中航國際控股股份有限公司

AVIC INTERNATIONAL HOLDINGS LIMITED

(Stock Code : 0161)

Interim Report

2018

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

EXECUTIVE DIRECTORS

Mr. Liu Hong De, *chairman*
Mr. Lai Wei Xuan, *vice chairman*
Mr. You Lei, *vice chairman*
Ms. Zhou Chun Hua
Mr. Chen Hong Liang
Mr. Liu Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Wong Wai Ling
Mr. Wu Wei *(re-elected as an independent non-executive director on 12 June 2018)*
Mr. Wei Wei

SUPERVISORS

Ms. Jiao Yan, *chairman (appointed on 12 June 2018)*
Mr. Liang Chi
Mr. Liu Yong Ze
Mr. Yang Xi
Mr. Cao Jiang *(resigned on 12 June 2018)*

JOINT COMPANY SECRETARY

Mr. Zhong Si Jun
Mr. Xiao Zhang Lin *(appointed on 5 February 2018)*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Wei Wei, *chairman*
Mr. Liu Hong De
Mr. Chen Hong Liang
Ms. Wong Wai Ling
Mr. Wu Wei

NOMINATION COMMITTEE

Mr. Wu Wei, *chairman*
Mr. Liu Hong De
Mr. Chen Hong Liang
Ms. Wong Wai Ling
Mr. Wei Wei

REGISTERED ADDRESS OF THE COMPANY

39/F, AVIC Center Building,
No. 1018, Huafu Road,
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

Deloitte Touche Tohmatsu

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 2018 prepared in accordance with the International Financial Reporting Standards as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited Six months ended 30 June	
	Notes	**2018** **RMB'000**	2017 RMB'000 (Restated)
Revenue	5	**24,983,070**	19,135,038
Cost of sales		**(20,902,361)**	(15,111,549)
Gross profit		**4,080,709**	4,023,489
Distribution costs		**(1,012,441)**	(1,045,190)
Administrative expenses		**(1,930,063)**	(1,930,924)
Impairment losses of trade receivable, net of reversal		**(41,082)**	(38,184)
Other income		**528,350**	536,424
Other gains/(losses) – net		**151,053**	(26,535)
Operating profit		**1,776,526**	1,519,080
Finance income		**163,537**	131,798
Finance costs		**(783,035)**	(724,731)
Finance costs – net		**(619,498)**	(592,933)
Share of profit of investments accounted for using the equity method		**27,192**	107,171
Profit before income tax		**1,184,220**	1,033,318
Income tax expense	6	**(187,564)**	(242,438)
Profit for the period	7	**996,656**	790,880
Profit attributable to:			
Owners of the Company		**137,778**	146,135
Non-controlling interests		**858,878**	644,745
		996,656	790,880
Earnings per share attributable to the owners of the Company during the period (RMB per share)			
Basic earnings per share	9	**0.1062**	0.1134
Diluted earnings per share	9	**0.0700**	0.0743

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000* (Restated)
Profit for the period	**996,656**	790,880
Other comprehensive (expense)/income:		
Item that will not be reclassified to profit or loss		
Remeasurements of retirement and other supplemental benefit obligations	**(904)**	–
Item that will may be reclassified to profit or loss		
Currency translation differences	**(37,543)**	111,008
Other comprehensive (expense)/income for the period, net of tax	**(38,447)**	111,008
Total comprehensive income for the period, net of tax	**958,209**	901,888
Attributable to:		
– Owners of the Company	**97,530**	248,915
– Non-controlling interests	**860,679**	652,973
Total comprehensive income for the period	**958,209**	901,888

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000 (Restated)
ASSETS			
Non-current assets			
Land use rights		**3,092,939**	2,729,189
Goodwill		**1,030,746**	989,343
Intangible assets		**1,011,999**	957,241
Property, plant and equipment		**37,844,933**	33,094,986
Investment properties		**2,511,930**	2,458,127
Construction-in-progress		**11,324,623**	11,197,997
Investments accounted for using the equity method		**2,300,606**	2,614,019
Contract assets	*11*	**255,900**	–
Trade and other receivables	*10*	**221,346**	399,150
Available-for-sale financial assets		**–**	54,617
Financial assets at fair value through profit or loss		**54,694**	–
Deferred income tax assets		**760,132**	688,747
Other non-current assets		**448,622**	278,691
		60,858,470	55,462,107
Current assets			
Inventories		**7,968,940**	7,405,143
Properties under development		**1,241,605**	871,690
Trade and other receivables	*10*	**21,487,240**	18,465,691
Contract assets	*11*	**1,142,867**	–
Amounts due from customers for contract work		**–**	2,038,512
Financial assets at fair value through profit or loss		**6,205**	15,371
Restricted Cash		**233,650**	370,084
Cash and cash equivalents		**8,962,818**	13,381,444
		41,043,325	42,547,935
Total assets		**101,901,795**	98,010,042

	Notes	**Unaudited 30 June 2018 *RMB'000***	Audited 31 December 2017 *RMB'000* (Restated)
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**1,166,162**	1,166,162
Share premium		**1,512,380**	1,512,380
Perpetual subordinated convertible securities ("PSCS")		**2,781,674**	2,781,674
Other reserves		**2,042,595**	2,118,136
Retained earnings		**5,960,445**	5,822,667
		13,463,256	13,401,019
Non-controlling interests		**25,404,757**	24,013,716
Total equity		**38,868,013**	37,414,735
LIABILITIES			
Non-current liabilities			
Borrowings	*13*	**18,948,959**	16,821,129
Deferred income tax liabilities		**736,912**	712,722
Deferred income on government grants		**2,066,221**	2,172,383
Provisions		**136,342**	143,933
Trade and other payables	*12*	**190,510**	124,510
Retirement and other supplemental benefit obligations		**401,230**	404,731
Other non-current liabilities		**82,293**	75,673
		22,562,467	20,455,081
Current liabilities			
Trade and other payables	*12*	**20,747,447**	22,664,639
Contact liabilities	*11*	**4,700,459**	–
Amounts due to customers for contract work		**–**	489,700
Borrowings	*13*	**14,867,387**	16,532,239
Current income tax liabilities		**147,547**	436,232
Retirement and other supplemental benefit obligations		**8,475**	15,910
Other current liabilities		**–**	1,506
		40,471,315	40,140,226
Total liabilities		**63,033,782**	60,595,307
Total equity and liabilities		**101,901,795**	98,010,042
Net current assets		**572,010**	2,407,709
Total assets less current liabilities		**61,430,480**	57,869,816

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Attributable to owners of the Company							
	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	Total equity RMB'000
Balance as at 1 January 2018, as restated	1,166,162	1,512,380	2,781,674	2,118,136	5,822,667	13,401,019	24,013,716	37,414,735
Comprehensive income								
Profit for the period	-	-	-	-	137,778	137,778	858,878	996,656
Other comprehensive income	-	-	-	(40,248)	-	(40,248)	1,801	(38,447)
Total comprehensive income	-	-	-	(40,248)	137,778	97,530	860,679	958,209
Transactions with owners								
Transactions with non-controlling interests	-	-	-	(43,629)	-	(43,629)	700,529	656,900
Special reserve-safety production fund	-	-	-	8,844	-	8,844	281	9,125
Share of reserves of an associate	-	-	-	(508)	-	(508)	-	(508)
Dividends relating to 2018	-	-	-	-	-	-	(170,448)	(170,448)
Total transactions with owners	-	-	-	(35,293)	-	(35,293)	530,362	495,069
Balance as at 30 June 2018	1,166,162	1,512,380	2,781,674	2,042,595	5,960,445	13,463,256	25,404,757	38,868,013

	Unaudited							
	Attributable to owners of the Company							
	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*	Total equity *RMB'000*
Balance as at 1 January 2017, as previously reported	1,166,162	1,512,380	2,781,674	1,175,232	5,403,799	12,039,247	13,327,266	25,366,513
Effect of business combination under common control *(Note 2)*	–	–	–	271,048	55,991	327,039	8,578,716	8,905,755
Balance as at 1 January 2017, as restated	1,166,162	1,512,380	2,781,674	1,446,280	5,459,790	12,366,286	21,905,982	34,272,268
Comprehensive income								
Profit for the period	–	–	–	–	146,135	146,135	644,745	790,880
Other comprehensive income	–	–	–	102,780	–	102,780	8,228	111,008
Total comprehensive income	–	–	–	102,780	146,135	248,915	652,973	901,888
Transactions with owners								
Disposal of subsidiaries	–	–	–	–	–	–	(12,047)	(12,047)
Special reserve-safety production fund	–	–	–	481	–	481	208	689
Dividends relating to 2017	–	–	–	–	–	–	(29,159)	(29,159)
Total transactions with owners	–	–	–	481	–	481	(40,998)	(40,517)
Balance as at 30 June 2017	1,166,162	1,512,380	2,781,674	1,549,541	5,605,925	12,615,682	22,517,957	35,133,639

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Unaudited Six months ended 30 June 2018 RMB'000	2017 RMB'000 (Restated)
Cash flows from operating activities:			
Cash generated from operations		**2,865,697**	1,049,113
Interest paid		**(784,387)**	(587,717)
Income tax paid		**(511,801)**	(319,029)
Net cash flows generated from operating activities		**1,569,509**	142,367
Cash flows from investing activities:			
Acquisition of a subsidiary, net of cash acquired	*17(d)*	**56,901**	–
Net proceeds from disposal of investment in associate		**39,441**	–
Net proceeds from disposal of investment in joint control entities		**829,882**	–
Contribution to associate		**(2,500)**	(5,100)
Net proceeds from disposal of subsidiaries		**–**	600,000
Net proceeds from disposal of property, plant and equipment and investment properties		**13,988**	4,372
Purchase of land use rights		**(92,452)**	(45,324)
Additions to property, plant and equipment and construction in process		**(4,705,561)**	(7,827,708)
Loans to related parties		**(348,551)**	(20,000)
Repayment of loans to related parties		**56,642**	–
Additions to financial assets at fair value through profit or loss		**(446,135)**	(6,114)
Government grants received		**322,879**	487,137
Interest received		**106,653**	93,045
Dividends received		**31,247**	26,716
Net cash flows used in investing activities		**(4,137,566)**	(6,692,976)
Cash flows from financing activities:			
Proceeds from bank borrowings		**9,493,211**	14,161,183
Repayments of bank borrowings		**(10,753,718)**	(8,246,181)
Borrowings from related parties		**1,095,034**	1,690,900
Repayments of borrowings from related parties		**(1,481,814)**	(2,150,900)
Dividends paid to non-controlling interests of subsidiaries		**(170,786)**	(4,659)
Net cash flows generated from financing activities		**(1,818,073)**	5,450,343
Net decrease in cash and cash equivalents		**(4,386,130)**	(1,100,266)
Cash and cash equivalents at beginning of period		**13,381,444**	9,639,923
Currency translation differences		**(32,496)**	104,626
Cash and cash equivalents at end of period		**8,962,818**	8,644,283

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

AVIC International Holdings Limited (the "Company") was incorporated as a joint stock limited company in the People's Republic of China (the "PRC") and its 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, international engineering, logistic and shipping building service relating to engineering, procurement and construction projects ("EPC projects") development in the PRC. The address of the principal place of business and the registered office of the Company is 39/F, AVIC Centre Building, No. 1018 Huafu Road, Futian District, Shenzhen, PRC.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its principal subsidiaries.

The condensed consolidated financial statements have been approved for issue on 24 August 2018.

