RMB'000 (Unaudited) | Aviation engineering services RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|--------------------------------|---|---|---|---------------------------------|
| Segment Revenue: | | | | |
| External sales | 5,126,443 | 6,741,047 | 3,523,679 | 15,391,169 |
| Inter-segment sales | | | | 528,649 |
| Segment revenue | | | | 15,919,818 |
| Eliminations | | | | (528,649) |
| Group revenue | | | | 15,391,169 |
| Segment results | 238,169 | 929,869 | 110,074 | 1,278,112 |
| Interest income | | | | 112,039 |
| Unallocated corporate expenses | | | | (8,946) |
| Finance costs | | | | (207,948) |
| Profit before tax | | | | 1,173,257 |

Segment results represent the profit earned by each segment without allocation of central administration costs, directors' emoluments, interest income and finance costs. This is the measure reported to the executive directors of the Company, being the chief operating decision maker, for purposes of resources allocation and performance assessment.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

5. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|--|---|---|
| Segment assets | | |
| Aviation entire aircraft | 29,565,951 | 28,031,082 |
| Aviation parts and components | 34,991,294 | 33,476,440 |
| Aviation engineering services | 10,276,119 | 9,866,710 |
| Total segment assets | 74,833,364 | 71,374,232 |
| Elimination of inter-segment receivables | (1,812,241) | (1,865,467) |
| Consolidated assets | 73,021,123 | 69,508,765 |
| Segment liabilities | | |
| Aviation entire aircraft | 17,604,978 | 16,111,296 |
| Aviation parts and components | 18,844,377 | 17,970,048 |
| Aviation engineering services | 9,197,504 | 8,956,233 |
| Total segment liabilities | 45,646,859 | 43,037,577 |
| Elimination of inter-segment payables | (1,812,241) | (1,865,467) |
| Consolidated liabilities | 43,834,618 | 41,172,110 |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments; and
- all liabilities are allocated to operating segments.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

5. SEGMENT INFORMATION (Continued)

Other segment information

For the six months ended 30 June 2017

| | Aviation entire aircraft RMB'000 (Unaudited) | Aviation parts and components RMB'000 (Unaudited) | Aviation engineering services RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|--|---|---|---|---------------------------------|
|--|---|---|---|---------------------------------|

Amounts included in the measure of segment profit or loss or segment assets:

| | | | | |
|--|----------|---------|--------|---------|
| Capital expenditure (Note) | 317,198 | 495,822 | 95,963 | 908,983 |
| Depreciation and amortisation | 189,465 | 274,811 | 21,529 | 485,805 |
| Impairment losses recognised in the statement of profit or loss | (20,574) | 70,738 | 6,497 | 56,661 |
| Other non-cash expenses | 6,917 | 6,283 | – | 13,200 |
| Share of results of joint ventures | – | 5,400 | – | 5,400 |
| Share of results of associates | 2,652 | 68,236 | 1,373 | 72,261 |
| Investments in associates | 451,218 | 398,708 | 26,589 | 876,515 |
| Investments in joint ventures | – | 82,571 | 7,520 | 90,091 |

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

| | | | | |
|--------------------|----------|----------|----------|----------|
| Interest income | (22,690) | (26,456) | (24,933) | (74,079) |
| Finance costs | 44,214 | 152,993 | 5,159 | 202,366 |
| Income tax expense | 39,370 | 120,218 | 22,804 | 182,392 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

5. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the six months ended 30 June 2016

| | Aviation entire aircraft RMB'000 (Unaudited) | Aviation parts and components RMB'000 (Unaudited) | Aviation engineering services RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|--|---|---|---|---------------------------------|
|--|---|---|---|---------------------------------|

