中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

2018 Interim Results Announcement

Financial Highlights

In the first half of 2018, the global economy encountered more and more risks and difficuties and the growth for major economic entities slowed down. In face of such adverse effect, the Group took initiatives and achieved growth in both revenue and profit.

- For the six months ended 30 June 2018, the Group recorded a revenue of RMB14,450 million, representing an increase of 3.58% as compared with that of RMB13,950 million（as restated）in the corresponding period of 2017.
- For the six months ended 30 June 2018, the profit attributable to equity holders of the Company was RMB598 million, representing an increase of 8.33% as compared with that of RMB552 million（as restated）in the corresponding period of 2017.

The board of directors (the "**Board**") of AviChina Industry & Technology Company Limited (the "**Company**") announces the unaudited interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2018 prepared according to International Accounting Standards as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	NOTES	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited) (Restated)
Revenue	3	14,449,765	13,949,849
Cost of sales		(11,246,168)	(10,985,592)
Gross profit		3,203,597	2,964,257
Other income and gains	5	249,582	139,485
Other expenses		(3,330)	(11,639)
Other income and gains, net		246,252	127,846
Selling and distribution expenses		(272,273)	(253,169)
Administrative expenses		(1,838,887)	(1,569,640)
Operating profit		1,338,689	1,269,294
Finance income		96,693	74,265
Finance costs		(273,509)	(228,833)
Finance costs, net	6	(176,816)	(154,568)
Share of profits of joint ventures		10,767	5,400
Share of profits of associates		84,073	72,261
Profit before tax	7	1,256,713	1,192,387
Income tax expenses	8	(159,968)	(178,524)
Profit for the period		1,096,745	1,013,863
Attributable to:			
Equity holders of the Company		597,533	552,383
Non-controlling interests		499,212	461,480
		1,096,745	1,013,863
Earnings per share attributable to ordinary equity holders of the Company			
Basic and diluted			
-For profit for the period	10	RMB0.1002	RMB0.0926

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Profit for the period	1,096,745	1,013,863
Other comprehensive income (loss)		
Items that may be reclassified to profit or loss in subsequent periods (net of tax):		
Net loss on changes in fair value of available-for-sale investments, net of tax	-	(87,112)
Exchange differences on translation of foreign operations	1,620	(5,668)
Items that will not be reclassified to profit or loss in subsequent periods (net of tax):		
Changes in fair value of equity investments at fair value through other comprehensive income	(73,021)	-
Other comprehensive loss for the period, net of tax	(71,401)	(92,780)
Total comprehensive income for the period	1,025,344	921,083
Attributable to:		
Equity holders of the Company	561,101	498,800
Non-controlling interests	464,243	422,283
	1,025,344	921,083

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	NOTES	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		14,474,791	14,527,086
Investment properties		277,907	281,545
Land use rights		1,668,805	1,689,809
Goodwill		69,122	69,188
Other intangible assets		595,956	619,438
Investments in joint ventures		126,716	122,433
Investments in associates		914,897	928,027
Available-for-sale investments		-	1,290,426
Equity instruments at fair value through other comprehensive income		1,179,049	-
Deferred tax assets		317,286	288,221
Prepayments, deposits and other receivables		813,661	810,567
Contract assets		672,143	-
Total non-current assets		21,110,333	20,626,740
Current assets			
Inventories		22,905,354	23,220,449
Accounts and notes receivables	11	19,165,889	17,541,036
Prepayments, deposits and other receivables		2,911,791	3,647,643
Contract assets		3,179,396	-
Financial assets at fair value through profit or loss		120,470	23,660
Pledged deposits		710,898	1,502,878
Term deposits with initial terms of over three months		630,300	1,307,509
Cash and cash equivalents		11,032,137	11,063,187
		60,656,235	58,306,362
Assets classified as held for sale	12	129,889	-
Total current assets		60,786,124	58,306,362
Total assets		81,896,457	78,933,102

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

AS AT 30 JUNE 2018

	NOTES	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Current liabilities			
Accounts and notes payables	13	25,005,856	24,084,796
Other payables and accruals		7,321,747	9,374,200
Interest-bearing bank and other borrowings		8,073,651	5,345,625
Obligations under finance leases		54,357	45,305
Contract liabilities		1,299,065	-
Tax payable		195,887	264,078
		41,950,563	39,114,004
Liabilities associated with assets classified as held for sale	12	40,722	-
Total current liabilities		41,991,285	39,114,004
Net current assets		18,794,839	19,192,358
Total assets less current liabilities		39,905,172	39,819,098
Non-current liabilities			
Interest-bearing bank and other borrowings		2,445,082	5,042,527
Deferred income from government grants		802,722	816,095
Deferred tax liabilities		66,273	82,441
Convertible bonds		1,984,352	1,531,945
Obligations under finance leases		351,269	373,802
Contract liabilities		1,225,528	-
Other payables and accruals		1,030,676	812,554
Total non-current liabilities		7,905,902	8,659,364
Total liabilities		49,897,187	47,773,368
Net assets		31,999,270	31,159,734
Equity			
Share capital		5,966,122	5,966,122
Reserves		9,030,070	8,743,139
Equity attributable to equity holders of the Company		14,996,192	14,709,261
Non-controlling interests		17,003,078	16,450,473
Total equity		31,999,270	31,159,734

NOTES:

1. CORPORATE INFORMATION

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

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

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

The interim condensed consolidated financial statements have been approved for issue by the Board on 24 August 2018.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on Hong Kong Stock Exchange (the "**Listing Rules**") and with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" issued by the International Accounting Standard Board ("**IASB**").

Restatement of prior year's consolidated financial statements due to business combinations involving entities under common control

On 25 December 2017, a subsidiary of the Company entered into an Equity Transfer Agreement (the "**Agreement**") with a subsidiary of its ultimate holding company, AVIC, to acquire 69.3% equity interest of AVIC Renewable Energy Investment Co., Ltd. ("**AVIC Renewable Energy**"), a subsidiary of AVIC, at the consideration of RMB413,571,300 by cash. The acquisition had been completed on 29 December 2017.