2 BASIS OF PREPARATION

This condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") Interim Financial Reporting issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

Business combination in relation to Xiamen Tianma Microelectronics Co., Ltd. ("Xianmen Tianma Company") and Shanghai Tian Ma Organic Light-Emitting Company Limited ("Tianma Organic Company")

On 10 March 2017, Tianma Micro-electronics Co. Ltd. ("Tianma"), a subsidiary of the Company entered into two separate framework agreements for acquiring the interests in the related companies in consideration for which Tianma will issue and allot approximately 647,024,307 A Shares to the related selling parties ("Tianma Transactions"). The details are as follows:

(a) Tianma acquired 14.7%, 15.3%, 6% and 64% equity interest (in aggregate 100% equity interest) in Xiamen Tianma Company from AVIC International Holding Corporation ("AVIC International"), the ultimate holding company of the Company, AVIC International Shenzhen Company Limited ("AVIC Shenzhen"), a wholly owned subsidiary of AVIC International, CATIC Xiamen Company Limited ("AVIC Xiamen"), a wholly owned subsidiary of the Group, and Xiamen Jincai Industrial Development Company Limited ("Xiamen Jincai"), an independent third party, respectively ("Xiamen Tianma Acquisition"); and

(b) Tianma acquired 40% and 20% equity interest (in aggregate 60% equity interest) in Tianma Organic Company from Shanghai Investment Company and Shanghai Zhangjiang Company, respectively.

Since the date of establishment of Xiamen Tianma Company, Xiamen Jincai agreed to transfer its 34% voting rights of Xiamen Tianma Company to AVIC Shenzhen, hence AVIC Shenzhen held 49.3% voting rights of Xiamen Tianma Company collectively. In addition, AVIC Shenzhen has the contractual right to appoint three out of five directors to the board of directors of Xiamen Tianma Company. Accordingly, Xiamen Tianma Company has been the subsidiary of AVIC Shenzhen since the date of its establishment prior to the Xiamen Tianma Acquisition.

The Tianma Transactions were completed on 2 February 2018. Upon completion of the Tianma Transactions, Xiamen Tianma Company became a wholly owned subsidiary of Tianma, while Tianma held 60% equity interests in Tianma Organic Company.

The acquisitions of equity interests in Tianma Organic Company was accounted for as transactions with non-controlling interests, the acquisition of equity interests in Tianma Organic Company was accounted for as business combination involving entities not under common control, and the acquisitions of equity interests in Xiamen Tianma Company was treated as business combinations involving entities under common control and accounted for on the basis of merger accounting.

Since the Company and Xiamen Tianma Company are under common control of AVIC International, the acquisitions of equity interests in Xiamen Tianma Company disclosed above has constituted a business combination under common control. The assets and liabilities of Xiamen Tianma Company have been recognised in the condensed consolidated financial statements of the Group at the carrying amounts recognised previously in AVIC International's consolidated financial statements. The condensed consolidated statement of profit or loss and condensed consolidated statement of profit or loss and other comprehensive income includes the results of Xiamen Tianma Company since the date when the combining businesses first came under the common control. The condensed consolidated financial statements of the Group have been restated as if the businesses had been combined when they first came under common control.

The effect of restatements described above on the condensed consolidated statement of financial position as at 31 December 2017 and is as follows:

	The Group as previously reported *RMB'000*	Merger of Xiamen Tianma Company *RMB'000*	Eliminations *(Note)* *RMB'000*	The Group as restated *RMB'000*
Non-current assets	35,204,022	21,036,824	(778,739)	55,462,107
Current assets	38,359,034	5,070,242	(881,341)	42,547,935
Total assets	73,563,056	26,107,066	(1,660,080)	98,010,042
Non-current liabilities	13,423,142	7,056,726	(24,787)	20,455,081
Current liabilities	32,325,180	8,649,092	(834,046)	40,140,226
Total liabilities	45,748,322	15,705,818	(858,833)	60,595,307
Total equity	27,814,734	10,401,248	(801,247)	37,414,735

Note:

The eliminations adjustments include:

(i) Derecognition of available-for-sale financial assets amounting to RMB627,150,000 in Xiamen Tianma Company held by AVIC Xiamen, a wholly owned subsidiary of the Company.

(ii) Elimination of Xiamen Tianma Company's share capital amounting to RMB8,800,000,000.

(iii) Elimination of retained earnings attributable to shareholders of the Company amounting to RMB833,668,000.

(iv) The recognition of non-controlling interests amounting to RMB9,192,018,000, due to that the Company's equity interests in Tianma were diluted from 20.81% to 16.32% after the completion of the Xiamen Tianma Acquisition.

The effect of restatements described above on the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017 and is as follows:

	The Group as previously reported *RMB'000*	Merger of Xiamen Tianma Company *RMB'000*	Eliminations *(Note)* *RMB'000*	The Group as restated *RMB'000*
Revenue	15,891,633	3,864,430	(621,025)	19,135,038
Profit for the year	533,503	306,311	(48,934)	790,880

Note: The adjustments represent elimination of intra-group transactions and balances between the Group and Xiamen Tianma Company which include sales and purchase of goods and services, also include recognition of transaction cost of Xiamen Tianma Acquisition.

The effects of restatements described above on the condensed consolidated cash flow for the period ended 30 June 2017 are as follows:

	Six months ended 30 June 2017 *RMB'000*
Decrease in net cash generated from operating activities	(871,517)
Increase in net cash used in investing activities	(2,556,799)
Increase in net cash generated from financing activities	3,230,062
Increase in cash and cash equivalents at the beginning of the period	619,542
Decrease in exchange difference in cash and cash equivalents	(1,404)
Increase in cash and cash equivalents at the end of the period	419,884

3 PRINCIPAL ACCOUNTING POLICES

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

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 *Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers*

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources:

- Manufacture and sales of flat panel displays and modules ("FPD") products
- Manufacture and sales of printed circuit boards ("PCB") products
- Manufacture of middle to high-end wrist watches and chain store sales of luxury watches
- International engineering service, EPC Projects related to cement Engineering and shipping building business, trading and logistics
- Other services such as property management services and trading of fasteners

Revenue from sale of FPD and PCB products is recognised at a point in time when the products have been delivered and accepted by the customer and collectability of the related receivables is reasonably assured.

Revenue from sale of watches is recognised at a point in time when the entity satisfies a performance obligation by transferring promised products to the customer. An asset is transferred when the customer obtains control of that asset.

Revenue from EPC projects is recognised over time. For construction contracts under international engineering services and cement engineering, the Group's performance creates and enhances an asset that the customer controls as the Group performs. For shipping building contracts, the Group does not have an alternative use for the specialised assets which are built to customers' order and the Group has an enforceable right to payment for performance completed to date in accordance with the terms of contracts.

Revenue from trading under international engineering services and trading of fasteners are recognised at a point in time when the customer obtain the control of the goods.

Revenue from property management services and logistics services is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has selected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation on the revenue from EPC Projects is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Output method

The progress towards complete satisfaction of a performance obligation on the revenue from the property management services is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

Variable consideration

For shipping building contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Principal versus agent

When another party is involved in providing goods or services to a customer in trading and logistics business, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

The directors of the Company reviewed and assessed the Group's trading and logistics business as at 1 January 2018 based on the facts and circumstances that existed at that date. There is no impact in the principal versus agent accounting policies of the Group upon adoption of IFRS 15.

Warranties

The customer does not have the option to purchase a warranty separately. The Group accounts for the warranty in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications (i.e. service-type warranties).

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

3.1.2 Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts restated under merger accounting at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS 15 at 1 January 2018* RMB'000
Non-current Assets				
Contract assets		–	175,173	175,173
Trade and other receivables	(b)	399,150	(175,173)	223,977
Current Assets				
Trade and other receivables	(b)	18,465,691	(359,298)	18,106,393
Contract assets		–	2,397,810	2,397,810
Amounts due from customers for contract work	(a)	2,038,512	(2,038,512)	–
Current Liabilities				
Trade and other payables	(c)	22,664,639	(3,701,371)	18,963,268
Contract liabilities		–	4,191,071	4,191,071
Amounts due to customers for contract work	(a)	489,700	(489,700)	–

* The amounts in this column are before the adjustments from the application of IFRS 9.

(a) In relation to construction contracts previously accounted under IAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date upon initial application of IFRS 15. RMB2,038,512,000 and RMB489,700,000 of amounts due from/to customers for contract work were reclassified to contract assets and contract liabilities respectively.

(b) At the date of initial application, a total of RMB534,471,000 retention deposits and unbilled revenue arising from construction contracts are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was reclassified from trade and other receivables to contract assets.

(c) As at 1 January 2018, advances from customers of RMB3,701,371,000 in respect of consideration for contracts with customers previously included in trade and other payables were reclassified to contract liabilities.

The directors of the Company assessed that the application of IFRS 15 have no material impact on the timing and amounts of revenue recognised.

The following tables summarise the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018. There is no impact on the Group's condensed consolidated statement of profit or loss and other comprehensive income for the current interim period. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	Note	As reported *RMB'000*	Adjustments *RMB'000*	Amounts without application of IFRS 15 *RMB'000*
Non-current Assets				
Contract assets		255,900	(255,900)	–
Trade and other receivables		221,346	255,900	477,246
Current Assets				
Trade and other receivables		21,487,240	207,832	21,695,072
Contract assets		1,142,867	(1,142,867)	–
Amounts due from customers for contract work		–	935,035	935,035
Current Liabilities				
Trade and other payables		20,747,447	2,378,846	23,126,293
Contract liabilities		4,700,459	(4,700,459)	–
Amounts due to customers for contract work		–	2,321,613	2,321,613

Except as described above, the application of IFRS 15 has had no material impact on the amount reported in the condensed consolidated financial statements.

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, contract assets and financial guarantee contracts and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains/(losses)" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including cash and cash equivalents, pledged bank deposits, trade and other receivables, contract assets and financial guarantee contracts). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, contract assets and lease receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises life time ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. For financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL
The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For ECL on financial guarantee contracts for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

3.2.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Note	Available-for-sale *RMB'000*	Financial assets at FVTPL required by IAS 39/ IFRS 9 *RMB'000*
Closing balance as restated under merger accounting at 31 December 2017-IAS 39		54,617	–
Effect arising from initial application of IFRS 9:			
Reclassification			
From available-for-sale	*(a)*	(54,617)	54,617
Opening balance at 1 January 2018		–	54,617

(a) *Available-for-sale investments*

From AFS investments to FVTPL

At the date of initial application of IFRS 9, the Group's equity investments of RMB54,617,000 were reclassified from available-for-sale investments measured at fair value under IAS 39 to financial assets at FVTPL under IFRS 9.

(b) *Impairment under ECL model*

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets, trade receivables and lease receivables. To measure the ECL, contract assets and trade receivables have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, pledged bank deposits and cash and cash equivalents, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

For outstanding financial guarantees provided to a third party of approximately RMB747,640,000, the Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is measured on 12m ECL basis.

All loss allowances for financial assets including contract assets and trade and other receivables, as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows.

	Current-Amounts due from customers for contract work *RMB'000*	Current-Trade and other receivables *RMB'000*	Current-Contract assets *RMB'000*
At 31 December 2017 as restated under merger accounting – IAS 39	(69,507)	(9,971)	–
Reclassification	69,507	9,971	(79,478)
At 1 January 2018	–	–	(79,478)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Restated) *RMB'000* *(Note)*	IFRS 15 *RMB'000*	IFRS 9 *RMB'000*	1 January 2018 (Restated) *RMB'000*
Non-current Assets				
Available-for-sale investments	54,617	–	(54,617)	–
Financial assets at FVTPL	–	–	54,617	54,617
Contract assets	–	175,173	–	175,173
Trade and other receivables	399,150	(175,173)	–	223,977
Current Assets				
Trade and other receivables	18,465,691	(359,298)	–	18,106,393
Contract assets	–	2,397,810	–	2,397,810
Amounts due from customers for contract work	2,038,512	(2,038,512)	–	–
Current Liabilities				
Trade and other payables	22,664,639	(3,701,371)	–	18,963,268
Contract liabilities	–	4,191,071	–	4,191,071
Amounts due to customers for contract work	489,700	(489,700)	–	–

Note: The figures are restated for the merger accounting for business combination involving entities under common control, details refer to Note 2.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

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 condensed consolidated financial statements, 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 2017.

5 REVENUE AND 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.

In previous years, the Group reported its primary segment information based on four business segment, including: (i) High-tech Electronic Products – FPD and PCB; (ii) Retails and Consumer Products; (iii) Real Estate; (iv) Trading and Logistics.

During the current year, management has changed the presentation of the information reported to the chief operating decision makers to provide a more meaningful presentation of its business operations, consistent with the Group's long-term strategy and for the purpose of allocating resources to the segments and assessing the performance of the segments.