Amounts included in the measure of segment profit or loss or segment assets:

| | | | | |
|--|----------|---------|----------|---------|
| Capital expenditure (Note) | 197,803 | 411,543 | 89,866 | 699,212 |
| Depreciation and amortisation | 195,638 | 263,301 | 19,104 | 478,043 |
| Impairment losses recognised in the statement of profit or loss | (36,505) | 70,658 | 22,316 | 56,469 |
| Other non-cash expenses | 5,294 | – | – | 5,294 |
| Share of results of joint ventures | – | 13,124 | – | 13,124 |
| Share of results of associates | (14,542) | 54,736 | (15,105) | 25,089 |
| Investments in associates | 400,007 | 309,178 | 98,996 | 808,181 |
| Investments in joint ventures | – | 71,053 | 7,509 | 78,562 |

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

| | | | | |
|--------------------|----------|----------|----------|-----------|
| Interest income | (34,565) | (35,046) | (42,428) | (112,039) |
| Finance costs | 30,470 | 164,137 | 13,341 | 207,948 |
| Income tax expense | 30,117 | 119,422 | 31,650 | 181,189 |

Note: Capital expenditure consists of additions to property, plant and equipment, investment properties, intangible assets and investments in joint ventures and associates.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

6. OTHER INCOME AND GAINS

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Other income | | |
| Income from sale of materials | 144,516 | 157,296 |
| Cost from sale of materials | (134,292) | (137,647) |
| Profit from sale of materials | 10,224 | 19,649 |
| Income from rendering of maintenance and other services | 56,161 | 44,359 |
| Dividend income | 5,206 | 16,105 |
| Net rental income | 7,679 | 7,895 |
| | 79,270 | 88,008 |
| Gains | | |
| Fair value gains on financial assets held for trading, net | 2,456 | – |
| Confiscatory related income | 7,175 | – |
| Gain on disposal of an associate | 4,739 | 9 |
| Gain on disposal of a subsidiary | 210 | – |
| Others | 44,081 | 33,339 |
| | 58,661 | 33,348 |
| Other income and gains | 137,931 | 121,356 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

7. FINANCE COSTS, NET

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Finance income | | |
| Bank interest income | 68,423 | 101,441 |
| Other interest income | 5,656 | 10,598 |
| | 74,079 | 112,039 |
| Finance costs | | |
| Interest on bank borrowings and other borrowings | 190,366 | 201,490 |
| Interest on finance leases | 235 | 130 |
| Total interest expense | 190,601 | 201,620 |
| Less: Interest capitalised | (7,129) | (13,493) |
| Other financial costs | 18,894 | 19,821 |
| | 202,366 | 207,948 |
| Finance costs, net | (128,287) | (95,909) |

8. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---------------------------|--------------------------|----------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| PRC Enterprise Income Tax | | |
| – current period | 185,698 | 191,637 |
| Deferred tax | (3,306) | (10,448) |
| | 182,392 | 181,189 |

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods. During the periods ended 30 June 2017 and 2016, certain subsidiaries of the Group were entitled a preferential tax rate of 15%.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

9. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging/(crediting):

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Cost of inventories sold | 9,124,451 | 9,749,745 |
| Cost of services provided | 1,792,960 | 2,762,334 |
| Depreciation of investment properties | 3,800 | 4,344 |
| Depreciation of property, plant and equipment | 448,186 | 431,520 |
| Less: Amortisation of deferred income from government grants | (30,861) | (92,315) |
| Total depreciation | 421,125 | 343,549 |
| Research and development costs | 674,641 | 684,060 |
| Less: Government grants released | (141,141) | (256,587) |
| Total research and development costs | 533,500 | 427,473 |
| Wages, salaries, housing benefits and other allowances (including directors' and chief executive's emoluments) | 2,313,391 | 2,180,289 |
| Share-based payment expense (including directors' and chief executive's emoluments) | 6,283 | – |
| Pension scheme contributions (including directors' and chief executive's emoluments) | 346,134 | 330,231 |
| Total staff costs | 2,665,808 | 2,510,520 |
| Auditors' remuneration | 2,495 | 2,409 |
| Amortisation of land use rights | 21,396 | 29,267 |
| Amortisation of intangible assets | 12,423 | 12,912 |
| Net foreign exchange losses/(gains) | 7,005 | (13,673) |
| Impairment loss on available-for-sale investments | – | 21,578 |
| Impairment loss on accounts and notes receivable and prepayments, deposits and other receivables | 48,199 | 30,140 |
| Write-down of inventories to net realisable value | 8,462 | 4,751 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