Given that AVIC Renewable Energy is under common control of AVIC before and after the business combination, and that control is not temporary, the acquisition of AVIC Renewable Energy is considered as business combination involving entities under common control. Accordingly, the Company applied the principles of merger accounting to account for the acquisition of AVIC Renewable Energy in preparing these interim condensed consolidated financial statements.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

Restatement of prior year's consolidated financial statements due to business combinations involving entities under common control (Continued)

By applying the principles of merger accounting, these interim condensed consolidated financial statements also included results and cash flows of AVIC Renewable Energy as if it had been combined with the Group throughout the year ended 31 December 2017, and from the earliest date presented. Comparative figures for the six months ended 30 June 2017 have been restated as a result of such. All intra-group transactions and balances have been eliminated on consolidation.

The quantitative impact on the interim condensed consolidated financial statements is summarised below:

(i) The interim condensed consolidated statement of profit or loss for the six months ended 30 June 2017

	As previously reported RMB'000	Merger of AVIC Renewable Energy RMB'000	Elimination of inter-company transactions RMB'000	As restated RMB'000
Revenue	13,842,176	107,673	-	13,949,849
Profit for the period	1,011,213	2,650	-	1,013,863

(ii) The interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2017

	As previously reported RMB'000	Merger of AVIC Renewable Energy RMB'000	Elimination of inter-company transactions RMB'000	As restated RMB'000
Total comprehensive income for the period	918,433	2,650	-	921,083

(iii) The interim condensed consolidated statement of cash flows for the six months ended 30 June 2017

	As previously reported RMB'000	Merger of AVIC Renewable Energy RMB'000	As restated RMB'000
Cash and cash equivalents at beginning of the period	8,772,885	107,091	8,879,976
Net cash flows (used in) from operating activities	(918,305)	28,531	(889,774)
Net cash flows (used in) investing activities	(2,018,075)	(17,663)	(2,035,738)
Net cash flows from (used in) financing activities	1,693,161	(17,590)	1,675,571
Effect of foreign exchange rate changes, net	(2,972)	-	(2,972)
Cash and cash equivalents at end of the period	7,526,694	100,369	7,627,063

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("**IFRSs**"), the accounting policies used in the interim condensed consolidated financial statements for the six months ended 30 June 2018 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current period, the Group has applied, for the first time, the following new standards, amendments and interpretation("**new and revised IFRSs**") issued by the IASB which are effective for the Group's financial year beginning on 1 January 2018.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle
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 40	Transfers of Investment Property
IFRIC Int-22	Foreign Currency Transactions and Advance Consideration

Except as described below, the application of other new and revised IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods/years and/or on the disclosures set out in these condensed consolidated financial statements.

IFRS 9 Financial Instruments

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 liabilities, 2) expected credit losses ("**ECL**") for financial assets 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 earnings and other components of equity, without restating comparative information.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

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.

	Available-for-sale investments RMB'000	Equity instruments at FVTOCI* RMB'000	Financial assets at FVTPL** RMB'000	Fair value reserve RMB'000	Retained earnings RMB'000
Closing balance at 31 December 2017 – IAS 39	1,290,426	-	23,660	(162,317)	4,467,709
Effect arising from initial application of IFRS 9	-	-	-	(97,957)	97,957
Reclassification from available-for-sale (a)	(1,290,426)	1,265,054	25,372	-	-
Opening balance at 1 January 2018	-	1,265,054	49,032	(260,274)	4,565,666

*Fair value through other comprehensive income

**Fair value through profit or loss

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

IFRS 9 Financial Instruments (Continued)

(a) Available-for-sale ("**AFS**") investments

From AFS investments to FVOCI

At the date of initial application of IFRS 9, the Group's equity investments of RMB1,265,054,000 were reclassified from available-for sale investments to equity instruments at FVTOCI, of which RMB650,818,000 related to unquoted equity investments previously measured at cost less impairment under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application, the carrying amounts of those unquoted equity investments previously carried at cost less impairment are approximate to their fair value. No fair value gains or losses were adjusted to equity investments at FVTOCI and FVTOCI reserve as at 1 January 2018. The accumulated fair value gains of RMB167,152,000 relating to those investments previously carried at fair value continued to accumulate in FVTOCI reserve as at 1 January 2018.

From AFS investments to FVTPL

At the date of initial application of IFRS 9, the Group's equity investments of RMB25,372,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The carrying amounts of those equity investments previously carried at cost less impairment were approximately to their fair value. No AFS reserve has been transferred to retained profits upon reclassification.

(b) Impairment under ECL model

Loss allowances for other financial assets at amortised cost mainly comprise of accounts and notes receivables, prepayments, deposits and other receivables, pledged deposits, term deposits with initial terms of over three months and cash and cash equivalents, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company concluded that the impairment under ECL was approximate to the impairment under IAS 39. No additional credit loss allowance has been recognised against retained earnings and the respective asset.

IFRS 15 Revenue from contracts with customers

In the current period, 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 has applied IFRS 15 retrospectively with the cumulative effect if 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 earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

IFRS 15 Revenue from contracts with customers (Continued)

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 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 a 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 of 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.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

IFRS 15 Revenue from contracts with customers (Continued)

Key changes in accounting policies resulting from application of IFRS 15 (Continued)

The major sources of revenue of the Group are sales of goods, provision of services and construction contracts. The directors of the Company have assessed each type of the performance obligations and considered that the performance obligations are similar to the identification of separate revenue components under IAS 18 Revenue in prior years. The directors of the Company also considered that the adoption of IFRS 15 has had no material impact on the timing and amounts of revenue recognised based on the existing business model of the Group.