The Group is reorganised into the three 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
- International Engineering and Trading & Logistics – international engineering service, EPC projects related to cement business and shipping building business, trading and logistics.

The hotel business, real estate and standard parts products 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.

In compliance with the requirement of IFRS 8 "Operating Segments", the change of the presentation of the information reported to chief operating decision-makers has led to change in the segment report for prior period.

The revenue and profit/(loss) for the period of the Group for the six months ended 30 June 2018 and 2017 by activities are classified as follows:

	Revenue Six months ended 30 June		Profit/(loss) for the period Six months ended 30 June	
	2018 ***RMB'000*** **(Unaudited)**	2017 *RMB'000* (Unaudited and restated)	**2018** ***RMB'000*** **(Unaudited)**	2017 *RMB'000* (Unaudited and restated)
High-tech Electronic Products				
– Manufacture and Sales of FPD Products	**13,792,758**	9,370,090	**805,078**	699,531
– Manufacture and Sales of PCB Products	**3,117,785**	2,621,286	**312,405**	224,044
Retails and Consumer Products	**1,680,654**	1,588,554	**112,368**	86,573
International Engineering and Trading & Logistics	**5,995,053**	5,213,640	**(218,235)**	(165,442)
All other Segments	**396,820**	341,468	**(14,960)**	(53,826)
Total	**24,983,070**	19,135,038	**996,656**	790,880

Disaggregation of revenue

	For six months ended 30 June 2018 ***RMB'000*** **(Unaudited)**
Geographical markets	
Mainland China	**16,662,179**
Hong Kong	**656,891**
Europe and America	**1,782,051**
East Asia and Southeast Asia	**4,648,576**
Other	**1,233,373**
Total	**24,983,070**
Timing of revenue recognition	
A point in time	**20,432,086**
Over time	**4,550,984**
Total	**24,983,070**

6 INCOME TAX EXPENSE

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.

Tian Ma Microelectronics Co., Ltd. ("Tianma") and its subsidiaries Shanghai Tianma Microelectronics Co., Ltd., Chengdu Tianma Microelectronics Co., Ltd., Wuhan Tianma Microelectronics Co., Ltd., Shanghai AVIC Opto-electronics Co., Ltd. ("Shanghai Opto-electronics"), Xiamen Tianma, Shennan Circuit Co., Ltd. ("SCC"), AVIC Wang Xin Beijing Science and Technology Co., Ltd., Shenzhen Fiyta Technology Development Co., Ltd, AVIC International Beijing Company Limited ("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 2018 (2017: 15%).

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

	Six months ended	
	30 June 2018 ***RMB'000*** **(Unaudited)**	30 June 2017 *RMB'000* (Unaudited and restated)
Current income tax	**223,116**	235,380
Deferred income tax (credited)/charged	**(35,552)**	7,058
	187,564	242,438

7 PROFIT FOR THE PERIOD

The following items have been charged to the operating profit during the period:

	Six months ended	
	30 June 2018	30 June 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Write-down of inventories	**94,701**	66,337
Provision for impairment of trade receivables	**41,082**	38,184
Amortisation of land use rights	**44,895**	37,166
Amortisation of other non-current assets	**95,127**	152,726
Depreciation of property, plant and equipment	**1,847,868**	1,181,371
Losses on disposals of property, plant and equipment	**63**	1,856
Fair value changes on financial instruments	**4,725**	1,647

8 DIVIDENDS

The directors did not propose an interim dividend for the six months ended 30 June 2018. (30 June 2017: Nil)

9 EARNINGS PER SHARE

(a) Basic

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

	Six months ended	
	30 June 2018	30 June 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Profit attributable to owners of the Company (RMB'000)	**137,778**	146,135
Less: Profit attributable to PSCS holders (RMB'000)	**(13,908)**	(13,908)
Adjusted profit attributable to the owners of the Company (RMB'000)	**123,870**	132,227
Weighted average number of ordinary shares in issue (thousands)	**1,166,162**	1,166,162
Basic earnings per share (RMB per share)	**0.1062**	0.1134

(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 2018 ***RMB'000*** **(Unaudited)**	30 June 2017 *RMB'000* (Unaudited and restated)
Profit attributable to owners of the Company (RMB'000)	**137,778**	146,135
Weighted average number of ordinary shares in issue (thousands)	**1,166,162**	1,166,162
Adjustments for: Perpetual subordinated convertible securities (thousands)	**801,635**	801,635
Weighted average number of diluted earnings per share (thousands)	**1,967,797**	1,967,797
Diluted earnings per share (RMB per share)	**0.0700**	0.0743

10 TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited and restated)
Trade receivables	**13,744,175**	10,148,030
Less: provision for impairment of receivables	**(624,818)**	(528,535)
Trade receivables – net	**13,119,357**	9,619,495
Other receivables	**3,107,188**	4,050,430
Notes receivables	**597,673**	999,518
Prepayments to suppliers	**2,507,645**	1,800,420
Excess of input over output value added tax	**2,232,405**	1,978,533
Interests receivables	**69,247**	57,427
Deposits	**–**	282,212
Financial lease receivables	**75,071**	76,806
	21,708,586	18,864,841
Less: non-current portion		
– Excess of input over output value added tax	**(43,614)**	–
– Deposits	**–**	(197,572)
– Other receivables	**(122,871)**	(139,182)
– Financial lease receivables	**(54,861)**	(62,396)
	(221,346)	(399,150)
Current portion	**21,487,240**	18,465,691

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 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited and restated)
Trade receivables		
Within 1 year	**12,579,713**	8,433,857
Between 1 and 2 years	**447,582**	861,770
Between 2 and 3 years	**225,459**	373,527
Over 3 years	**491,421**	478,876
	13,744,175	10,148,030
Less: provision for impairment losses	**(624,818)**	(528,535)
	13,119,357	9,619,495

11 CONTRACT ASSETS/LIABILITIES

	As at 30 June 2018 RMB'000 (Unaudited)
Contract assets	
International Engineering and Trading & Logistics	**1,398,767**
Less: non-current portion	**255,900**
Current portion	**1,142,867**
Contract liabilities – current	
International Engineering and Trading & Logistics	**4,347,877**
Manufacture and Sales of FPD Products	**310,552**
Manufacture and Sales of PCB Products	**20,733**
Others	**21,297**
	4,700,459

The contract assets primarily relate to the retention deposits and the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified milestones at the reporting date on construction contracts and design projects. The contract assets are transferred to trade receivables when the rights become unconditional.

The contract liabilities include receipts in advance and the Group's obligation to complete construction work, for which the consideration has been billed in advance on construction contracts and design projects. The contract liabilities are transferred to revenue when work completed.

12 TRADE AND OTHER PAYABLES

	As at	
	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited and restated)
Trade payables	**11,898,347**	9,876,931
Salaries and staff welfare payable	**749,042**	1,161,639
Notes payable	**2,225,129**	2,759,246
Advances from customers	**24,610**	3,720,651
Interest payables	**139,193**	140,545
Dividend payable	**30,926**	31,264
Other taxes payable	**173,880**	727,381
Accruals and other payables	**5,433,184**	4,174,517
Deposits	**263,646**	196,975
	20,937,957	22,789,149
Less: non-current portion		
– Deposits	**(190,510)**	(124,510)
Current portion	**20,747,447**	22,664,639

As at 30 June 2018 and 31 December 2017, the aging analysis of the trade payables are as follows:

	As at	
	30 June 2018 ***RMB'000*** **(Unaudited)**	31 December 2017 *RMB'000* (Audited and restated)
Trade payables		
Within 1 year	**10,887,523**	8,461,379
Between 1 and 2 years	**513,998**	878,060
Between 2 and 3 years	**246,210**	305,130
Over 3 years	**250,616**	232,362
	11,898,347	9,876,931

13 BORROWINGS

During the six months ended 30 June 2018, the Group obtained new bank borrowings amounting to RMB10,909,872,000 (six months ended 30 June 2017: RMB14,161,183,000). During the six months ended 30 June 2018, the Group assumed bank borrowings amounting to RMB1,435,350,000 (six months ended 30 June 2017: Nil) at the date of acquisition of Tianma Organic Company (Note 17).

The new bank borrowings carry interest at floating rates ranged from 2.04% to 6.09% per annum and are repayable over a period of 5 months to 94 months.

In addition, the Group repaid bank borrowings amounting to RMB10,753,718,000 (six months ended 30 June 2017: RMB8,246,181,000) during the six months ended 30 June 2018.

14 FINANCIAL GUARANTEE CONTRACTS

As at 30 June 2018 and 31 December 2017, the Group has the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's relationship with the Group	30 June 2018 Outstanding amounts guaranteed *RMB'000*	31 December 2017 Outstanding amounts guaranteed *RMB'000*
Beijing Company	Subsidiary of the Group	Tuofu Yuanyang Shipping Company Limited* (拓富遠洋海運有限公司)	Independent third party	747,640	126,168
Tianma	Subsidiary of the Group	Tianma Organic Company	Associate	–	757,386
China National Aero-Technology International Engineering Company Limited	Subsidiary of the Group	CATIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associate	–	53,900
				747,640	937,454

* 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.

15 FINANCIAL RISK MANAGEMENT

15.1 Financial risk factors

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

The interim 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 2017.

There have been no changes in the risk management policies since 31 December 2017.

15.2 Liquidity risk

Compared to 31 December 2017, there was no material change in the contractual undiscounted cash out flows for financial liabilities. The Group exercises prudent liquidity risk management by maintaining sufficient cash and bank balances. The Group's liquidity risk is further mitigated through the availability of financing through its own cash resources and the availability of banking facilities to meet its financial commitments. In the opinion of the directors, the Group does not have any significant liquidity risk.

15.3 Fair value estimation

(i) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise equity investments in listed A shares of companies listed on Shenzhen or Shanghai Stock Exchange.

(ii) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of the reporting period, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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 2018.

	Level 1 *RMB'000* (Unaudited)	Level 2 *RMB'000* (Unaudited)	Level 3 *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Assets				
Financial assets at fair value through profit or loss – Non-current	–	–	54,694	54,694
Financial assets at fair value through profit or loss – Current	6,205	–	–	6,205
Total assets	6,205	–	54,694	60,899

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 *RMB'000* (audited and restated)	Level 2 *RMB'000* (audited and restated)	Level 3 *RMB'000* (audited and restated)	Total *RMB'000* (audited and restated)
Assets				
Financial assets at fair value through profit or loss	15,371	–	–	15,371
Available-for-sale financial assets	–	–	54,617	54,617
Total assets	15,371	–	54,617	69,988

There were no transfers between Level 1, 2 and 3 during the current period.

16 COMMITMENTS

(a) *Capital commitments*

Capital commitments at the end of reporting period but not yet incurred are as follows:

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited and restated)
Contracted but not provided for		
Property, plant and equipment	**3,409,302**	4,362,462
Equity interest Investments	**2,250**	2,250
	3,411,552	4,364,712

(b) *Operating lease commitments*

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

	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited and restated)
Not later than one year	**131,335**	198,493
Later than one year and not later than five years	**98,447**	232,152
More than five years	**32,130**	23,878
	261,912	454,523

17 ACQUISITION OF A SUBSIDIARY

As mentioned in Note 2, Tianma acquired 60% equity interests of Tianma Organic Company from Shanghai Zhangjiang Company and Shanghai Investment Company by issuing approximately 38,258,626 A shares (the "Consideration Shares") at approximately RMB17.1 per share on 2 February 2018. Tianma Organic Company was accounted as an associate before the acquisition on the basis that Tianma held 40% equity interests and has material impact in its decision making.

Upon completion of Tianma Organic Acquisition, Tianma Organic Company become a wholly owned subsidiary of Tianma, a subsidiary of the Group.