10. DIVIDENDS

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Dividends recognised as distribution of 2016 final dividend – RMB0.02 (2016: 2015 final dividend – RMB0.02) per share | 119,322 | 109,489 |

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Earnings | | |
| Profit for the period attributable to ordinary equity holders of the Company for the purpose of basic and diluted earnings per share | 550,217 | 504,202 |
| Number of shares | '000 | '000 |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | 5,966,122 | 5,966,122 |

Diluted earnings per share is same as basic earnings per share for both periods as the Company had no potential dilutive ordinary shares in issue during both periods.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

12. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LAND USE RIGHTS AND OTHER INTANGIBLE ASSETS

| | Property, plant and equipment RMB'000 | Investment properties RMB'000 | Land use rights RMB'000 | Other intangible assets RMB'000 | Total RMB'000 |
|--|--|-------------------------------------|-------------------------------|--|------------------|
| COST | | | | | |
| At 1 January 2017 (Audited) | 19,094,360 | 337,439 | 1,951,843 | 219,778 | 21,603,420 |
| Additions | 594,373 | – | 4,294 | 14,688 | 613,355 |
| Transfer from investment properties | 17,159 | (17,159) | – | – | – |
| Disposals/write-off | (71,552) | – | – | – | (71,552) |
| Exchange realignment | (1,176) | (1,737) | – | – | (2,913) |
| At 30 June 2017 (Unaudited) | 19,633,164 | 318,543 | 1,956,137 | 234,466 | 22,142,310 |
| DEPRECIATION AND IMPAIRMENT | | | | | |
| At 1 January 2017 (Audited) | 6,699,003 | 35,562 | 247,045 | 101,069 | 7,082,679 |
| Transfer from investment properties | 3,729 | (3,729) | – | – | – |
| Charge for the year | 448,186 | 3,800 | 21,396 | 12,423 | 485,805 |
| Eliminated on disposals | (33,217) | – | – | – | (33,217) |
| Exchange realignment | (89) | (128) | – | – | (217) |
| Impairment loss recognised in profit or loss | (2) | – | – | – | (2) |
| At 30 June 2017 (Unaudited) | 7,117,610 | 35,505 | 268,441 | 113,492 | 7,535,048 |
| CARRYING VALUES | | | | | |
| At 30 June 2017 (Unaudited) | 12,515,554 | 283,038 | 1,687,696 | 120,974 | 14,607,262 |
| COST | | | | | |
| At 1 January 2016 (Audited) | 17,569,936 | 374,949 | 1,829,309 | 217,656 | 19,991,850 |
| Additions | 993,437 | 75 | 65,132 | 493 | 1,059,137 |
| Disposals/write-off | (91,444) | – | – | – | (91,444) |
| Exchange realignment | 747 | 1,104 | – | – | 1,851 |
| At 30 June 2016 (Unaudited) | 18,472,676 | 376,128 | 1,894,441 | 218,149 | 20,961,394 |
| DEPRECIATION AND IMPAIRMENT | | | | | |
| At 1 January 2016 (Audited) | 6,020,501 | 28,925 | 190,112 | 78,728 | 6,318,266 |
| Charge for the year | 431,520 | 4,344 | 29,267 | 12,912 | 478,043 |
| Eliminated on disposals | (33,660) | – | – | – | (33,660) |
| Exchange realignment | 38 | 55 | – | – | 93 |
| At 30 June 2016 (Unaudited) | 6,418,399 | 33,324 | 219,379 | 91,640 | 6,762,742 |
| CARRYING VALUES | | | | | |
| At 30 June 2016 (Unaudited) | 12,054,277 | 342,804 | 1,675,062 | 126,509 | 14,198,652 |