In respect of construction contracts, the directors of the Company have considered the input and output method used to measure the progress towards complete satisfaction of these performance obligations appropriately depicts the performance under the contracts and continues to be applicable under IFRS 15. Apart from the additional disclosure regarding contract assets and contract liabilities, the directors of the Company considered that the adoption of IFRS 15 has had no material impact on the Group's condensed consolidated financial statements.

3. REVENUE

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

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited) (Restated)
Sales of goods	12,429,704	11,813,077
Rendering of services	2,020,061	2,136,772
	14,449,765	13,949,849

Timing of revenue recognition
For the six months ended 30 June 2018 (Unaudited)

	Total RMB'000
A point in time	7,606,356
Over time	6,843,409
	14,449,765

An analysis of the Group's revenue by segments is set out in Note 4 which is also the disaggregation of the Group's revenue from contracts with customers.

4. SEGMENT INFORMATION

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

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

1. Aviation entire aircraft - manufacturing, assembly, sales and servicing of helicopters, trainers and other aircraft;

2. Aviation parts and components - manufacturing and sales of aviation parts and components; and

3. Aviation engineering services - delivery of aviation engineering services such as planning, design, consultation, construction and operation etc.

Segment revenue and results

The following table presents revenue and results information regarding the Group's operating segments for the six months ended 30 June 2018 and 2017 respectively:

For the six months ended 30 June 2018

	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Segment Revenue:				
External sales	4,516,347	7,466,296	2,467,122	14,449,765
Inter-segment sales				454,275
Segment revenue				14,904,040
Eliminations				(454,275)
Group revenue				14,449,765
Segment results	176,965	1,134,487	140,191	1,451,643
Interest income				96,693
Unallocated corporate expenses				(18,114)
Finance costs				(273,509)
Profit before tax				1,256,713

4. **SEGMENT INFORMATION** (Continued)

Segment revenue and results (Continued)

For the six months ended 30 June 2017 (Restated)

	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Segment Revenue:				
External sales	4,741,717	6,851,801	2,356,331	13,949,849
Inter-segment sales				405,244
Segment revenue				14,355,093
Eliminations				(405,244)
Group revenue				13,949,849
Segment results	161,082	1,015,135	186,410	1,362,627
Interest income				74,265
Unallocated corporate expenses				(15,672)
Finance costs				(228,833)
Profit before tax				1,192,387

Segment results are defined based on profit before tax excluding interest income, finance costs, corporate and other unallocated expenses. This is the measure reported to the executive directors of the Company, being the chief operating decision maker, for purposes of resources allocation and performance assessment.

Revenue from the aviation entire aircraft and aviation parts and components are recognised over time and at point in time respectively while revenue from aviation engineering services are recognised over time or at a point in time based on the respective contract terms.

4. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Segment assets		
Aviation entire aircraft	28,699,089	28,152,099
Aviation parts and components	40,748,106	38,619,604
Aviation engineering services	13,661,277	13,688,167
Total segment assets	83,108,472	80,459,870
Elimination of inter-segment receivables	(1,212,015)	(1,526,768)
Consolidated assets	81,896,457	78,933,102
Segment liabilities		
Aviation entire aircraft	18,397,598	18,046,681
Aviation parts and components	22,580,807	21,246,266
Aviation engineering services	10,130,797	10,007,189
Total segment liabilities	51,109,202	49,300,136
Elimination of inter-segment payables	(1,212,015)	(1,526,768)
Consolidated liabilities	49,897,187	47,773,368

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

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

4. SEGMENT INFORMATION (Continued)

Other segment information

For the six months ended 30 June 2018

	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure (Note)	157,123	315,766	34,631	507,520
Depreciation and amortisation	182,539	299,129	96,237	577,905
Impairment losses recognised in the statement of profit or loss	5,765	74,805	23,812	104,382
Other non-cash expenses	77,647	11,412	-	89,059
Share of profits of joint ventures	59	10,708	-	10,767
Share of profits of associates	871	84,214	(1,012)	84,073
Investments in associates	348,835	524,760	41,302	914,897
Investments in joint ventures	24,036	102,680	-	126,716
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interest income	(23,094)	(63,687)	(9,912)	(96,693)
Finance costs	27,412	204,371	41,726	273,509
Income tax expenses	30,453	124,864	4,651	159,968

For the six months ended 30 June 2017 (Restated)

	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure (Note)	317,198	495,822	159,805	972,825
Depreciation and amortisation	189,465	274,811	78,421	542,697
Impairment losses recognised in the statement of profit or loss	(20,574)	70,738	8,208	58,372
Other non-cash expenses	6,917	6,283	-	13,200
Share of profits of joint ventures	-	5,400	-	5,400
Share of profits of associates	2,652	68,236	1,373	72,261
Investments in associates	451,218	398,708	26,589	876,515
Investments in joint ventures	-	82,571	7,520	90,091
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interest income	(22,690)	(26,456)	(25,119)	(74,265)
Finance costs	44,214	152,993	31,626	228,833
Income tax expenses	39,370	120,218	18,936	178,524

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

5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Other income		
Income from sale of materials	235,996	144,516
Cost from sale of materials	(207,355)	(134,292)
Profit from sale of materials	28,641	10,224
Income from rendering of maintenance and other services	49,228	56,161
Dividend income	1,887	6,096
Net rental income	12,000	7,679
	91,756	80,160
Gains		
Fair value gains on financial assets at FVTPL, net	25,041	2,456
Net foreign exchange gains	10,178	-
Confiscatory related income	8,211	7,175
(Loss) gain on disposal of an associate	(933)	5,403
Gain on disposal of subsidiaries	7,276	210
Gain on disposal of financial assets at FVTPL	21,151	-
Gain on disposal of property, plant and equipment	2,826	-
Others	84,076	44,081
	157,826	59,325
Other income and gains	249,582	139,485

6. FINANCE COSTS, NET

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Finance income		
Bank interest income	91,262	68,609
Other interest income	5,431	5,656
	96,693	74,265
Finance costs		
Interest on bank borrowings and other borrowings	268,742	214,461
Interest on finance leases	9,752	2,596
Total interest expense	278,494	217,057
Less: Interest capitalised	(12,526)	(7,129)
Other financial costs	7,541	18,905
	273,509	228,833
Finance costs, net	(176,816)	(154,568)