(a) Consideration transferred

	RMB'000
Fair value of the Consideration Shares	654,223
Fair value of the previously held 40% equity interest in Tianma Organic Company	402,590
	1,056,813

(b) Assets and liabilities recognised at the date of acquisition (determined on a provisional basis)

	RMB'000
Current assets	
Cash and cash equivalents	56,901
Trade and other receivables	269,759
Inventories	57,177
Non-current assets	
Land use rights	271,298
Intangible assets	7,017
Construction-in-progress	798,770
Property, plant and equipment	1,451,969
Deferred income tax assets	38,343
Other non-current assets	344,898
Current liabilities	
Trade and other payables	803,256
Borrowings	770,000
Non-current liabilities	
Borrowings	665,350
Deferred income tax liabilities	18,810
Deferred income on government grants	32,240
	1,006,476

The receivables acquired (which principally comprised excess of input over output value added tax) with a fair value of about RMB269,759,000 at the date of acquisition had gross contractual amounts of about RMB270,455,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to about RMB696,000.

(c) Goodwill arising on acquisition (determined on a provisional basis)

	RMB'000
Consideration transferred	1,056,813
Less: recognised amount of identifiable net assets acquired	(1,006,476)
Goodwill arising on acquisition	50,337

(d) Net cash inflows arising on acquisition

	RMB'000
Cash consideration transferred	–
Less: cash and cash equivalents balance acquired	56,901
	56,901

(e) Impact of acquisition on the results of the Group

Included in the net profit for the interim period is loss of about RMB75,128,000 attributable to Tianma Organic Company. Revenue for the interim period includes about RMB77,000 is attributable to Tianma Organic Company.

Had the acquisition of Tianma Organic been effected at the beginning of the interim period, the total amount of revenue of the Group for the six months ended 30 June 2018 would have been about RMB24,986,715,000 and the amount of the profit of the Group for the interim period would have been about RMB975,003,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had Tianma Organic Company been acquired at the beginning of the interim period, the directors of the Company calculated depreciation and amortisation of plant and equipment based on the recognized amounts of plant and equipment at the date of the acquisition.

18 RELATED PARTY TRANSACTIONS

The Group is controlled by AVIC International Holding Corporation ("AVIC International"), a state-controlled company established in the PRC. AVIC International Shenzhen Company Limited, a state-controlled company established in the PRC, is the major shareholder of the Company. The directors regard AVIC International and Aviation Industry Corporation of China, Ltd. ("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 condensed consolidated 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 2018 ***RMB'000*** **(Unaudited)**	30 June 2017 *RMB'000* (Unaudited and restated)
Revenue:		
Sales of goods		
– Associates	**2,505**	56,688
– Fellow subsidiaries of Aviation Industry	**58,689**	450,003
– Joint ventures	**–**	18,162
	61,194	524,853
Service income		
– Fellow subsidiaries of Aviation Industry	**117,121**	157,020
– Holding company	**4,794**	331
– Associates	**–**	381
	121,915	157,732

	Six months ended	
	30 June 2018	30 June 2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited and restated)
Rental income		
– Fellow subsidiaries of Aviation Industry	**10,576**	811
– Associate	**195**	–
	10,771	811
Interest income		
– Fellow subsidiaries of Aviation Industry	**32,778**	15
– Associates	**5,289**	–
– A major shareholder of the Company	**39**	–
	38,106	15
Purchase of goods and services:		
Purchases of goods		
– Fellow subsidiaries of Aviation Industry	**207,122**	256,088
– Associates	**–**	1,750
– Joint ventures	**–**	15,371
	207,122	273,209
Service costs		
– Fellow subsidiaries of Aviation Industry	**35,190**	22,077
– Associates	**4,956**	9,122
– Holding company	**–**	6
– Non-controlling interests	**–**	1,037
	40,146	32,242
Interest expenses		
– Fellow subsidiaries of Aviation Industry	**7,167**	33,135
– Holding company	**461**	910
– A major shareholder of the Company	**13,250**	11,373
	20,878	45,418

(b) Balances with related parties

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

	As at	
	30 June 2018 *RMB'000* (Unaudited)	31 December 2017 *RMB'000* (Audited and restated)
Other receivables		
– Fellow subsidiaries of Aviation Industry	**10,762**	462,324
– Associates	**333,345**	241,323
– Holding company	**87,762**	47,419
– A major shareholder of the Company	**5,085**	3,000
	436,954	754,066
Interest receivables		
– Associates	**5,607**	–
Prepayments		
– Fellow subsidiaries of Aviation Industry	**13,805**	17,102
– Associates	**5,307**	4,535
– Holding company	**7,950**	8,968
	27,062	30,605
Trade receivables		
– Fellow subsidiaries of Aviation Industry	**284,675**	141,278
– Jointly controlled entities	**–**	113,710
– Associates	**16,961**	303,055
– Holding company	**9,815**	5,648
	311,451	563,691

	As at	
	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited and restated)
Accruals and other payables		
– Fellow subsidiaries of Aviation Industry	**79,122**	43,625
– A major shareholder of the Company	**137,541**	6,503
– Associates	**2,020**	2,500
– Holding company	**148,691**	2,342
– Jointly controlled entities	**–**	2,652
– Non-controlling interests	**–**	220
	367,374	57,842
Trade payable		
– Fellow subsidiaries of Aviation Industry	**311,960**	128,746
– Associates	**5,973**	68,338
– Holding company	**–**	158
– Non-controlling interests	**–**	962
	317,933	198,204
Advance from customers		
– Fellow subsidiaries of Aviation Industry	**–**	182,683
– Jointly controlled entities	**–**	6,415
– Holding company	**–**	21,068
– Associates	**–**	1,000
	–	211,166
Contract liabilities		
– Fellow subsidiaries of Aviation Industry	**197,448**	–
– Holding company	**20,036**	–
	217,484	–

	As at	
	30 June 2018 **RMB'000** **(Unaudited)**	31 December 2017 *RMB'000* (Audited and restated)
Interest payables		
– A major shareholder of the Company	**453**	642
– Fellow subsidiaries of Aviation Industry	**3,517**	6,634
	3,970	7,276
Borrowings from related parties		
Included in other payables		
– Fellow subsidiaries of Aviation Industry	**60,270**	33,492
– Holding company	**148,257**	–
	208,527	33,492
Included in other liabilities		
– A major shareholder of the Company	**75,000**	75,000
– Non-controlling interests	**–**	460
	75,000	75,460
Included in borrowings		
– A major shareholder of the Company	**1,660,794**	1,245,760
– Fellow subsidiaries of Aviation Industry	**1,257,742**	1,381,355
	2,918,536	2,627,115
Loan to related parties		
Included in other receivables		
– Associates	**190,000**	127,345
– Fellow subsidiaries of Aviation Industry	**1,303,329**	1,079,114
– A major shareholder of the Company	**5,039**	–
	1,498,368	1,206,459

As at 30 June 2018, the Group had interest bearing deposits amounting to RMB469,907,000 at AVIC Finance Co., Ltd., a fellow subsidiary of the Company (31 December 2017: RMB796,657,000). These deposits could be withdrawn on demand and are included in cash and cash equivalent.

BUSINESS REVIEW

The consolidated revenue and profit contributions of the Company in its consolidated results for the six months ended 30 June 2018 (the "Reporting Period") were primarily derived from the following business sections and subsidiaries:

Business segments	Name of subsidiaries	Percentage of equity interests held by the Company	Principal activities
High-tech Electronic Products	Tianma Micro-electronics Co., Ltd. ("Tianma Company")	14.24%	Manufacture and sales of flat panel displays ("FPD") and modules
	Shennan Circuit Co., Ltd. ("SCC")	69.74%	Manufacture and sales of printed circuit boards and packaging substrate ("PCB")
Retails and Consumer Products	Fiyta Holdings Limited ("Fiyta")	37.15%	Manufacture of middle to high-end wrist watches and chain store sales of luxury watches
International Engineering, Trading and Logistics	China National Aero–Technology International Engineering Company Limited ("Engineering Company")	100%	Mainly engaged in general contracting of international engineering construction; also engaged in overseas property development and general contracting of domestic construction engineering
	AVIC International Beijing Company Limited ("Beijing Company")	100%	Trading and logistics of cement construction and machinery vehicles, etc.

Business segments	Name of subsidiaries	Percentage of equity interests held by the Company	Principal activities
	AVIC International Maritime Holdings Limited ("AVIC Maritime")	73.87%	Ship engineering
	AVIC Weihai Shipyard Co., Ltd. ("Weihai Shipyard")	69.77%	Ship construction
	China National Aero–Technology Guangzhou Company Limited ("Guangzhou Company")	100%	Trading and logistics of medical facilities and bitumen engineering
	China National Aero–Technology Xiamen Company Limited ("Xiamen Company")	100%	Trading and logistics of stone materials
	AVIC Lutong Industrial Co., Ltd ("Lutong Company")	50%	Trading bitumen engineering
	China National Aero–Technology Trade and Economic Development Company Limited ("TED Company")	100%	Tendering agency, informationization service, and automated control service, etc.

Business segments	Name of subsidiaries	Percentage of equity interests held by the Company	Principal activities
	AVIC International Renewable Energy Development Co., Ltd ("RED Company")	100%	Power station construction, energy-saving management, and purchase and sales of renewable energy equipment
Others	Shenzhen Aero–Fasteners MFG Co., Ltd ("AFM Company")	100%	High intensity bolts, precision screws and nuts, shaped fasteners and other fasteners
	Guangdong International Building Industrial Co., Ltd. ("GIB Company")	75%	Hotel Operation
	Beijing AVIC Ruixin Investment and Management Company Limited ("Beijing Ruixin")	90%	Mainly engaged in residential premises development business and industrial property development, etc.
	Chengdu AVIC Raise Real Estate Company Limited ("Chengdu Raise")	60%	Mainly engaged in residential premises development business and also engaged in industrial property development, etc.

During the first half of 2018, as global economy increasingly slowed down with complicated and volatile international scenario, the Chinese economy had faced a larger uncertainty. It, however, maintained an overall stable growth with a year-on-year GDP growth of 6.8%. With the continuous implementation of supply-side reform in China, the issue of excessive capacity was restrained to a certain extent. As the structure of industrial growth was moving steadily towards middle-to-high sectors, the strategic emerging industries maintained a rapid development momentum. Despites the continuous decline in the growth of investments on fixed assets across China, high-technological manufacturing industry was driven by an industrial upgrade, maintaining a more rapid growth in terms of investment. With the significant slow-down in the growth of the size of social financing, enterprises will find financing difficulty in the short-run. Domestic consumption demand was rather weak as the growth of commodities under the category of consumption upgrade became faster. Following the investment along the Belt and Road and the continuous optimization of business environment, regional demand on the outside became stronger. Overall speaking, however, external environment is becoming more and more difficult, a bigger challenge will be faced by international trades.

Facing the complex and changeable environment from home and abroad, the Group expedites the work on its principal business, undergoes transformation and restructuring, and facilitates corporate internal value growth. During the Reporting Period, we recorded a consolidated revenue of approximately RMB24,983,070,000, representing an increase of approximately 30.56% over the previous year of RMB19,135,038,000. The profit attributable to shareholders of the Group (net of minority interests) was approximately RMB996,656,000, representing an increase of approximately 26.02% over the previous year of RMB790,880,000.

High-tech Electronic Products

As for the high-tech electronic business, the Group is engaged in research and development, design, manufacture, sales and service of FPD and PCB products mainly through its subsidiaries, namely Tianma Company and SCC. During the Reporting Period, the Group's revenue generated from the high-tech electronic products segment was approximately RMB16,910,543,000, representing an increase of 41.02% as compared with RMB11,991,376,000 for the same period of last year; and the net profit was approximately RMB1,117,483,000, representing an increase of approximately 20.99% over the same period of the previous year of approximately RMB923,575,000.

(1) FPD

Tianma Company focuses on the market development of FPD, with products mainly applied to the displays of consumer products such as smartphones and tablets as well as professional displays such as those for automobiles, medical treatment and industrial control.