Intangible assets principally represent development costs capitalised in accordance with the Group's accounting policies, trademarks, licenses and contractual customer relationships.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

13. ACCOUNTS AND NOTES RECEIVABLE

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|----------------------------------|---|---|
| Accounts receivable | | |
| – Ultimate holding company | 222 | 4,310 |
| – Fellow subsidiaries | 5,319,946 | 5,961,059 |
| – A joint venture | 561 | 259 |
| – Associates | 2,477 | 26,523 |
| – Others | 9,541,796 | 6,686,343 |
| | 14,865,002 | 12,678,494 |
| Less: impairment loss recognised | (711,772) | (664,157) |
| | 14,153,230 | 12,014,337 |
| Notes receivable | | |
| – Fellow subsidiaries | 1,272,785 | 2,191,714 |
| – A joint venture | 307 | 1,034 |
| – Others | 1,324,251 | 1,940,709 |
| | 2,597,343 | 4,133,457 |
| | 16,750,573 | 16,147,794 |

Certain accounts and notes receivable were pledged as security for bank borrowings (Note 16).

Accounts receivable are due according to the terms on the relevant contract. The following is an ageing analysis of accounts receivable net of accumulated impairment losses presented based on the invoice date at the end of reporting period which approximate the respective revenue recognition date.

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|---------------|---|---|
| Within 1 year | 11,822,973 | 9,735,933 |
| 1 to 2 years | 1,853,116 | 1,788,223 |
| 2 to 3 years | 343,669 | 376,470 |
| Over 3 years | 133,472 | 113,711 |
| | 14,153,230 | 12,014,337 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|--|---|---|
| Advances to suppliers | | |
| – Fellow subsidiaries | 423,950 | 862,471 |
| – Others | 616,436 | 885,063 |
| Dividend receivable | | |
| – Associates | 36,904 | 50 |
| – Others | 820 | – |
| Other advances to | | |
| – Ultimate holding company | 515 | 412 |
| – Fellow subsidiaries | 436,911 | 76,638 |
| – Associates | 221 | – |
| Other receivables | 554,710 | 724,876 |
| Amounts due from customers for contract work | 145,806 | 145,806 |
| Prepayments and deposits | 892,131 | 728,317 |
| Other current assets | | |
| – Fellow subsidiaries | 818 | – |
| – Others | 629,254 | 502,931 |
| | 3,738,476 | 3,926,564 |
| Less: Non-current portion | (693,810) | (638,067) |
| | 3,044,666 | 3,288,497 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

15. ACCOUNTS AND NOTES PAYABLE

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|----------------------------|---|---|
| Accounts payable | | |
| – Ultimate holding company | 61 | 138 |
| – Fellow subsidiaries | 3,418,988 | 3,037,576 |
| – Joint ventures | – | 8,172 |
| – Associates | 14,499 | 4,492 |
| – Others | 17,086,809 | 14,747,489 |
| | 20,520,357 | 17,797,867 |
| Notes payable | | |
| – Fellow subsidiaries | 877,848 | 1,823,728 |
| – Joint ventures | 40,534 | 51,262 |
| – Associates | – | 600 |
| – Others | 2,982,335 | 4,279,745 |
| | 3,900,717 | 6,155,335 |
| | 24,421,074 | 23,953,202 |

The following is an ageing analysis of accounts payable presented based on the invoice date at the end of the reporting period.

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|---------------|---|---|
| Within 1 year | 16,686,659 | 13,139,169 |
| 1 to 2 years | 2,129,211 | 3,079,340 |
| 2 to 3 years | 827,025 | 1,178,862 |
| Over 3 years | 877,462 | 400,496 |
| | 20,520,357 | 17,797,867 |

The notes payable are with an average maturity period of less than six months. As at 30 June 2017, notes payable of approximately RMB2,953,253,000 (31 December 2016: RMB3,360,153,000) were secured by pledged deposits to the extent of approximately RMB832,144,000 (31 December 2016: RMB1,009,104,000).