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging / (crediting):

	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited) (Restated)
Cost of inventories sold	9,467,510	9,124,451
Cost of services provided	1,778,658	1,861,141
Depreciation of investment properties	4,063	3,800
Depreciation of property, plant and equipment	529,342	493,037
Less: Amortisation of deferred income from government grants	(25,758)	(30,861)
Total depreciation	507,647	465,976
Research and development costs	816,479	674,641
Less: Government grants released	(200,079)	(141,141)
Total research and development costs	616,400	533,500
Wages, salaries, housing benefits and other allowances (including directors', supervisors' and chief executive's emoluments)	2,659,715	2,325,945
Share-based payment expense (including directors', supervisors' and chief executive's emoluments)	11,412	6,283
Pension scheme contributions (including directors', supervisors' and chief executive's emoluments)	402,292	346,134
Total staff costs	3,073,419	2,678,362
Auditors' remuneration	3,578	2,495
Amortisation of land use rights	21,004	21,464
Amortisation of intangible assets	23,496	24,396
Net foreign exchange (gains) / losses	(10,178)	7,008
Impairment loss on accounts and notes receivables and prepayments, deposits and other receivables	98,419	49,910
Write-down of inventories to net realisable value	5,963	8,462

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
PRC Enterprise Income Tax		
-current period	199,010	182,171
Deferred tax	(39,042)	(3,647)
	159,968	178,524

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods. During the periods ended 30 June 2018 and 2017, certain subsidiaries of the Group were entitled a preferential tax rate of 15%.

9. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends recognised as distribution of 2017 final dividend – RMB 0.03 (2017: 2016 final dividend – RMB 0.02) per share	178,984	119,322

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

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

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Earnings		
Profit for the period attributable to ordinary equity holders of the Company for the purpose of basic and diluted earnings per share	597,533	552,383
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	5,966,122	5,966,122

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

11. ACCOUNTS AND NOTES RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Accounts receivable		
- Ultimate holding company	5,147	4,013
- Fellow subsidiaries	8,082,424	5,708,610
- Joint ventures	964	74
- Associates	76,625	95,780
- Others	8,680,241	8,390,254
	16,845,401	14,198,731
Less: impairment loss recognised	(927,876)	(825,306)
	15,917,525	13,373,425
Notes receivable		
- Fellow subsidiaries	1,658,988	1,706,446
- A joint venture	218	1,051
- Others	1,589,158	2,460,114
	3,248,364	4,167,611
	19,165,889	17,541,036

Certain accounts and notes receivables were pledged as security for bank borrowings.

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 1 year	13,182,753	10,870,624
1 to 2 years	1,918,257	1,663,082
2 to 3 years	660,111	670,970
Over 3 years	156,404	168,749
	15,917,525	13,373,425

12. ASSETS CLASSIFIED AS HELD FOR SALE

On 29 June 2018, the directors of the Company resolved to dispose of one of the Group's subsidiaries, China Aviation Publishing & Media Co., Ltd（中航出版傳媒有限責任公司）("**CAPMC**"). On 21 August 2018, the Company entered into the Equity Transfer Agreement with AVIC to dispose of 53.635% equity interest in CAPMC with a consideration of RMB44,570,400. The assets and liabilities attributable to the subsidiary, which are expected to be sold within twelve months, have been classified as held for sale and are presented separately in the condensed consolidated statement of financial position (see below).

The major classes of assets and liabilities of the subsidiary as at the end of the current interim period, which have been presented separately in the condensed consolidated statement of financial position, are as follows:

	30 June 2018 RMB'000
Property, plant and equipment	13,907
Deferred tax assets	3,275
Inventories	49,938
Accounts and notes receivable	33,637
Prepayments, deposits and other receivables	5,109
Cash and cash equivalents	24,023
Total assets classified as held for sale	129,889
Accounts and notes payable	16,551
Other payables and accruals	19,134
Tax payable	37
Deferred income from government grants	5,000
Total liabilities associated with assets classified held for sale	40,722

13. ACCOUNTS AND NOTES PAYABLES

	30 June 2018 RMB' 000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Accounts payable		
- Ultimate holding company	23	11,058
- Fellow subsidiaries	4,289,266	2,915,776
- Joint ventures	14,585	6,689
- Associates	8,874	57,649
- Others	15,395,040	14,976,684
	19,707,788	17,967,856
Notes payable		
- Fellow subsidiaries	1,213,557	2,011,324
- A joint venture	45,492	34,263
- An associate	750	15,349
- Others	4,038,269	4,056,004
	5,298,068	6,116,940
	25,005,856	24,084,796

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 1 year	15,169,777	11,903,022
1 to 2 years	2,950,835	3,794,203
2 to 3 years	1,090,479	1,267,904
Over 3 years	496,697	1,002,727
	19,707,788	17,967,856

The notes payable are with an average maturity period of less than six months. As at 30 June 2018, notes payable of approximately RMB1,121,613,000 (31 December 2017: RMB3,942,943,000) were secured by pledged deposits to the extent of approximately RMB578,620,000 (31 December 2017: RMB1,394,524,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2018, China economy continued its stable growth as a whole. By actively promoting the military and civilian integration and supply-side structural reform, Aviation Industry Corporation of China, Ltd. ("**AVIC**") further improved its operation quality, launched its key transformation by echelon and enhanced its energy and motivation. AVIC has been listed in the Fortune Global 500 for ten consecutive years and ranked the 161st in the list with revenue of USD59.263 billion in 2018. Further, AVIC ranked the fifth in the space and defense industry list of the Fortune Global 500.