During the Reporting Period, Tianma Company completed the issuance of shares for assets acquisition. Xiamen Tianma Microelectronics Company Limited (廈門天馬微電子有限公司) (the "Xiamen Tianma Company") and Shanghai Tian Ma Organic Light-Emitting Company Limited (上海天馬有機發光顯示有限公司) (the "Tianma Organic Company") have respectively become the wholly-owned and holding subsidiaries of Tianma Company, and the revenue of Tianma Company has recorded an increase of 47% over the same period of the previous year. For displays of consumer products, Tianma Company closely follows the development trend of mainstream customers and continues to optimize its product structure. According to CINNO Research, the data shows that Tianma Company has shipped 80 million pieces of smartphone full screens in the first half of the year, ranking second worldwide and first in China. For professional displays, Tianma Company engages its customer base of the billion club for professional displays with intensive efforts and continues to develop emerging markets such as charging posts and smart home furnishings. At the same time, Tianma Company continues to lead the development of full screen products and its technology. The flexible 5.99WQ folding display and the embedded pressure sensory curve panel display of Tianma Company were exhibited on SID Display Week 2018 and Display China 2018, receiving high attention from the industry, among which, the embedded pressure sensory curve panel display won the "Innovative Mobile Intelligent Terminal Display Product Award".

(2) PCB

SCC's PCB products comprise medium-to-high end multi-layer PCB products, packaging substrate and printed circuit board assembly (the "PCBA") products, which are mainly used in high technology fields such as telecommunication, aeronautics and astronautics, medical services, green car and industrial control.

During the Reporting Period, SCC further tapped into market orders and realized orders amounted to RMB3.769 billion, representing a year-on-year growth of RMB1.029 billion over the same period last year. The profitability of the SCC has been improving through the continued construction of professional factories and product structure optimization. In the first half of the year, we recorded a revenue of RMB3,117,785,000, representing a year-on-year growth of 19%, and a net profit of total RMB312,405,000, representing a year-on-year growth of 39%. Among which, printed circuit board (PCB) business had seized the opportunities and generated from the customer demands of telecommunication sector, while the outputs kept scaling new heights due to we actively captured purchase orders from Huawei and Ericsson. Outputs of the package substrate business continued to reach higher records, the factory operation ran smoothly, and the order delivery was steady. PCBA business's integrated project output was enhanced swiftly and made a breakthrough in the industries such as medical services and motor vehicles. SCC's factory in Nantong plant has paced up its production capacity, achieved an initial success for smart manufacturing layout.

Retail and Consumer Products Business

In respect of its retails and consumer products segment, the Group is engaged in the production, brand operation of middle to high-end watches as well as chain sales of luxury watches through its subsidiary, Fiyta. During the Reporting Period, the revenue generated from the retails and consumer products segment of the Group amounted to approximately RMB1,680,654,000, representing an increase of approximately 5.80% as compared with the same period of last year. The net profit was approximately RMB112,368,000, representing an increase of approximately 29.80% over the same period of the previous year.

In the first half of 2018, the total retail sales of social consumer products recorded a year-on-year increase of 9%. Regardless of the holiday effect and the World Cup effect, the consumption lingered at the bottom area among historical growth rate and showed a sluggish performance. The growth of the watches and clocks industry diverged; the growth of high-end brand watches was relatively better, while the mid-end and domestic brand watches were facing greater pressure of decline. Fiyta grasped market opportunities and internal costs control, recorded growth in revenue and a year-on-year growth in net profits. Among which, regarding the luxury watches retail business, we continued to implement its discount management and branding structure optimization, strictly controlled the expenses, and achieved a year-on-year growth of 163% in total profits. Our self-owned brand watch business recorded a year-on-year decrease in total profits due to the effects of the decline in offline sales and the increase in expenses. At the same time, we accelerated the development of new markets and new businesses. Businesses including maintenance, Brand Gallery and the Jeep brand watches continue to increase to keep the growth trend.

International Engineering and Trading and Logistics Business

The Group is engaged in engineering contracting, mechatronics engineering, ship engineering, tendering agency, and energy management through its subsidiaries, namely Engineering Company, Beijing Company, AVIC Maritime, Weihai Shipyard, Guangzhou Company, Xiamen Company, TED Company and RED Company. During the Reporting Period, the revenue generated from international engineering and trading and logistics business of the Group was approximately RMB5,995,053,000, representing an increase of approximately 14.99% over the previous year of RMB5,213,640,000. The loss after tax was approximately RMB218,235,000, representing an increase of loss of approximately RMB52,793,000 as compared to the loss after tax of approximately RMB165,442,000 for the same period last year.

(i) ***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. During the Reporting Period, the Group has completed and delivered 8 projects with contract amount of US$0.036 billion, there were 6 newly-signed projects with a contract amount of approximately US$0.9 billion. Our key projects achieved successful execution, among which, the cumulative completion rate of the highway project in Southern Sri Lanka has reached 60%, the progress of projects such as the Central Park in the United Arab Emirates, The Dubai Mall, and Sri Lanka Highway Phase II are being implemented as scheduled. At the same time, the Group's capabilities in the construction of aviation facilities have been improving. The construction of the new airport project in Luanda, Angola, has officially commenced. During the Reporting Period, we entered into one new offshore airport expansion project. Owing to smooth progress of our projects on hand, the revenue generated from the international engineering business has witnessed a significant growth and achieved a turnaround to profit from loss.

(ii) ***Ship Engineering***

In respect of the ship engineering business, the Group is mainly engaged in the design and manufacturing of bulk carriers, container ships, multi-purpose vessels, oil tankers, gas carrier, chemical tankers through its subsidiaries, namely AVIC Maritime and Weihai Shipyard. During the Reporting Period, the Group entered into new orders coming into effect for 18 ships, with an amount totaling of approximately US$0.6 billion. Weihai Shipyard has 10 orders on hand, totaling more than US$0.8 billion. Ships under construction were in good progress and delivery of 11 ships was achieved. As for the ship business, we continued to improve our product transformation and upgrade and continuously enhanced key technologies and manufacturing capabilities of Weihai shipyard. We set the first unprecedented example of using the integral cabin unit in ro-ro passenger ship projects. Deltamarin Oy fully tapped into its technical advantages and entered into new design projects of ro-ro passenger ships, securing sufficient orders on hand. During the Reporting Period, as the orders under construction of Weihai Shipyard were in the final phase, the newly signed orders had not been executed, resulting in an increase in net loss of the ship engineering business.

(iii) ***Mechatronics Engineering***

The mechatronics engineering business of the Group mainly comprises cement building materials and the engineering procurement construction. The mechatronics engineering business of the Group was firmly committed to the regions along the Belt and Road, accelerated overseas expansion and entered into new cement projects in Cuba and Thailand with a total amount of approximately US$174 million. We continuously focus on the key markets of cement building materials such as Latin America, Middle East, and Africa, fully implementing the projects in Angola and Venezuela, and executing the project which are in effect. Meanwhile, the Group enhanced the process management and project execution of KHD Humboldt Wedag International AG and followed up the operation and financial conditions of KHD Humboldt Wedag International AG in a timely manner. During the Reporting Period, under the effect of the down cycle in the cement building material industry, the mechatronics engineering business of the Group obtained insufficient orders, and the revenue recorded a decline as compared to the same period last year.

BUSINESS PROSPECTS

Looking forward to the second half of 2018, the global economy fluctuation and the downturn of domestic economy are still exposed to considerable pressure. Despite the unfavourable situation, the Group will maintain its strategic theme of the year of “Reform and Restructure, Focus and Breakthrough, and Value Growth,” with an aim to seize market opportunities and enhance the order acquisition capability, accelerate market expansion and project execution, strive to optimize the product structure and adjust customer structures, accelerate the construction of major projects, and speed up the operational improvement of loss-making businesses. Meanwhile, we will further sharpen our focus on principal business through innovative business models and institutional reform to achieve our whole-year operational target.

High-tech Electronic Products Business

The high-tech electronic business of the Group will continue to promote order acquisition and product structure optimization, and integrate market expansion with customer classification management to increase the customers coverage and penetration of high-value added products and strengthen the research and development efforts of technologies and products including packaging substrate and active-matrix organic light-emitting diode, accelerate the implementation of auxiliary financing of Tianma Company and phase II project construction of G6 production line of Wuhan Tianma Microelectronics Company Limited (the “Wuhan Tianma”), and step up the pace to improve the production capacity and yield, and ensure a positive gross profit of Nantong factory of SCC throughout the year.

Retails and Consumer Products Business

Fiyta will focus on its business target for 2018 by seizing the holiday period for sales, strengthen channel operation and cost and expenses control and, continue to promote operating efficiency. With deep combination of consuming demands of the customers, we will keep expanding the management and building of the brand system and facilitate the cultivation of new brands and the expansion of new business and new market. We will continue to promote the development of E-commerce channel and the construction of ancillary facilities, as well as speed up the execution of the smart retail projects.

International Engineering and Trading and Logistics Business

In the second half of the year, the engineering contracting of the Group will focus on the financing of the Angolan airport project, accelerate the progress of Southern Sri Lanka Highway, The Dubai Mall, and Etihad Airline Hotel projects, and strive for early delivery. In respect of the ship business, the Group will focus on the planning and management of shipyards to ensure timely delivery of ship for projects under construction, actively participate in maritime exhibitions and enhance our market expansion strength. In respect of the mechatronics engineering business, we will strengthen the financial control and operation management of KHD Humboldt Wedag International AG and endeavour to improve the operation as early as possible. Meanwhile, the Group will orderly facilitate the execution of cement construction projects on hand in Cuba and Thailand.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2018, the total cash and cash equivalents of the Group amounted to approximately RMB8,962,818,000, including cash in Hong Kong Dollars, US Dollars, Japanese Yen, and European Dollars, which have been converted into Renminbi (31 December 2017: RMB13,381,444,000). The Group's total current borrowings amounted to approximately RMB14,867,387,000; and total non-current borrowings amounted to approximately RMB18,948,959,000 with an annual interest rate ranging from 0% to 6.46%. The Group has further strengthened and perfected its regulations in respect of the management of tradable financial assets, and formulated the procedures of decision-making, implementation and risk control.

As at 30 June 2018, the capital expenditure amounted to approximately RMB3,975,123,000. The details of which are set forth below:

Company Name	Project name	Expenditure Amount *(Unit: RMB'000)*
Beijing Company	Aviation City Project	43,347
AVIC International Beijing (East Africa) Company Limited	Warehouses of industrial park in East Africa	2,464
KHD Humboldt Wedag International AG	Plant and land in India	6,017
Fiyta	Ancillary construction for the watch industrial base in Guangming New Area	1,568
Lutong Company	Construction and maintenance of the bitumen base in Tianjin	71,000
Hunan AVIC Fastening Systems Co., Ltd.	Hengyang Songmu Industrial Park Project	26,814
Heng Yang AVIC Electroplating Centre Co., Ltd.	Phase I of the sewage treatment station project	6,167
Xiamen Company	AVIC Zijin Plaza	8,951
SCC	PCB technological transformation projects, base construction in Nantong and Wuxi	434,328
Tianma Company	Wuhan 6th-generation production lines construction and technological transformation projects	3,350,296
Weihai Shipyard.	Thin flat plane sheet substrate production line	1,916
Shandong New Shipbuilding Co., Ltd.	Shipyard, wharf	22,255

LOAN-TO-SHAREHOLDERS' EQUITY RATIO

As of 30 June 2018, the Group's loan-to-shareholders' equity ratio (bank borrowings divided by shareholders' equity) was 87.00% (31 December 2017: 89.15%).

PLEDGED ASSETS

As at 30 June 2018, certain subsidiaries of the Group had secured bank loans totaling approximately RMB4,570,422,000 (31 December 2017: approximately RMB2,533,085,000). The loans were secured by plants, buildings and land use rights, etc. of the Group. The details are as follows:

Name of Company	Name of collateral	Type of borrowings	Net value of the collateral	Amount of Borrowings *(RMB'000)*
				(Unit: RMB'000)
Beijing Company	Land of the AVIC International Beijing Aviation City Project and the buildings thereon	Pledged against long-term borrowing	926,839	640,000
Beijing Company	AVIC Industrial Park's real estates in Beijing Yizhuang Economic-Technological Development Zone	Pledged against long-term borrowing	176,568	255,290
Montres Chouriet SA	Real estates in Switzerland	Pledged against long-term borrowing	14,804	4,791
Tianma Company	Land of the Wuhan Tianma G6 Project	Pledged against long-term borrowing	371,843	3,600,000
Tianma Company	Organic light-emitting house buildings	Pledged against long-term borrowing	330,838	477,350
Wuxi Shennan Electric Circuit Company Limited	Houses and buildings and their land use rights	Pledged against long-term borrowing	661,901	640,418
Shandong New Ship Building Co., Ltd.	Dock of 100,000 tons (dock for ship repairing)	Pledged against long-term borrowing	445,178	426,000

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During the six months ended 30 June 2018, the Company did not have any entrusted deposit nor overdue term deposit in any form.