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

Borrowings comprise:

| | 30 June 2017 | | | 31 December 2016 | | |
|-------------------------------------|-------------------------|----------------------|------------|-------------------------|--------------------|-----------|
| | Effective interest rate | Maturity (Unaudited) | RMB'000 | Effective interest rate | Maturity (Audited) | RMB'000 |
| Current | | | | | | |
| Bank borrowings | | | | | | |
| – unsecured | 2% – 6% | 2018 | 2,564,257 | 3% – 6% | 2017 | 1,310,000 |
| Bank borrowings | | | | | | |
| – secured | 4% – 5% | 2018 | 62,400 | 4% – 6% | 2017 | 62,400 |
| Other borrowings | | | | | | |
| – unsecured | 3% – 5% | 2018 | 2,115,500 | 3% – 6% | 2017 | 1,769,500 |
| Other borrowings | | | | | | |
| – secured | 4% – 6% | 2018 | 165,000 | 4% – 6% | 2017 | 286,500 |
| Current portion of long term | | | | | | |
| Bank borrowings | | | | | | |
| – unsecured | 4% – 6% | 2018 | 28,812 | 4% – 6% | 2017 | 234,774 |
| Bank borrowings | | | | | | |
| – secured | 3% – 7% | 2018 | 220,612 | 2% – 7% | 2017 | 499,116 |
| Other borrowings | | | | | | |
| – unsecured | 3% – 6% | 2018 | 110,100 | 4% – 6% | 2017 | 171,800 |
| Other borrowings | | | | | | |
| – secured | 4% – 5% | 2018 | 502,500 | 4% – 6% | 2017 | 2,500 |
| | | | 5,769,181 | | | 4,336,590 |
| Non-current | | | | | | |
| Bank borrowings | | | | | | |
| – unsecured | 2% – 5% | 2017 – 2031 | 486,083 | 1% – 6% | 2018 – 2030 | 41,036 |
| Bank borrowings | | | | | | |
| – secured | 2% – 7% | 2017 – 2031 | 557,621 | 2% – 7% | 2018 – 2026 | 389,318 |
| Other borrowings | | | | | | |
| – unsecured | 4% – 6% | 2017 – 2021 | 3,290,651 | 2% – 8% | 2018 – 2019 | 3,437,844 |
| Other borrowings | | | | | | |
| – secured | 4% – 5% | 2018 – 2019 | 5,950 | 4% – 6% | 2018 – 2021 | 505,950 |
| | | | 4,340,305 | | | 4,374,148 |
| Total borrowings | | | 10,109,486 | | | 8,710,738 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

16. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|--|---|---|
| Bank borrowings: | | |
| – Within one year | 2,876,081 | 2,106,290 |
| – After one year but within two years | 673,669 | 184,575 |
| – After two years but within five years | 209,616 | 75,536 |
| – After five years | 160,419 | 170,243 |
| | 3,919,785 | 2,536,644 |
| Other borrowings: | | |
| – Within one year | 2,893,100 | 2,230,300 |
| – After one year but within two years | 2,261,555 | 523,000 |
| – After two years but within five years | 1,035,046 | 3,420,794 |
| | 6,189,701 | 6,174,094 |
| | 10,109,486 | 8,710,738 |
| | | |
| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
| Carrying amount repayable within one year and shown under current liabilities | 5,769,181 | 4,336,590 |
| Amounts shown under non-current liabilities | 4,340,305 | 4,374,148 |
| | 10,109,486 | 8,710,738 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

16. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes:

(a) As at 30 June 2017, other borrowings represented:

- corporate bonds issued by AVIC Jonhon Optron Technology Co., Ltd. in an aggregate principal amount of RMB500,000,000 (31 December 2016: RMB500,000,000) bearing interest at 5.08% per annum and guaranteed by the Company.
- medium-term notes issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB1,000,000,000 (31 December 2016: RMB1,000,000,000) bearing interest at 3.52% per annum.
- medium-term notes issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB900,000,000 (31 December 2016: RMB900,000,000) bearing interest at 3.20% per annum.
- borrowings granted by a fellow subsidiary of AVIC amounting to approximately RMB3,799,338,000 (31 December 2016: RMB3,786,538,000) bearing interest at 3% to 6% per annum.