The Company follows the strategic objectives of building an aviation power in the new era, by optimizing and improving its development strategy, and is dedicated to becoming a flagship company for providing high-tech aviation military-civilian dual use products and services in China, and propel the growth of the aviation industry. The Company established and invested in AVIC Rongfu Fund Management (Beijing) Company Limited * (中航融富基金管理（北京）有限公司) which will initiate the establishment of and manage aviation military-civilian integration fund as an important platform of the Group for investments in industry development projects of aviation military-civilian integration.

The Company was approved to be a pilot company of the H share full circulation project. In June 2018, all domestic shares of the Company were converted into its tradeable H shares. The full conversion further strengthens the bonding between the Company and its shareholders, attracts more attention from the international market and better supports the fast development and internationalized development of the aviation industry.

The Company has also been proactively promoting the brand building and international market exploration. The Group attended the U.K. Farnborough International Airshow with aviation products showing its new achievements in respect to international market expansion and sending out invitations to global aviation industry partners and investors to create a win-win future together, and to conduct multiple cooperations.

In the first half of 2018, the global economy encountered more and more risks and difficuties, the growth for major economic entities slowed down and the financial market witnessed fluctuations. In face of such adverse effect, the Group took initiatives and achieved growth in both revenue and profit. For the six months ended 30 June 2018, the Group recorded a revenue of RMB14,450 million, representing an increase of 3.58% as compared with that of RMB13,950 million (as restated) in the corresponding period of 2017. The profit attributable to the equity holders of the Company for the reporting period was RMB598 million, representing an increase of 8.33% as compared with that of RMB552 million (as restated) in the corresponding period of 2017.

In the first half of 2018, the Group continued to improve the qualities and core competitiveness of helicopter products and to vigorously expand market for helicopter, so as to promote the military-civilian integration of helicopter business. The helicopters of the Group participated in the forest fire extinguishment in Inner Mongolia and Greater Khingan Range; successfully completed the water comprehensive rescue rehearsal in Poyang Lake and emergency rescue rehearsal of advance relocation for disaster prevention in Leping, Jingdezhen. All of the above operations fully demonstrated the strength and capabilities in emergency rescue. The helicopter air tour project in Jiangxi Wuyuan scenic spot smoothly passed the on-site verification test of operation certification of Shanghai Regulatory Authority of Civil Aviation Administration of China.

At the same time, the Group proactively implemented the "Belt and Road" initiative, and constantly improved the impact of the trainer of the Group to the countries along the lines of the "Belt and Road". L15 advanced trainer produced by Jiangxi Hongdu Aviation Industry Co., Ltd.* ("**Hongdu Aviation**"), received high attention in the Kazakhstan Defence Expo and several CJ6 primary trainers of Hongdu Aviation have been delivered to Sri Lanka Air Force and completed the checking and acceptance procedures.

In the first half of 2018, the Group continued to increase the investment in research and development of aviation parts and components business and enhance the cross-domain integration and innovation, and made significant achievement. China Aviation Optical-Electrical Technology Co., Ltd.* ("**JONHON Optronic**") continually researched and developed advanced products to meet the market demands. The charging products of European standard and American standard made by JONHON Optronic were granted the international excellence award for electric vehicle charging connector. The SMA(ZS), N(ZS), TNC(ZS) series radio frequency self-locking connector made by JONHON Optronic passed the assessment and review and satisfies the market demands for high reliability, convenient and efficient usage and thread locking when transmitting radio frequency signal. Meanwhile, JONHON Optronic also equipped the control system of "Chongqing Liangjiang Star", the first commercial rocket produced by private enterprise in China, with a lot of parts and components, and reduced its weight by more than half by applying innovation technology. China Avionics Systems Co., Ltd.*("**AVIC Avionics**") made use of its own advantages, enhanced cross domain integration and innovation, and expanded into emerging industry. AVIC Virtual Reality Industrial Alliance Applied Research Center*("**VR Industrial Alliance**") was established in Shanghai Aviation Electric Co., Ltd.* ("**Shanghai Aviation Electric**"). VR Industrial Alliance showed up on the Europe Laval Virtual Reality Exhibition for the first time with the whole series of VR products solutions and Shanghai Aviation Electric exhibited three product solutions such as laser projector screen, displaying the Chinese intelligent manufacturing capabilities and the aviation intelligent manufacturing capabilities.

In the first half of 2018, in the aviation engineering services business, the Group focused on quality improvement, established its brand effect, and built up its position as a market leader. China Aviation Planning and Design Institute Co., Ltd.* ("**AVIC Planning**") was awarded "Annual Best Contribution Award for Airport Construction and Design" by the 8th Annual of Airport Construction and Development International Summit (Shanghai), demonstrating AVIC Planning's leading position in airport design, environmental protection and etc.

Capitalizing on its leading technical strength in the areas such as airport terminal, integrated transportation hub, etc., AVIC Planning won the bidding for the further research project for the urban airport terminal of Xiong'an New Area, and seized the opportunity for participating in Xiong'an New Area construction in advance. Meanwhile, AVIC Planning won the bidding for the engineering design and project management of the aid project for constructing the Xai-Xai airport in Mozambique. This signifies a significant breakthrough for AVIC Planning's implementation of the "Belt and Road" initiative of the PRC and the infrastructure construction for the "Aerial Silk Road". The EPC engineering project for phase Ⅱ reconstruction and extension of Yichang Three Gorges airport successfully launched. It is the first project adopting the EPC general subcontracting arrangement in the construction of medium and large domestic airports in PRC.

As a major supplier for Commercial Aircraft Corporation of China Ltd.*（"**COMAC**"）, the Group pays high attention to the research and development and the quality control of products, and maintains good cooperation relationship with COMAC. A number of subsidiaries of the Group received the 2017 Supplier Excellence Award of COMAC. In the first half of 2018, the installation and the integrated adjustment of ARJ21-700 ELT control panel as designed and produced by Shanghai Aviation Electric completed. The first LRU level evaluation test for C919 Control Panel Assemblies and Dimming Control System developed and manufactured by Shanghai Aviation Electric and the radio frequency sensitivity test for the dimming control power successfully passed the on-site acceptance by Civil Aviation Administration of China.