MANAGEMENT CONTRACTS

During the six months ended 30 June 2018, the Company has not entered into or maintained any contracts in respect of the management or administration of the whole or any substantial part of the business of the Company.

ISSUE, PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries issued, purchased, sold or redeemed the Company's listed securities.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, to the 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) ("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, Ltd. ("Aviation Industry")	Interest of controlled corporation	1,634,608,792 domestic shares *(Note 1)*	196.24%	140.17%
AVIC International Holding Corporation ("AVIC International")	Interest of controlled corporation	1,634,608,792 domestic shares *(Note 1)*	196.24%	140.17%
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
Other shareholders				
CK Hutchison Holdings Limited	Interest of controlled corporations	57,144,000 H shares *(Note 2)*	17.15%	4.90%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	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	12,764,000 H shares *(Note 3)*	3.83%	1.09%
China Silver Investments Development Ltd	Beneficial owner	12,560,000 H shares *(Note 3)*	3.77%	1.08%

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.

   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 2018:

   (1) AVIC International held 1,204,834,218 shares: (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 RMB2,663,465,514 which may be converted into 767,569,312 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 429,774,573 shares: (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 34,065,482 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 204,000 H shares.

   Mr. Jiang beneficially owned the entire equity interest of China Silver Investments Development Ltd., which held 12,560,000 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

For the six months ended 30 June 2018, to the best knowledge of 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 Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors, 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

Mr. Liu Hong De, Mr. Lai Wei Xuan, Mr. You Lei, Ms. Zhou Chun Hua, Mr. Chen Hong Liang and Mr. Liu Jun were appointed as executive Directors at the annual general meeting of the Company held on 12 June 2018. Ms. Wong Wai Ling and Mr. Wei Wei were appointed as independent non-executive Directors, with a term of three years. For details, please refer to the Company's circular dated 16 April 2018 and the poll results announcement of the annual general meeting dated 12 June 2018.

As Mr. Wu Wei has served as an independent non-executive Director for more than nine years, he was re-elected to remain as an independent non-executive Director at the annual general meeting of the Company held on 12 June 2018. For details, please refer to the Company's circular dated 16 April 2018 and the poll results announcement of the annual general meeting dated 12 June 2018.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2018 was the Company, 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' INTEREST IN CONTRACTS

During the six months ended 30 June 2018, none of the Directors or supervisors of the Company had any significant interest, either direct or indirect, in any contract or arrangement of significance to the business of the Company.

NUMBER OF EMPLOYEES AND REMUNERATION

As at 30 June 2018, the Group had approximately 59,432 (the corresponding period of 2017: 37,341) employees, with employee-related costs of approximately RMB2,971,920,000 (the corresponding period of 2017: RMB2,214,320,000). The Group formulated market-competitive remuneration policies with reference to market conditions and individual employees' performance.

FOREIGN EXCHANGE RISK

The Group's products are mainly distributed in domestic market and its export business is mainly settled in US dollar or HK dollar. The Group has taken effective measures to deal with foreign exchange risks arising from the exposure of certain foreign currency assets.

FINANCIAL GUARANTEE CONTRACTS

As at 30 June 2018, the Group had the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guaranteed party	Guaranteed party's relationship with the Group	Outstanding amounts guaranteed *(RMB'000)*
Beijing Company	Subsidiary of the Group	Tuofu Yuanyang Shipping Company Limited	Independent third Party	747,640

INTERIM DIVIDEND

During the Reporting Period, the Board did not propose the payment of interim dividend (six months ended 30 June 2018: nil).

MAJOR LITIGATION

On 13 June 2014, Tang Energy Group Limited (the "Tang Energy"), Soaring Wind Energy LLC. ("Soaring Wind") and its other group members (collectively, the "Claimants") filed an arbitration claim with the American Arbitration Association against CATIC USA Inc ("CATIC USA"), the controlling shareholders of the Company and subsidiaries of the Company (including, among others, Aviation Industry, AVIC International and RED Company) (collectively, the "Respondents") in respect of a dispute (the "Dispute") arising out of a joint venture agreement (the "Arbitration Claim"). The Arbitration Claim is the claim brought by the Claimants against the Respondents in respect of a dispute arising out of a joint venture agreement (the "JV Agreement") entered into between Tang Energy and CATIC USA in 2008 whereby the Claimants treated CATIC USA as the agent of Aviation Industry in the USA, and all involved Aviation Industry groups and their subsidiaries are deemed as a "single group", all of which shall be bound by the exclusivity provisions under the JV Agreement. Therefore, the Claimants seek damages totalling US$2.25 billion from the Respondents for the alleged breach of the JV Agreement. After the Respondents receiving final decision on the Arbitration Claim issued by the International Centre for Dispute Resolution of International Arbitration Tribunal in December 2015 (the "Decision"), pursuant to which the Respondents were jointly and severally liable to pay to the Claimants damages and fees (including but not limited to compensation, attorneys' fees and expenses) in relation to the Dispute in the total amount (the "Amount") of approximately US$71,000,000, the Group had engaged a law firm to assist in the Arbitration Claim and has taken further legal action against the Decision. In March 2016, the Group had filed an application to the competent court to oppose the enforcement of the Decision and request the revocation of the Decision (the "Opposition Application"). On 15 August 2018, the Respondents received the orders issued by the United States District Court Northern District of Texas Dallas Division. The orders awarded that the aforesaid Decision against AVIC USA shall be effective, and the requests made by the Claimants' against other Respondents shall be determined by the court in a separate action. The Company will made further announcement if there is further development. For details, please refer to the Company's announcements published on 29 April 2015, 22 December 2015, and 15 August 2018.

Save as disclosed above, as at the date of this report, the Directors were not aware of any litigation or claim of material importance pending or threatened against any member of the Group.

MATERIAL EVENTS

1. ***Discloseable Transaction, Connected Transaction, Very Substantial Acquisition and Very Substantial Disposal – Acquisition of Two Subject Companies Including Xiamen Tianma Company by Tianma Company and Proposed Placing of A Shares by Tianma Company***

On 10 March 2017, Tianma Company entered into two separate framework agreements (the "Xiamen Tianma Framework Agreement" and the "Tianma Organic Framework Agreement", collectively, the "Framework Agreements") with (a) AVIC International, AVIC International Shenzhen Company Limited ("AVIC Shenzhen"), China National Aero Technology Xiamen Company Limited (中國航空技術廈門有限公司) (the "Xiamen Company") and Xiamen Jincai Industrial Development Company Limited (廈門金財產業發展有限公司) ("Xiamen Jincai") in relation to the acquisition of 100% equity interest in Xiamen Tianma Company; and (b) Shanghai Industrial Investment (Group) Co., Ltd. ("Shanghai Investment Company") and Shanghai Zhangjiang (Group) Co., Ltd. ("Shanghai Zhangjiang Company") in relation to the acquisition of 60% equity interest in Tianma Organic Company (the "Xiamen Tianma Acquisition" and the "Tianma Organic Acquisition", collectively, the "Acquisitions").

Pursuant to the Framework Agreements, the consideration for the Acquisitions will be fully settled by issue of consideration shares (the "Consideration Shares") to the vendors under the Framework Agreements upon completion of the respective Acquisitions at an issue price of RMB17.23 per A share, which was determined with reference to and not lower than the benchmarked price of the A shares, being 90% of the Average Price for the Acquisitions (as defined in the announcement of the Company dated 10 March 2017). The maximum number of Consideration Shares to be issued under the Xiamen Tianma Framework Agreement and the Tianma Organic Framework Agreement will be 613,821,008 and 39,267,579, respectively.

Based on the maximum number of Consideration Shares to be allotted and issued and the issue price of RMB17.23 per A share, it is expected that the maximum consideration for the Xiamen Tianma Acquisition and the Tianma Organic Acquisition will be RMB10,576,135,967.80 and RMB676,580,386.17, respectively.

The Acquisitions are not inter-conditional with each other.

Pursuant to the Framework Agreements, Tianma Company proposes to issue not more than 111,987,085 new A shares (the "Placing Shares") to not more than 10 investors (the "Proposed A Shares Placing"). The placing price of the Placing Shares shall not be lower than 90% of the Average Price for the Proposed A Shares Placing (as defined in the announcement of the Company dated 10 March 2017) and shall not be lower than the issue price of the Consideration Shares pursuant to the Framework Agreements, which is subject to the rules and regulations of CSRC and Shenzhen Stock Exchange. The proceeds to be raised under the Proposed A Shares Placing will be used for the construction of LTPS and colour filter (CF) production line of Xiamen Tianma Company, including expenses on purchase of equipment and installation which is in line with the requirement of CSRC. The success or failure of the Proposed A Shares Placing would not affect the Acquisitions and the Consideration Issue.

The Xiamen Tianma Acquisition constitutes a very substantial acquisition of the Company under Chapters 14 and 14A of the Listing Rules and a connected transaction and is subject to the reporting, announcement and independent shareholders' approval requirements.

On the other hand, the Tianma Organic Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements pursuant to the Listing Rules.

Assuming the Acquisitions have been completed, upon issue of the Consideration Shares (the "Consideration Issue") (assuming the maximum number of Consideration Shares as provided under the Framework Agreements are issued), the equity interest of the Company held in Tianma Company will be diluted from approximately 20.81% to approximately 15.98% (including 1.79% equity interest held by Xiamen Company, a wholly-owned subsidiary of the Company). If Tianma Company proceeds with the Proposed A Shares Placing after completion of the Acquisitions, the equity interests of the Company held in Tianma Company will be further diluted to approximately 15.16% (including 1.70% equity interest held by Xiamen Company, a wholly-owned subsidiary of the Company) of the enlarged issued share capital of Tianma Company (assuming 111,987,085 new A Shares are issued) upon completion of the Proposed A shares Placing. Such dilution in interest in Tianma Company as a result of the Consideration Issue and the Proposed A Shares Placing will constitute a deemed disposal of interest in Tianma Company held by the Company pursuant to Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Consideration Issue and the Proposed A Shares Placing exceed(s) 75%, the dilution of the Company's equity interest in Tianma Company as a result of the Consideration Issue and the Proposed A Shares Placing constitutes a very substantial disposal of the Company under Rule 14.06 of the Listing Rules and the transactions are therefore subject to announcement, reporting and Shareholders' approval requirements under Chapter 14 of the Listing Rules. The Acquisitions and the Proposed A shares Placing have been approved by the independent shareholders of the Company at the extraordinary general meeting held on 12 June 2017. Please refer to the announcement of the Company dated 10 March 2017, the circular dated 28 May 2017 and the extraordinary general meeting's poll result announcement of the Company dated 12 June 2017 for details.

The asset appraisal reports of Xiamen Tianma Company and Tianma Organic Company have been filed with the SASAC on 17 August 2017 and 22 August 2017, respectively.

On 23 August 2017, Tianma Company entered into the following formal agreements (collectively, the "Formal Agreements") in relation to the Xiamen Tianma Acquisition and the Tianma Organic Acquisition as contemplated under the Framework Agreements:

(1) the asset acquisition agreement (the "Xiamen Tianma Formal Agreement") in relation to the acquisition of an aggregate of 100% equity interest in Xiamen Tianma Company with AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai for an aggregate consideration of RMB10,452,506,800 (equivalent to approximately HK$12,241,681,897); and

(2) the asset acquisition agreement (the "Tianma Organic Formal Agreement") in relation to the acquisition of an aggregate of 60% equity interest in Tianma Organic Company with Shanghai Investment Company and Shanghai Zhangjiang Company for an aggregate consideration of RMB656,900,600 (equivalent to approximately HK$769,343,501).