The Group's long-term and short-term bank borrowings and other borrowings are secured as follows:

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|---|---|---|
| Securities over the Group's assets, at carrying value | | |
| – Pledged deposits | 2,000 | 2,000 |
| – Buildings | – | 21,479 |
| – Notes receivable | 25,000 | 16,500 |
| – Accounts receivable | 178,940 | 238,940 |
| | 205,940 | 278,919 |
| Guarantees provided by | | |
| – Fellow subsidiaries | 478,493 | 254,434 |
| – Entities within the Group | 1,079,000 | 1,242,450 |
| | 1,557,493 | 1,496,884 |
| | 1,763,433 | 1,775,803 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

17. SHARE CAPITAL

| | Number of shares | | Share capital | |
|--|--|--|---|---|
| | 30 June 2017 '000 (Unaudited) | 31 December 2016 '000 (Audited) | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
| Domestic shares of RMB1 each as at 30 June 2017 (31 December 2016: RMB1 each) | | | | |
| Registered, issued and fully paid: | | | | |
| At beginning of the period/year | 3,609,688 | 3,117,995 | 3,609,688 | 3,117,995 |
| Issue of shares upon placing | – | 491,693 | – | 491,693 |
| At end of the period/year | 3,609,688 | 3,609,688 | 3,609,688 | 3,609,688 |
| H shares of RMB1 each as at 30 June 2017 (31 December 2016: RMB1 each) | | | | |
| Registered, issued and fully paid: | | | | |
| At beginning and end of the period/year | 2,356,434 | 2,356,434 | 2,356,434 | 2,356,434 |
| | 5,966,122 | 5,966,122 | 5,966,122 | 5,966,122 |

18. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|---|---|---|
| Land and buildings | | |
| – Within one year | 47,759 | 34,263 |
| – In the second to fifth year inclusive | 49,160 | 44,881 |
| – Over five years | 8,887 | 28,944 |
| | 105,806 | 108,088 |

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms ranged from one to five (31 December 2016: one to five) years with fixed rentals.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

19. CAPITAL COMMITMENTS

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|--|---|---|
| Commitments contracted but not provided for in respect of: | | |
| – Acquisition of plant and equipment | 224,435 | 62,080 |
| – Construction | 105,485 | 436,881 |
| | 329,920 | 498,961 |

20. RELATED PARTY TRANSACTIONS

(a) During the period, the Group entered into the following transactions with related parties:

| | Six months ended 30 June 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
|---------------------------|--|--------------------------------|
| Associates: | | |
| – Sales of products | 2,245 | 4,935 |
| – Purchases of products | – | 20,348 |
| – Rental expense | 143 | 535 |
| Joint ventures: | | |
| – Sales of products | 1,298 | 277 |
| – Purchases of products | 52,705 | 48,072 |
| Ultimate holding company: | | |
| – Sales of products | 10,537 | – |
| Fellow subsidiaries: | | |
| – Sales of products | 7,769,903 | 8,280,995 |
| – Purchases of products | 3,480,000 | 3,773,431 |
| – Rendering of service | 1,246,918 | 2,459,703 |
| – Service fee payable | 218,233 | 132,431 |
| – Rental expense | 47,279 | 19,895 |
| – Rental income | 7,000 | 6,063 |
| – Guarantee | 478,493 | 494,424 |
| Others: | | |
| – Sales of products | – | 4,129 |

In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of the Group's business and were determined based on mutually agreed terms.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

20. RELATED PARTY TRANSACTIONS (Continued)

(b) The following balances were outstanding at the end of the reporting period:

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|------------------------------------|---|---|
| Accounts receivable: | | |
| – Ultimate holding company | 222 | 4,310 |
| – Fellow subsidiaries | 5,319,946 | 5,961,059 |
| – A joint venture | 561 | 259 |
| – Associates | 2,477 | 26,523 |
| Notes receivable: | | |
| – Fellow subsidiaries | 1,272,785 | 2,191,714 |
| – A joint venture | 307 | 1,034 |
| Advance to suppliers | | |
| – Fellow subsidiaries | 423,950 | 862,471 |
| Other receivables and prepayments: | | |
| – Ultimate holding company | 515 | 412 |
| – Fellow subsidiaries | 437,729 | 76,638 |
| – Associates | 37,125 | 50 |
| Cash and cash equivalents: | | |
| – A fellow subsidiary | 1,771,186 | 2,985,086 |
| Accounts payable: | | |
| – Ultimate holding company | 61 | 138 |
| – Fellow subsidiaries | 3,418,988 | 3,037,576 |
| – Joint ventures | – | 8,172 |
| – Associates | 14,499 | 4,492 |
| Notes payable: | | |
| – Fellow subsidiaries | 877,848 | 1,823,728 |
| – Joint ventures | 40,534 | 51,262 |
| – Associates | – | 600 |
| Advances from customers | | |
| – Ultimate holding company | 32,270 | 32,267 |
| – Fellow subsidiaries | 2,683,276 | 1,690,207 |
| Other payables and accruals | | |
| – Ultimate holding company | 377 | 270,934 |
| – Fellow subsidiaries | 810,342 | 681,408 |
| – Associates | 50 | – |
| Borrowings | | |
| – Fellow subsidiaries | 3,807,906 | 3,786,538 |

Except for borrowings from fellow subsidiary as stated in Note 16, other balances with related parties above are unsecured, non-interest bearing, and are repayable or settled in accordance with the relevant trading terms.

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

20. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel

The remuneration of key management during the period were as follows:

| | Six months ended 30 June | |
|------------------------------|--------------------------|-------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Short-term employee benefits | 1,369 | 2,195 |
| Share-based payment expenses | – | – |
| | 1,369 | 2,195 |

The remuneration of key management, which includes directors (executive and non-executive), supervisors, senior management and Board secretary, are determined by the remuneration committee having regard to the performance of individuals and market trends.

21. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | 30 June | 31 December |
|---|-------------|-------------|
| | 2017 | 2016 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | 30,314,729 | 29,886,506 |
| Financial assets at fair value through profit or loss | | |
| Financial assets held for trading | 26,934 | 31,057 |
| Available-for-sale investments | 1,406,509 | 1,477,284 |
| Financial liabilities | | |
| At amortised cost | 35,780,253 | 33,837,772 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

21. FINANCIAL INSTRUMENTS (Continued)

(b) Fair value measurements recognised in the consolidated statement to financial position

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

| | As at 30 June 2017 | | |
|--|------------------------|--------------------|------------------|
| | Level 1 RMB'000 | Level 2 RMB'000 | Total RMB'000 |
| Financial assets at fair value through profit or loss | | | |
| Financial assets held for trading | 26,934 | – | 26,934 |
| Available-for-sale financial assets | | | |
| Listed equity securities | 657,647 | 156,946 | 814,593 |
| | 684,581 | 156,946 | 841,527 |
| | As at 31 December 2016 | | |
| | Level 1 RMB'000 | Level 2 RMB'000 | Total RMB'000 |
| Financial assets at fair value through profit or loss | | | |
| Financial assets held for trading | 31,057 | – | 31,057 |
| Available-for-sale financial assets | | | |
| Listed equity securities | 746,908 | 170,170 | 917,078 |
| | 777,965 | 170,170 | 948,135 |

Notes to the interim condensed consolidated financial statements

For the six months ended 30 June 2017

21. FINANCIAL INSTRUMENTS (Continued)

(b) Fair value measurements recognised in the consolidated statement to financial position (Continued)

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

During the period, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016:Nil).