BUSINESS OUTLOOK

In the second half of 2018, it is expected that the global economy will continue to face risks such as trade protectionism and fluctuation in the financial markets. In face of new problems and new challenges, China will deepen reforms, expand its opening up and bring new development momentum for the Chinese economy which is in a critical period from quantitative change to qualitative change for the shift in driving forces. Against the complex and changing economic environment, as an aviation high-tech enterprise, the Company will tightly seize the development opportunities brought by the adjustment of economic structure and innovation-driven development strategy, moving forward against the adverse environment. The Company will implement the strategy for forging a strong aviation country, and dedicate itself to be a flagship company for providing high-tech aviation military-civilian dual use products and services with a vision to be a most valuable listed company of the Chinese aviation industry. The Company will deeply carry out the innovation-driven development strategy, concretely improve its high-tech innovation capabilities, and speed up the research and development progress of the innovative products of light helicopter; insist on propelling resource integration, optimizing its development layouts, concentrating on its principal businesses, so as to strengthen the aviation industry; reinforce results appraisal and management to improve its quality and efficiency, and promote equity operation to increase investment income; stick to its development vision of opening and sharing, carry out joint investment, cooperation and international merger & acquisition; as well as act promptly to launch the investment projects for the military-civilian integration industry fund so as to promote the military-civilian integration of the aviation industry. The Company will stick to innovation and hard work and pull together with its shareholders in times of difficulties so as to build a wonderful future.

FINANCIAL REVIEW

In the second half of 2017, AVIC Planning, a subsidiary of the Company, acquired AVIC Renewable Energy Investment Co., Ltd.. Pursuant to the relevant requirements, the Group has restated relevant financial data in the corresponding period of the previous year when preparing this report.

Unless otherwise indicated, the financial data in the corresponding period of last year quoted in this report has all been restated.

The business segments of the Group are divided into aviation entire aircraft segment, aviation parts and components segment and aviation engineering services segment.

Revenue

For the six months ended 30 June 2018, the Group recorded a revenue of RMB14,450 million, representing an increase of RMB500 million or 3.58% as compared with that of RMB13,950 million in the corresponding period of last year, which was mainly attributable to the increase in revenue of the aviation parts and components segment.

Segment information

For the six months ended 30 June 2018, the revenue of the aviation entire aircraft segment of the Group amounted to RMB4,516 million, representing a decrease of 4.77% as compared with that in the corresponding period of last year. The revenue of the aviation entire aircraft segment accounted for 31.26% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB7,466 million, representing an increase of 8.96% as compared with that in the corresponding period of last year which was mainly attributable to the increase in revenue of avionics business and accounting for 51.67% of the total revenue of the Group. The revenue of the aviation engineering services segment of the Group amounted to RMB2,467 million, representing an increase of 4.71% as compared with that in the corresponding period of last year. The revenue of the aviation engineering services segment accounted for 17.07% of the total revenue of the Group.

The segment results of the aviation entire aircraft segment of the Group amounted to RMB177 million, representing an increase of RMB16 million or 9.94% as compared with that of RMB161 million in the corresponding period of last year. The increase was mainly attributable to the increase in gross profit margin of certain helicopter products. The segment results of the aviation parts and components segment of the Group amounted to RMB1,134 million, representing an increase of RMB119 million or 11.72% as compared with that of RMB1,015 million in the corresponding period of last year, which was mainly attributable to the increase in gross profit driven by the increase in revenue of avionics business and the increase of investment income from certain subsidiaries. The segment results of the aviation engineering services segment of the Group amounted to RMB140 million, representing a decrease of RMB46 million or 24.73% as compared with that of RMB186 million in the corresponding period of last year. The decrease was mainly attributable to the decrease in revenue and gross profit of the aviation engineering planning and design consultation businesses which has relatively high gross profit margin resulted from the delay in the contract signing process during the period.

Gross profit

For the six months ended 30 June 2018, the Group recorded a gross profit of RMB3,204 million, representing an increase of RMB240 million or 8.10% as compared with that of RMB2,964 million in the corresponding period of last year, which was mainly attributable to increase in the revenue and the gross profit margin. The comprehensive gross profit margin was 22.17% during the reporting period, representing an increase of 0.92 percentage points as compared with that in the corresponding period of last year.

Selling and distribution expenses

For the six months ended 30 June 2018, the selling and distribution expenses of the Group amounted to RMB272 million, representing an increase of RMB19 million or 7.51% as compared with that of RMB253 million in the corresponding period of last year. The increase was mainly due to the rise in labor costs of the salespersons in light of the increase in the number of salespersons for the purposes of expanding the market by certain subsidiaries. The selling and distribution expenses accounted for 1.88% of the revenue during the reporting period, and remained at the same level as that in the corresponding period of last year.

Administrative expenses

For the six months ended 30 June 2018, the administrative expenses of the Group amounted to RMB1,839 million, representing an increase of RMB269 million or 17.13% as compared with that of RMB1,570 million in the corresponding period of last year, which was mainly attributable to the increase in R&D investment by certain subsidiaries. The administrative expenses accounted for 12.73% of the revenue during the reporting period, representing an increase of 1.48 percentage points as compared with that of 11.25% in the corresponding period of last year.

Finance costs, net

For the six months ended 30 June 2018, the net finance costs of the Group amounted to RMB177 million, representing an increase of RMB22 million or 14.19% as compared with that of RMB155 million in the corresponding period of last year, which was mainly attributable to the increase of financial costs of AVIC Avionics during the reporting period as it issued convertible bonds at the end of last year.

Profit attributable to equity holders of the Company

For the six months ended 30 June 2018, the profit attributable to the equity holders of the Company amounted to RMB598 million, representing an increase of RMB46 million or 8.33% as compared with that of RMB552 million in the corresponding period of last year. The increase was due to the increase in gross profit contribution driven by the increase in revenue and gross profit margin, as well as the increase in investment income and subsidies of certain subsidiaries.

Liquidity and financial resources

As at 30 June 2018, the cash and cash equivalents of the Group amounted to RMB11,032 million, which were mainly derived from cash and bank deposits at the beginning of 2018 and proceeds generated from business operations during the reporting period.

As at 30 June 2018, the Group's total borrowings and convertible bonds amounted to RMB12,503 million, of which short-term borrowings amounted to RMB5,351 million, current portion of long-term borrowings amounted to RMB2,723 million, non-current portion of long-term borrowings amounted to RMB2,445 million, and convertible bonds amounted to RMB1,984 million.

As at 30 June 2018, among the Group's total borrowing, the bank borrowings amounted to RMB3,168 million with an average interest rate of 4% per annum, representing a decrease of RMB202 million as compared with that at the beginning of the reporting period; and other borrowings amounted to RMB7,351 million with an average interest rate of 4% per annum, representing an increase of RMB333 million as compared with that at the beginning of the reporting period.

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

CAPITAL STRUCTURE

As at 30 June 2018, the Group's borrowings were mainly settled in Renminbi and cash and cash equivalents were mainly held in Renminbi.

MORTGAGE AND PLEDGE ON ASSETS

As at 30 June 2018, the Group's secured borrowings amounted to RMB533 million, among which the borrowings of RMB193 million were pledged by accounts receivable and notes receivable with a net book value of RMB193 million; borrowings of RMB 340 million were pledged by a future collecting right with an amount of not more than RMB512 million.

GEARING RATIO

As at 30 June 2018, the Group's gearing ratio was 15.27% (as at 31 December 2017 was 15.10%), which was derived from dividing the total borrowings and convertible bonds by the total assets as at 30 June 2018.

EXCHANGE RATE RISKS

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

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2018, the Group did not provide any guarantees in favor of any third party and had no significant contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

1. On 1 February 2018, the Company entered into a joint venture agreement with AVIC Manufacturing Technology Institute* (中國航空製造技術研究院), AVIC Aviation High-Technology Co., Ltd.* (中航航空高科技股份有限公司) and Beijing Hangyi Zhongchi Science and Technology Centre (Limited Partnership)* (北京航藝眾持科技中心（有限合夥）) in relation to the proposed establishment of Beijing Hangwei High-Technology Connection Technology Co., Ltd.* (北京航為高科連接技術有限公司) ("**Hangwei High-Technology**"). Pursuant to the agreement, the Company agreed to make a capital contribution of RMB95 million in cash, representing 38% of the total capital contribution of Hangwei High-Technology. For details, please refer to the announcement of the Company dated 1 February 2018.

2. On 26 February 2018, the Company, as the principal initiator, entered into a joint venture agreement with AVIC and AVIC Capital Co., Ltd.* (中航資本控股股份有限公司) in relation to the formation of Beijing Rongfu AVIC Fund Management Company* (北京融富航空工業基金管理有限公司) ("**Fund Management Company**"), pursuant to which, the Company agreed to make a capital contribution of RMB70 million in cash, representing 50% of the total capital contribution of Fund Management Company. Fund Management Company is a subsidiary of the Company and its financial results will be consolidated into those of the Company. On 24 April 2018, the Fund Management Company has completed the industrial and commercial registration and obtained the certificate of business upon related approvals. Its final registered name is AVIC Rongfu Fund Management (Beijing) Limited Company*

(中航融富基金管理（北京）有限公司). Fund Management Company will propose to establish and manage an AVIC military-civilian integration fund as a general partner, which shall be dedicated to the investment in military-civilian integration development projects of aviation industry. For details, please refer to the announcements of the Company dated 26 February 2018 and 25 April 2018.

3. On 15 March 2018, to promote the industrialization for the aviation high-tech achievements of aviation research institutes, the Company entered into a joint venture agreement with Chinese Aeronautical Radio Electronics Research Institute* (中國航空無線電電子研究所), AVIC Avionics Systems Co., Ltd.* (中航航空電子系統有限責任公司), Aviclub Holding Co., Ltd.* (愛飛客控股有限責任公司), Shanghai Advanced Avionics Company Ltd.* (上海埃威航空電子有限公司) and Shanghai Hanggong Enterprise Management Centre (Limited Partnership)* (上海航恭企業管理中心（有限合夥）) in relation to the proposed establishment of AVIC Air Traffic Management System Equipment Co., Ltd.* (中航工業空管系統裝備有限責任公司) ("**AVIC ATM System**"). Pursuant to the agreement, the Company agreed to make a capital contribution of RMB198 million in cash, representing 33% of the total capital contribution of AVIC ATM System. For details, please refer to the announcement of the Company dated 15 March 2018.

USE OF PROCEEDS

As at 30 June 2018, a total of RMB4,240 million out of the proceeds raised by the Company had been utilised in the manufacturing and research and development of advanced trainers, helicopters and aviation composite materials as well as the acquisition of assets in aviation business and equity investments. The remaining balance was deposited in banks in the PRC as interest-bearing short-term deposits.

EMPLOYEES

As at 30 June 2018, the Group had approximately 50,257 employees. The Group's staff costs amounted to RMB3,073 million for the six months ended 30 June 2018, representing an increase of RMB395 million or 14.75% as compared with that of RMB2,678 million in the corresponding period of last year.

The remuneration policies and employee training programs of the Company remained the same as those set out in the 2017 annual report of the Company.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At the annual general meeting convened on 29 June 2018 (the "**AGM**"), certain members of the fifth session of the Board of the Company, namely Mr. Tan Ruisong (non-executive director), Mr. Li Yao(non-executive director), Mr. He Zhiping (non-executive director), Mr. Patrick de Castelbajac (non-executive director) and Mr. Liu Renhuai (independent non-executive director) participated in the re-election of directors of the sixth session of the

Board and were re-elected as the directors. Other members of the fifth session of the Board, namely Mr. Lin Zuoming (executive director), Mr. Wu Xiandong (non-executive director) , Mr. Lau Chung Man, Louis (independent non-executive director) and Mr. Yeung Chi Wai (independent non-executive director) confirmed that they would not participate in the re-election of the directors of the sixth session of the Board upon expiry of their terms of office. Meanwhile, Mr. Chen Yuanxian, Mr. Wang Xuejun, Mr. Liu Weiwu and Mr. Wang Jianxin were elected as the executive director, non-executive director, independent non-executive director and independent non-executive director of the sixth session of the Board of the Company, respectively.

After the conclusion of the AGM, the sixth session of the Board consists of the following members: Mr. Tan Ruisong (executive director), Mr. Chen Yuanxian (executive director), Mr. Li Yao (non-executive director), Mr. Wang Xuejun (non-executive director), Mr. He Zhiping (non-executive director), Mr. Patrick de Castelbajac (non-executive director), Mr. Liu Renhuai (independent non-executive director), Mr. Liu Weiwu (independent non-executive director) and Mr. Wang Jianxin (independent non-executive director).

At the Board meeting convened following the AGM on the same date, Mr.Tan Ruisong was elected as the chairman of the Board of the Company.

At the AGM, Mr. Zheng Qiang, a member of the fifth session of the Supervisory Committee of the Company, participated in the re-election as shareholder representative supervisor of the sixth session of the Supervisory Committee and was re-elected as the supervisor. Other members of the fifth session of the Supervisory Committee, namely Mr. Liu Fumin and Ms. Li Jing confirmed that they would not participate in the re-election of the supervisors of the sixth session of the Supervisory Committee upon expiry of their terms of office. Meanwhile, Mr. Guo Guangxin and Mr. Shi Shiming were elected as the shareholder representative supervisor and employee representative supervisor respectively. After the conclusion of the AGM, the sixth session of the Supervisory Committee of the Company consists of the following members: Mr. Zheng Qiang (shareholder representative supervisor), Mr. Guo Guangxin (shareholder representative supervisor) and Mr. Shi Shiming (employee representative supervisor).

At the Supervisory Committee meeting of the Company convened following the AGM on the same date, Mr. Zheng Qiang was elected as the chairman of the Supervisory Committee of the Company.

During the reporting period, due to other work commitments, Mr. Qu Jingwen, Mr. Yu Feng and Mr. Tang Jun tendered their resignation to the Board to resign from their positions of the general manager & chief financial officer, the deputy general manager and the deputy general manager of the Company, respectively. The Board appointed Mr. Chen Yuanxian as the general manager of the Company, Mr. Yan Lingxi as the standing deputy general manager of the Company and Mr. Tao Guofei as the deputy general manager & chief financial officer of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities (the "**Hong Kong Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"), and the Shares Trading Management Rules of the Company as its own guidelines for securities transactions by the Directors, supervisors and relevant employees of the Company. The Board has also confirmed that, having made specific enquiries of all the Directors and supervisors, all the Directors and supervisors of the Company had complied with the required standards for securities transactions by Directors and supervisors set out in the Model Code for the six months ended 30 June 2018.

AUDIT COMMITTEE

The Board has established an audit committee and set out the Terms of Reference of the Audit Committee in accordance with "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and other rules. The audit committee had reviewed the Company's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Company has strictly complied with various applicable laws, rules and regulations as well as its Articles of Association to standardize its operation. After reviewing the corporate governance arrangement adopted by the Company, the Board is of the view that the Company has complied with the requirements of the principles and code provisions set out in the Corporate Governance Code under the Listing Rules for the six months ended 30 June 2018.

OTHER EVENTS

On 9 May 2018, China Securities Regulatory Commission approved the application of the Company in respect of participation in the H share full circulation pilot project. On 15 June 2018, 3,609,687,934 domestic Shares of the Company were converted into H Shares, and were listed on the Hong Kong Stock Exchange from 9:00 a.m. on 19 June 2018. For details, please refer to the announcements in relation to participation in the H share full circulation pilot project by the Company dated 9 May 2018, 30 May 2018, 1 June 2018, 11 June 2018 and 15 June 2018.

MAJOR SUBSEQUENT EVENT

On 21 August 2018, the Company entered into an equity transfer agreement with AVIC, pursuant to which, the Company agreed to sell and AVIC agreed to acquire, 53.635% of the equity interest in China Aviation Publishing & Media Co., Ltd. (“**CAPMC**”). Immediately upon completion of the transaction, the Company will no longer hold any equity interest in CAPMC, and CAPMC will cease to be a subsidiary of the Company. Accordingly, the financial results of CAPMC will cease to be consolidated into the consolidated financial statements of the Company. It is estimated that the transaction will generate a book loss of approximately RMB2.16 million, being the difference between RMB46.73 million, the book value of 53.635% of the equity interest in CAPMC in the account of the long-term equity investment as at 30 June 2018 and the consideration of the transaction. The final amount is subject to calculation based on relevant data on the actual completion date. The Company intends to use the proceeds for supplementing the general working capital of the Group. For details, please refer to the announcement of the Company dated 21 August 2018.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

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

INFORMATION DISCLOSURE ON THE WEBSITE OF HKEX

The electronic version of this announcement will be published on both the websites of Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (www.avichina.com). The interim report of the Company for the six months ended 30 June 2018, which contains all information as required by Appendix 16 to the Hong Kong Listing Rules, will be despatched to the shareholders of the Company and published on the websites of Hong Kong Stock Exchange and the Company in due course.

By order of the Board
AviChina Industry & Technology Company Limited*
Chairman
Tan Ruisong

Beijing, 24 August 2018

As at the date of this announcement, the Board comprises executive Directors Mr. Tan Ruisong and Mr. Chen Yuanxian, non-executive Directors Mr. Li Yao, Mr. Wang Xuejun, Mr. He Zhiping and Mr. Patrick de Castelbajac as well as independent non-executive Directors Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin.

** For identification purpose only*