Considering that Tianma Company has already distributed dividend for the year of 2016 on 26 July 2017, the issue price of the Consideration Shares under the Acquisitions and the proposed issue price of the Proposed A Shares Placing were adjusted to RMB17.17 per A Share. The consideration under the Acquisitions will be settled in full by a total of 647,024,307 A shares to be issued by Tianma Company as Consideration Shares and the number of Placing Shares will not be more than 110,658,124 shares. For details, please refer to the announcement of the Company dated 23 August 2017.

Each of the Acquisitions and the Proposed A Shares Placing has been approved by SASAC and the shareholder's meeting of Tianma Company. Please refer to the announcements of the Company dated 8 September and 15 September 2017 for more details.

On 6 December 2017, Tianma Company was informed by CSRC that the Consideration Issue and the Proposed A Shares Placing had been approved at the 68th conference meeting for 2017 of the Review Committee of Merger, Acquisition and Reorganisation of Listed Companies (上市公司並購重組審核委員會) of the CSRC convened on 6 December 2017. Please refer to the announcement of the Company dated 6 December 2017 for details.

On 15 January 2018, Tianma Company received a written approval from CSRC issued on 11 January 2018 on the Consideration Issue and the Proposed A Shares Placing with a validity period of twelve months from the date of issue. The major terms of the approval are as follows:

1. Tianma Company was approved to issue 389,610,040 new A shares, 89,488,555 new A Shares, 93,141,147 new A shares, 36,525,940 new A shares, 25,505,748 new A Shares and 12,752,877 new A shares to Xiamen Jincai, AVIC International, AVIC Shenzhen, Xiamen Company, Shanghai Investment Company and Shanghai Zhangjiang Company respectively for the Consideration Issue;

2. Tianma Company was approved to raise no more than RMB1,900,000,000 for the Proposed A Shares Placing.

For details, please refer to the Company's announcement published on 15 January 2018.

On 18 January 2018, Tianma Company completed the Acquisitions of two subject companies, namely Xiamen Tianma Company and Tianma Organic Company. On the date of completion of Acquisitions, Shanghai Tianma and Xiamen Tianma Company became the wholly-owned subsidiaries of Tianma Company respectively; hence, the entrusted management agreement signed between Shanghai Tianma and Xiamen Tianma Company on 4 March 2016 has been terminated. Tianma Company issued an aggregate of 647,024,307 A Shares (equivalent to the total number of Consideration Shares under the Acquisitions) to six transferees, including AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai. Such A Shares were listed on the Shenzhen Stock Exchange on 2 February 2018. Please refer to the announcements of the Company dated 22 January 2018 and 31 January 2018 for more information.

On 12 April 2018, the closing price of the Consideration Shares fell below the issue price which is RMB17.17 per A share in consecutive 20 trading days within six months after completion of the Xiamen Tianma Acquisition. According to the undertaking made by AVIC International, AVIC Shenzhen and Xiamen Company, the lock-up period of 89,488,555 A Shares, 93,141,147 A Shares and 36,525,940 A Shares held by AVIC International, AVIC Shenzhen and Xiamen Company respectively, shall automatically be extended for six months. Please refer to the announcement of the Company dated 12 April 2018 for more information.

2. ***Proposed Mandate in Relation to the Possible Major Disposal and Connected Transaction***

On 17 May 2017, the Board resolved to dispose of 47.12% equity interest in AVIC International Vanke Company Limited ("AVIC Vanke") (the "AVIC Vanke Interest") held by the Company. As the Company and AVIC International both are state-owned enterprises and the AVIC Vanke Interest constitutes State-owned assets, the disposal of the AVIC Vanke Interest by the Company (the "Proposed Disposal") is required to go through the process of public tender through an equity exchange in accordance with the relevant laws and regulations of the PRC governing the disposal of State-owned assets. It is proposed that the Company will, jointly with AVIC International, conduct the disposal of the 60% interest in AVIC Vanke in aggregate in relation to their respective 47.12% and 12.88% equity interest in AVIC Vanke through China Beijing Equity Exchange.

Based on the preliminary appraised value of AVIC Vanke as at 31 December 2016, it is expected that the minimum bidding price for the Proposed Disposal shall be in the range of RMB1,780,440,000 to RMB1,876,680,000. The minimum bidding price of the AVIC Vanke Interest will be determined based on the appraised value of AVIC Vanke with reference to prevailing market prices subject to the approval from relevant regulatory authorities of State-owned assets in the PRC.

The final consideration will depend on the final bid price offered by the successful bidder for the AVIC Vanke Interest, but will in any event be no less than the relevant minimum bidding price.

Given that (i) AVIC International is a controlling shareholder holding approximately 37.50% of the issued share capital of the Company, and it holds 100% equity interest of AVIC Shenzhen, which in turn is a controlling shareholder holding approximately 33.93% of the issued share capital of the Company; and (ii) AVIC International directly held 12.88% equity interest in AVIC Vanke, AVIC Vanke is an associate of AVIC International and a connected person of the Company and the Proposed Disposal, if materialised, will constitute a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, AVIC International and its associates will abstain from voting in respect of the resolution(s) relating to the grant of the proposed mandate at the forthcoming EGM.

As one or more of the applicable percentage ratios set out in the Listing Rules in respect of the Proposed Disposal are more than 25% but less than 75%, the Proposed Disposal, if materialised, will also constitute a major transaction of the Company under Chapter 14 of the Listing Rules.

As such, the Proposed Disposal and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. The Proposed Disposal has been approved by the independent shareholders of the Company at the extraordinary general meeting. For details, please refer to the announcements of the Company dated 17 May and 18 May 2017, the circular of the Company dated 22 September 2017, and the poll results of the extraordinary general meeting dated 11 October 2017.

On 23 October 2017, the draft appraisal report of AVIC Vanke in relation to the Proposed Disposal was approved by Aviation Industry and the final appraised value of the 100% equity interest in AVIC Vanke was RMB3,847,131,600, pursuant to which, the minimum bidding price for the Proposed Disposal was set at RMB1,812,768,410. On 3 November 2017, the formal process of public tender in respect of the Proposed Disposal was set to take place at China Beijing Equity Exchange ("CBEE") (北京產權交易所) on 6 November 2017 in accordance with the relevant requirements applicable to the transfer of state-owned equity interest. The minimum bidding price for the Proposed Disposal was RMB1,812,768,410, which was determined with reference to the appraised value of AVIC Vanke approved by Aviation Industry.

On 2 January 2018, the Company and AVIC International entered into an equity transaction agreement with Hengqin Zhong Chang Sheng Qi Hang Investment Centre (Limited Partnership) (橫琴中長勝啟航投資中心(有限合夥)) in respect of the disposal of AVIC Vanke Interest and the disposal of 12.88% equity interest in AVIC Vanke held by AVIC International at an aggregate consideration of RMB2,348,278,960. The consideration for the disposal of AVIC Vanke Interest was RMB1,844,181,743.25. Upon completion of the Potential Disposal, the Company will cease to have any equity interest in AVIC Vanke. For details, please refer to the announcement issued by the Company on 2 January 2018.

3. *Connected Transaction – Potential Disposal of 24.5% Equity Interest in AVIC Construction Engineering through Public Tender*

On 29 November 2017, the Board resolved to approve that the Engineering Company (a wholly-owned subsidiary of the Company) and AVIC Shenzhen would conduct the disposal of the 75.5% interest in AVIC Construction Engineering Company Limited ("AVIC Construction Engineering") in aggregate in relation to their respective 24.5% and 51% equity interest in AVIC Construction Engineering through CBEE. Based on the appraised value of AVIC Construction Engineering as at 30 June 2017, it is expected that the minimum bidding price for the disposal of 24.5% equity interest in AVIC Construction Engineering (the "Potential Disposal") would not be lower than RMB39,440,500.

As one or more of the applicable percentage ratios in respect of the Potential Disposal is more than 0.1% but all the applicable percentage ratios in respect of such transactions are less than 5%, the Potential Disposal is subject to the independent reporting and announcement requirements, but is exempted from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

The public tender process for the Potential Disposal commenced on 30 November 2017. On 23 January 2018, the Engineering Company and AVIC Shenzhen entered into an equity transaction agreement with Shenzhen Lian Heng Investment Company Limited (深圳市聯恒投資有限公司) ("Shenzhen Lian Heng") in respect of the disposal of 24.5% equity interest in AVIC Construction Engineering held by Engineering Company and the disposal of 51% equity interest in AVIC Construction Engineering held by AVIC Shenzhen at an aggregate consideration of RMB121,541,200. The consideration for the disposal of 24.5% equity interest in AVIC Construction Engineering was RMB39,440,520. On 9 February 2018, AVIC Construction Engineering completed assets transfer and the registration for such industrial and commercial changes. Upon completion of the Potential Disposal, the Engineering Company no longer holds any equity interest in AVIC Construction Engineering. For details, please refer to the announcement issued by the Company on 23 January 2018.

4. *Appointment of Joint Company Secretary*

On 5 February 2018, the Board announced that with immediate effect, Mr. Xiao Zhanglin (肖章林) had been appointed as a joint secretary of the Company. Mr. Zhong Sijun (鍾思均), the existing company secretary of the Company, will continue to serve as the other joint company secretary of the Company. For details, please refer to the announcement of the Company on 5 February 2018.

5. ***Connected Transaction – Potential Disposal of Equity Interest and Creditor's Rights of Chengdu Jujin by Chengdu Raise***

On 27 June 2018, the Board announced that Chengdu Raise, a non-wholly owned subsidiary of the Company, will conduct the formal process of public tender in relation to the disposal (the "Potential Disposal") of (i) its 20% equity interest (the "Chengdu Jujin Equity Interest") in Chengdu Jujin Trading Co., Ltd. (成都聚錦商貿有限公司) ("Chengdu Jujin") and (ii) the creditor's rights in Chengdu Jujin (the "Chengdu Jujin Creditor's Rights") held by it (collectively, the "Chengdu Jujin Interest") through China Beijing Equity Exchange (the "CBEE") after the pre-listing disclosure.

It is proposed that Chengdu Raise will, jointly with Beijing Raise Science Co., Ltd. (the "Beijing Raise"), conduct the disposal of their respective 20% and 80% equity interest and their respective creditor's rights in Chengdu Jujin through CBEE. Upon completion of the Potential Disposal, Chengdu Raise will no longer have any interests in Chengdu Jujin.

Based on (i) the preliminary appraised value of Chengdu Jujin as at 31 October 2017 and (ii) the audited financial statements of Chengdu Jujin for the year ended 31 December 2017, the preliminary appraised value for Chengdu Jujin Equity Interest is approximately RMB229,087,240 and the audited result for Chengdu Jujin Creditor's Rights is approximately RMB190,000,000. Therefore, the preliminary minimum bidding price for the Potential Disposal shall be approximately RMB419,087,240. The final minimum bidding price for public tender will be determined with reference to the market price subject to the approval in relation to the appraised value of Chengdu Jujin from relevant regulatory authorities of State-owned assets in the PRC, but will in any event be no less than the preliminary minimum bidding price.

The final consideration will depend on the final bidding price offered by the successful bidder for the Chengdu Jujin Interest, but will in any event be no less than the preliminary minimum bidding price.

The Board would like to seek the proposed mandate to be granted in advance to the Directors to enter into and complete the Potential Disposal by the independent shareholders at the EGM.

As at the date of this report, given that (i) Beijing Raise is directly and indirectly held as to 100% by Aviation Industry; and (ii) Aviation Industry holds approximately 62.52% of the equity interest in AVIC International (a controlling shareholder holding approximately 37.50% of the issued share capital of the Company), which in turn owns 100% equity interest of AVIC Shenzhen (a controlling shareholder holding approximately 33.93% of the issued share capital of the Company), Beijing Raise is a connected person of the Company and the Potential Disposal, if materialised, will constitute a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios set out in the Listing Rules in respect of the Potential Disposal are more than 5% but less than 25%, the Potential Disposal, if materialised, will also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As such, the Potential Disposal and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. The Potential Disposal has been approved by the independent shareholders of the Company on the extraordinary general meeting held on 13 August 2018. For details, please refer to the Company's announcements published on 15 June 2018 and 27 June 2018, the Company's circular dated 27 July 2018, and the Company's announcement on the poll results of the extraordinary general meeting dated 13 August 2018.

CONNECTED TRANSACTIONS

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

The rental framework agreement (the "AVIC International Rental Framework Agreement") dated 13 January 2014, entered into between the Company and AVIC International in relation to the leasing of real estate properties by the Group to AVIC International and/or its associated companies, the tenancy framework agreement (the "AVIC International Tenancy Framework Agreement") dated 13 January 2014, entered into between the Company and AVIC International in relation to the leasing of real estate properties to the Group by AVIC International and/or its associated companies and the property management framework agreement (the "AVIC International Property Management Framework Agreement") dated 13 January 2014, entered into between the Company and AVIC International in relation to the provision of property management services to the Group by AVIC International and/or its associated companies are collectively referred to as the AVIC International Framework Agreements. The AVIC International Framework Agreements expired on 31 December 2016. To renew the agreements, the Company entered into the new AVIC International rental framework agreement (the "New AVIC International Rental Framework Agreement"), new AVIC International tenancy framework agreement (the "New AVIC International Tenancy Framework Agreement") and new AVIC International property management framework agreement (the "New AVIC International Property Management Framework Agreement") with AVIC International on 13 January 2017, each of which for a term from the date of its execution to 31 December 2019. The New AVIC International Rental Framework Agreement, the New AVIC International Tenancy Framework Agreement and the New AVIC International Property Management Framework Agreement are collectively referred to as the New AVIC International Framework Agreements, a summary of the major terms of which is set out as follow:

(1) New AVIC International Rental Framework Agreement: the Group agreed to lease to AVIC International and/or its associated companies real estate properties during the term of the New AVIC International Rental Framework Agreement. The proposed annual caps for the three years from 2017 to 2019 will be RMB35,000,000.

(2) New AVIC International Tenancy Framework Agreement: AVIC International and/or its associated companies agreed to lease its real estate properties to the Group during the term of the New AVIC International Tenancy Framework Agreement. The proposed annual caps for the three years from 2017 to 2019 will be RMB5,000,000, RMB7,000,000 and RMB7,000,000, respectively.

(3) New AVIC International Property Management Framework Agreement: AVIC International and/or its associated companies agreed to provide property management services to the Group during the term of the New AVIC International Property Management Framework Agreement. The proposed annual caps for the three years from 2017 to 2019 will be RMB45,000,000.

As AVIC International (including its associated companies) is a connected person of the Company, the New AVIC International Framework Agreements and the transactions contemplated thereunder constitute continuing connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

As the applicable percentage ratios for each of (1) the New AVIC International Rental Framework Agreement, (2) the New AVIC International Tenancy Framework Agreement and (3) the New AVIC International Property Management Framework Agreement exceed 0.1% but are less than 5%, each of (1) the New AVIC International Rental Framework Agreement, (2) the New AVIC International Tenancy Framework Agreement and (3) the New AVIC International Property Management Framework Agreement will be 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 13 January 2017.

2. *Continuing Connected Transaction – Relevant 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 to 31 December 2018. The financial services provided by AVIC Finance to the Group are set out below:

	Year ended 31 December 2016 *(RMB)*	Year ended 31 December 2017 *(RMB)*	Year ending 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

	Year ended 31 December 2016 *(USD)*	Year ended 31 December 2017 *(USD)*	Year ending 31 December 2018 *(USD)*
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 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 exceeds 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.

On 11 August 2017, the Company entered into the supplemental financial services agreement (the "Supplemental Financial Services Agreement") with AVIC Finance, pursuant to which the existing maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with AVIC Finance during the term of the financial services agreement dated 29 September 2015 entered into between the Company and AVIC Finance in relation to the provision of financial services to the Group (details of which are set out in the announcement of the Company dated 29 September 2015 and the circular of the Company dated 24 November 2015) will be revised to RMB3 billion for a term commencing from the date (the "Effective Date") on which all the conditions under the Supplemental Financial Services Agreement have been satisfied (please refer to the paragraph headed "Conditions precedent" in the announcement of the Company dated 11 August 2017 for details) to 31 December 2018. The revised caps for deposit services under the Supplemental Financial Services Agreement are as follows:

	For the period from the Effective Date to 31 December 2017 *(RMB)*	**Year ending 31 December 2018** *(RMB)*
Deposit cap (the maximum daily outstanding balances including accrued interests which is not cumulative in nature, inclusive of foreign currency converted into RMB)	3,000,000,000	3,000,000,000

Aviation Industry is the ultimate holding company of the Company and AVIC Finance. Aviation Industry held approximately 62.52% of the equity interest in AVIC International (a controlling shareholder of the Company holding approximately 37.50% of the issued share capital of the Company), which in turns owned 100% equity interest of AVIC Shenzhen (a controlling Shareholder holding approximately 33.93% of the issued share capital of the Company), and Aviation Industry also directly and indirectly held the majority of equity interest in AVIC Finance. Accordingly, AVIC Finance is a connected person of the Company and the transactions contemplated under the Supplemental Financial Services Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. As the applicable percentage ratios for provision of deposit services pursuant to the Supplemental Financial Services Agreement exceed 5%, the transaction is subject to the reporting, announcement and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios in relation to the provision of deposit services under the Supplemental Financial Services Agreement is more than 25%, such transaction constitutes a major transaction of the Company and is subject to the reporting, announcement and the shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Supplemental Financial Service Agreement has been duly approved by the extraordinary general meeting of the Company. For details in relation to the Supplemental Financial Service Agreement, please refer to the announcement issued by the Company on 11 August 2017, the circular of the Company dated 25 September 2017 and the poll results announcement of the extraordinary general meeting dated 11 October 2017.

3. ***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 Aviation Industry or AVIC International (including their respective associates, where applicable) on the other hand, were entered into on 16 October 2014. As each of the aforesaid agreements would expire on 31 December 2017, the Company (or its subsidiaries) entered into: (i) new Aviation Industry sale framework agreement (the "New Aviation Industry Sale Framework Agreement"), new Aviation Industry purchase framework agreement" (the "New Aviation Industry Purchase Framework Agreement"), new Aviation Industry agency services provision framework agreement (the "New Aviation Industry Agency Services Provision Framework Agreement"), new Aviation Industry agency services acceptance framework agreement (the "New Aviation Industry Agency Services Acceptance Framework Agreement"), new Aviation Industry financial assistance provision framework agreement (the "New Aviation Industry Financial Assistance Provision Framework Agreement") and new Aviation Industry financial assistance acceptance framework agreement (the "New Aviation Industry Financial Assistance Acceptance Framework Agreement") with AVIC Industry; and (ii) new AVIC International sale framework agreement (the "New AVIC International Sale Framework Agreement"), new AVIC International purchase framework agreement (the "New AVIC International Purchase Framework Agreement"), new AVIC International agency services provision framework agreement (the "New AVIC International Agency Services Provision Framework Agreement"), new AVIC International agency services acceptance framework agreement (the "New AVIC International Agency Services Acceptance Framework Agreement"), new AVIC International financial assistance provision framework agreement (the "New AVIC International Financial Assistance Provision Framework Agreement") and new AVIC International financial assistance acceptance framework agreement (the "New AVIC International Financial Assistance Acceptance Framework Agreement") with AVIC International on 24 October 2017. The Engineering Company, a wholly-owned subsidiary of the Company, entered into the new AVIC International construction services framework agreement (the "New AVIC International Construction Services Framework Agreement") with AVIC International, and the Company entered into the new Aviation Industry property rental (letting) framework agreement (the "New Aviation Industry Property Rental (Letting) Framework Agreement") with Aviation Industry 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 2018 (RMB)	2019 (RMB)	2020 (RMB)
New Aviation Industry Sale Framework Agreement	Sales of goods	100,000,000	100,000,000	100,000,000
New Aviation Industry Purchase Framework Agreement	Procurement of goods	60,000,000	60,000,000	60,000,000
New AVIC International Sale Framework Agreement	Sales of goods	2,000,000,000	2,000,000,000	2,000,000,000
New AVIC International Purchase Framework Agreement	Procurement of goods	2,500,000,000	2,500,000,000	2,500,000,000
New Aviation Industry Agency Services Provision Framework Agreement	Provision of agency services	150,000,000	150,000,000	150,000,000
New Aviation Industry Agency Services Acceptance Framework Agreement	Acceptance of agency services	80,000,000	80,000,000	80,000,000
New AVIC International Agency Services Provision Framework Agreement	Provision of agency services	180,000,000	180,000,000	180,000,000
New AVIC International Agency Services Acceptance Framework Agreement	Acceptance of agency services	50,000,000	50,000,000	50,000,000
New Aviation Industry Financial Assistance Provision Framework Agreement	Provision of borrowings/guarantee	500,000,000	500,000,000	500,000,000
	Charge interest/guarantee fee	30,000,000	30,000,000	30,000,000
New Aviation Industry Financial Assistance Acceptance Framework Agreement	Acceptance of borrowings/ guarantee	2,000,000,000	2,000,000,000	2,000,000,000
	Provision of interest/guarantee fee	80,000,000	80,000,000	80,000,000
New AVIC International Financial Assistance Provision Framework Agreement	Provision of borrowings/guarantee	1,700,000,000	1,700,000,000	1,700,000,000
	Charge interest/guarantee fee	75,000,000	75,000,000	75,000,000
New AVIC International Financial Assistance Acceptance Framework Agreement	Acceptance of loans/guarantee	10,000,000,000	10,000,000,000	10,000,000,000
	Provision of interest/guarantee fee	110,000,000	110,000,000	110,000,000
New AVIC International Construction Services Framework Agreement	Provision of construction services	700,000,000	500,000,000	400,000,000
New Aviation Industry Property Rental (Letting) Framework Agreement	Property letting	6,000,000	6,000,000	6,000,000

For details of the aforementioned continuing connected transactions, please refer to the announcement of the Company issued on 24 October 2017 and the circular of the Company dated 12 December 2017. The abovementioned continuing connected transactions had been approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 28 December 2017. Please refer to the poll results announcement of the Company dated 28 December 2017 for more details.

4. *Continuing Connected Transactions – Concessionaire Framework Agreement*

On 28 December 2017, Rainbow Department Store Co., Ltd. (天虹商場股份有限公司) ("Rainbow Department Store Company") and Fiyta (a subsidiary of the Company) entered into the 2017 Rainbow Concessionaire Framework Agreement ("2017 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 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 three years commencing on 1 January 2018 and expiring on 31 December 2020. According to the 2017 Rainbow Concessionaire Framework Agreement, the annual caps in respect of the turnover commission payable by Fiyta to Rainbow Department Store Company for the proposed three years from 2018 to 2020 shall not exceed RMB27,500,000, RMB30,000,000 and RMB32,500,000, respectively.

As AVIC Shenzhen is a controlling Shareholder of the Company and holds approximately 33.93% of the total issued share capital of the Company and approximately 43.41% equity interest of Rainbow Department Store Company is owned by AVIC Shenzhen, Rainbow Department Store Company is a connected person of the Company.

As the highest applicable percentage ratios for the annual caps of the transactions contemplated under the 2017 Rainbow Concessionaire Framework Agreement are more than 0.1% but less than 5%, the 2017 Rainbow Concessionaire Framework Agreement (including the respective annual caps) are only subject to reporting and announcement requirements, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For details, please refer to the announcement issued by the Company on 28 December 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In accordance with code provision A.2.1 of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules, 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 exercised 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. Liu Hong De and the Board hold meetings regularly to consider major matters that influence the operation of the Group. The Board considers that the 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, during the Reporting Period, the Company has complied with all the code provisions of the Code.

TRADING OF SHARES 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 the 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 Audit Committee members 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 consolidated results of the Group for the Reporting Period and this report.

PUBLIC FLOAT

Based on publicly available information and to 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
Liu Hong De
Chairman

Shenzhen, the People's Republic of China, 24 August 2018

As at the date of this report, the Board comprises a total of 9 Directors: Mr. Liu Hong De, Mr. Lai Wei Xuan, Mr. You Lei, Ms. Zhou Chun Hua, Mr. Chen Hong Liang, Mr. Liu Jun as executive Directors; and Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Wei Wei as independent non-executive Directors.