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair value:

| | Level 2 | |
|---|----------------------------------|--------------------------------------|
| | As at 30 June 2017 RMB'000 | As at 31 December 2016 RMB'000 |
| Assets | | |
| Investment properties | 600,227 | 569,084 |
| Financial liabilities | | |
| Interest-bearing bank and other borrowings: non-current | 4,605,672 | 4,387,441 |
| Other payables and accruals: non-current | 15,954 | 26,341 |
| | 4,621,626 | 4,413,782 |

BOARD OF DIRECTORS

| | |
|---|------------------------|
| Executive Director (Chairman) | Lin Zuoming |
| Non-executive Director (Vice Chairman) | Tan Ruisong |
| Non-executive Director | Wu Xiandong |
| Non-executive Director | Li Yao |
| Non-executive Director | He Zhiping |
| Non-executive Director | Patrick de Castelbajac |
| Independent Non-executive Director | Lau Chung Man, Louis |
| Independent Non-executive Director | Liu Renhuai |
| Independent Non-executive Director | Yeung Chi Wai |

SUPERVISORY COMMITTEE

| | |
|------------|-------------|
| Chairman | Zheng Qiang |
| Supervisor | Liu Fumin |
| Supervisor | Li Jing |

SENIOR MANAGEMENT

| | |
|----------------------|------------|
| General Manager | Qu Jingwen |
| Vice General Manager | Yu Feng |
| Vice General Manager | Tang Jun |
| Board Secretary | Gan Liwei |

COMPANY SECRETARY

Xu Bin

THE NAME OF THE COMPANY

| |
|--|
| 中國航空科技工業股份有限公司 |
| AviChina Industry & Technology Company Limited |
| Abbreviation name in Chinese: 中航科工 |
| Abbreviation name in English: AVICHINA |
| Legal representative: Lin Zuoming |

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2202A, 22th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong

AUTHORISED REPRESENTATIVES

Tan Ruisong Xu Bin

PRINCIPAL BANKERS

Shanghai Pudong Development Bank Limited
No. 12, Zhongshan Dong Yi Road,
Shanghai, the PRC

Bank of Communications Co., Ltd.
No. 188, Yin Cheng Zhong Road, Pudong New District,
Shanghai, the PRC

China Minsheng Banking Corp., Ltd.
No. 2, Fuxingmennei Street, Xicheng District,
Beijing, the PRC

Bank of China Limited
No. 1, Fuxingmennei Street, Xicheng District,
Beijing, the PRC

PLACE OF LISTING, STOCK NAME AND STOCK CODE

Main Board of The Stock Exchange of Hong Kong Limited (H Share)
Stock name: AVICHINA
Stock code: 2357

REGISTERED ADDRESS

8th Floor, Tower 2, No. 5A, Rongchang East Street,
Beijing Economic Technological Development Area,
Beijing, the PRC

WEBSITE

www.avichina.com

Corporate Information

CORRESPONDENCE ADDRESS

9/F., Easyhome Tower, No. 3A Dongzhimen South Avenue,
Dongcheng District, Beijing, the PRC
Postal Code: 100007

Telephone: 86-10-58354309

Facsimile: 86-10-58354310/00

E-mail: avichina@avichina.com

SHARE REGISTRAR

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

AUDITORS

International Auditors

SHINEWING (HK) CPA Limited
43/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay,
Hong Kong

Auditors in the PRC

ShineWing Certified Public Accountant LLP
9/F, Block A, Fu Hua Mansion, No.8,
Chaoyangmen North Avenue,
Dongcheng District, Beijing, the PRC

LEGAL ADVISERS

As to Hong Kong law

Baker & McKenzie
14th Floor, Hutchison House, 10 Harcourt Road,
Central, Hong Kong

As to PRC law

Beijing Jingtian & Gongcheng Law Firm
34th Floor, Tower 3, China Central Place, 77 Jianguo Road,
Chaoyang District, Beijing, the PRC

Download this Report:

