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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)

2019 Interim Results Announcement

Financial Highlights

- For the six months ended 30 June 2019, the Group recorded a revenue of RMB17,958 million, representing an increase of 24.28% as compared with that of RMB14,450 million in the corresponding period of 2018.

- For the six months ended 30 June 2019, the profit attributable to equity holders of the Company was RMB641 million, representing an increase of 7.19% as compared with that of RMB598 million in the corresponding period of 2018.

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 2019 prepared according to International Financial Reporting Standards as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	NOTES	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	3	17,957,582	14,449,765
Cost of sales		(14,059,776)	(11,246,168)
Gross profit		3,897,806	3,203,597
Other income and gains	5	164,895	249,582
Other expenses		(16,300)	(3,330)
Other income and gains, net		148,595	246,252
Selling and distribution expenses		(289,369)	(272,273)
Administrative expenses		(2,099,781)	(1,740,468)
Impairment loss		(88,301)	(98,419)
Operating profit		1,568,950	1,338,689
Finance income		97,022	96,693
Finance costs		(307,543)	(273,509)
Finance costs, net	6	(210,521)	(176,816)
Share of profits of joint ventures		9,584	10,767
Share of profits of associates		94,704	84,073
Profit before tax	7	1,462,717	1,256,713
Income tax expenses	8	(157,405)	(159,968)
Profit for the period		1,305,312	1,096,745
Attributable to:			
Equity holders of the Company		641,161	597,533
Non-controlling interests		664,151	499,212
		1,305,312	1,096,745
Earnings per share attributable to ordinary equity holders of the Company			
Basic and diluted			
- For profit for the period	10	RMB0.1027	RMB0.1002

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	1,305,312	1,096,745
Other comprehensive income (loss)		
Items that may be reclassified to profit or loss in subsequent periods (net of tax):		
Exchange differences on translation of foreign operations	993	1,620
Items that will not be reclassified to profit or loss in subsequent periods (net of tax):		
Changes in fair value	81,119	(73,021)
Income tax effect	(14,952)	-
Other comprehensive income (loss) for the period, net of tax	67,160	(71,401)
Total comprehensive income for the period	1,372,472	1,025,344
Attributable to:		
Equity holders of the Company	681,586	561,101
Non-controlling interests	690,886	464,243
	1,372,472	1,025,344

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	NOTE	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		15,095,668	14,962,386
Right-of-use assets		129,133	-
Investment properties		355,528	365,106
Land use rights		1,636,915	1,640,279
Goodwill		69,122	69,122
Other intangible assets		553,074	575,863
Investments in joint ventures		142,100	141,772
Investments in associates		1,086,119	970,799
Financial assets at fair value through other comprehensive income		1,444,520	888,628
Other non-current financial assets		6,600	-
Deferred tax assets		340,411	324,183
Prepayments, deposits and other receivables		1,703,814	1,424,001
Contract assets		708,404	856,741
Total non-current assets		23,271,408	22,218,880
Current assets			
Inventories		24,751,084	23,150,274
Accounts and notes receivables	11	21,305,477	21,272,651
Prepayments, deposits and other receivables		3,691,730	2,791,983
Contract assets		2,345,892	2,074,429
Financial assets at fair value through profit or loss ("FVTPL")		435,487	280,629
Pledged deposits		648,489	1,414,308
Term deposits with initial terms of over three months		1,753,882	1,394,771
Cash and cash equivalents		8,210,669	12,122,364
Total current assets		63,142,710	64,501,409
Total assets		86,414,118	86,720,289

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)
AS AT 30 JUNE 2019

	NOTE	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Current liabilities			
Accounts and notes payables	12	25,200,048	25,324,860
Other payables and accruals		3,757,063	3,718,943
Interest-bearing bank and other borrowings		8,372,562	9,022,435
Obligations under finance leases		-	59,803
Liabilities arising from sale and leaseback		60,495	-
Contract liabilities		5,796,304	6,995,894
Lease liabilities		31,750	-
Tax payable		173,814	217,336
Total current liabilities		43,392,036	45,339,271
Net current assets		19,750,674	19,162,138
Total assets less current liabilities		43,022,082	41,381,018
Non-current liabilities			
Interest-bearing bank and other borrowings		1,775,475	1,294,190
Deferred income from government grants		820,691	777,498
Deferred tax liabilities		52,991	36,640
Convertible bonds		3,058,707	2,930,007
Obligations under finance leases		-	474,415
Liabilities arising from sale and leaseback		442,850	-
Contract liabilities		300	-
Lease liabilities		96,274	-
Other payables and accruals		883,415	895,630
Total non-current liabilities		7,130,703	6,408,380
Total liabilities		50,522,739	51,747,651
Net assets		35,891,379	34,972,638
Equity			
Share capital		6,245,122	6,245,122
Reserves		11,061,192	10,559,253
Equity attributable to equity holders of the Company		17,306,314	16,804,375
Non-controlling interests		18,585,065	18,168,263
Total equity		35,891,379	34,972,638

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 2nd floor, Building 27, No. 26 Xihuan South Street, Beijing Economic Technological Development Area, Beijing, the PRC.

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

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

The interim condensed consolidated financial statements have been approved for issue by the Board of Directors on 23 August 2019.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 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").

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 2019 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are effective for the Group's financial year beginning on 1 January 2019.

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle

The adoption of IFRS 16 resulted in changes in the Group's accounting policies and adjustments to the amounts recognised in the condensed consolidated financial statements. The new accounting policies are set out below. The application of other new and amendments to IFRSs in the current interim period has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

IFRS 16 Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described below. The Group has applied IFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 17 Leases.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC-4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

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

Application of new and amendments to IFRSs (Continued)

IFRS 16 Leases (Continued)

The major impacts of the adoption of IFRS 16 on the Group's condensed consolidated financial statements are described below:

The Group as lessee

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was ranged from 4.28% to 5.20%.

The Group recognises right-of-use assets and measures them at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group leases a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

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

Application of new and amendments to IFRSs (Continued)

IFRS 16 Leases (Continued)

The following table summarises the impact of transition to IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Notes	Carrying amount previously reported at 31 December 2018	Impact on adoption of IFRS 16	Carrying amount as restated at 1 January 2019
		RMB'000	RMB'000	RMB'000
Property, plant and equipment	(b)	14,962,386	(15,840)	14,946,546
Right-of-use assets	(a) &(b)	-	145,697	145,697
Obligations under finance leases	(b)	534,218	(534,218)	-
Liabilities arising from sale and leaseback	(b)	-	525,115	525,115
Lease liabilities	(a)& (b)	-	141,697	141,697
Retained earnings	(a)	5,624,032	485	5,624,517
Non-controlling interests	(a)	18,168,263	(3,222)	18,165,041

Notes:

(a) As at 1 January 2019, right-of-use assets were measured at an amount equal to the lease liability of approximately RMB145,697,000. Any difference between the right-of-use assets and the lease liabilities was recognised as an adjustment to the opening balance of retained earnings.

(b) The obligations under finance leases of approximately RMB9,103,000 and RMB525,115,000 as at 31 December 2018 are now included within lease liabilities and liabilities arising from sale and leaseback respectively. The carrying amount of the related assets under finance leases amounting to approximately RMB15,840,000 is reclassified to right-of-use assets.

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

Application of new and amendments to IFRSs (Continued)

IFRS 16 Leases (Continued)

The following table summarises the impact on transition to IFRS 16 on retained earnings and non-controlling interests at 1 January 2019.

	Retained earnings	Non-controlling interests
	RMB'000	RMB'000
Balance at 31 December 2018, as originally stated	5,624,032	18,168,263
Total change as a result of adoption of IFRS 16 on 1 January 2019	485	(3,222)
Balance at 1 January 2019	5,624,517	18,165,041

<u>Practical expedients applied</u>

On the date of initial application of IFRS 16, the Group has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and HK(IFRIC)-4 Determining whether an Arrangement contains a Lease;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

Change in accounting policies

Leases

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

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

Change in accounting policies (Continued)

Leases (Continued)

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, plant and equipment" policy as stated in the Group's annual consolidated financial statements for the year ended 31 December 2018.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Administrative expenses" in the condensed consolidated statement of profit or loss.

3. REVENUE

Revenue represents revenue arising on sale of goods 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of IFRS 15 for the six months ended 30 June 2019		
Sales of goods	15,878,638	12,429,704
Rendering of services	2,078,944	2,020,061
	17,957,582	14,449,765

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Disaggregation of revenue by timing of recognition		
Timing of revenue recognition		
A point in time	9,551,454	7,606,356
Over time	8,406,128	6,843,409
Total revenue from contracts with customers	17,957,582	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 2019 and 2018 respectively:

For the six months ended 30 June 2019

	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	6,349,540	9,115,984	2,492,058	17,957,582
Inter-segment sales				590,461
Segment revenue				18,548,043
Eliminations				(590,461)
Group revenue				17,957,582
Segment results	264,560	1,279,051	148,457	1,692,068
Finance income				97,022
Corporate and other unallocated expenses				(18,830)
Finance costs				(307,543)
Profit before tax				1,462,717

4. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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
Finance income				96,693
Corporate and other unallocated expenses				(18,114)
Finance costs				(273,509)
Profit before tax				1,256,713

Segment results are defined based on profit before tax excluding finance income, finance cost, 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 a 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 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Segment assets		
Aviation entire aircraft	29,580,099	29,805,465
Aviation parts and components	45,852,110	43,837,545
Aviation engineering services	12,717,849	14,425,495
Total segment assets	88,150,058	88,068,505
Elimination of inter-segment receivables	(1,735,940)	(1,348,216)
Consolidated assets	86,414,118	86,720,289
Segment liabilities		
Aviation entire aircraft	17,080,735	19,471,939
Aviation parts and components	25,004,363	23,430,037
Aviation engineering services	10,173,581	10,193,891
Total segment liabilities	52,258,679	53,095,867
Elimination of inter-segment payables	(1,735,940)	(1,348,216)
Consolidated liabilities	50,522,739	51,747,651

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.

Upon application of IFRS 16, the Group's right-of-use assets and lease liabilities are now included in the measure of segment assets and segment liabilities respectively at 30 June 2019. In respect of segment result, segment result for the six months ended 30 June 2019 included recognition of depreciation of right-of-use assets, and interest expense on lease liabilities, etc. Comparative information is not restated.

4. SEGMENT INFORMATION (Continued)

Other segment information

For the six months ended 30 June 2019

	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)	146,492	591,327	46,738	784,557
Depreciation and amortisation	182,971	327,361	99,414	609,746
Impairment losses recognised in the statement of profit or loss	(5,645)	103,330	12,157	109,842
Other non-cash expenses	59,683	8,531	-	68,214
Share of profits of joint ventures	7	9,577	-	9,584
Share of profits of associates	2,040	92,664	-	94,704
Investments in associates	349,018	676,589	60,512	1,086,119
Investments in joint ventures	24,597	117,503	-	142,100
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	(37,397)	(45,416)	(14,209)	(97,022)
Finance costs	50,397	208,734	48,412	307,543
Income tax expenses	42,366	103,601	11,438	157,405

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

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

5. OTHER INCOME AND GAINS

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Other income from contracts with customers within the scope of IFRS 15 for the six months ended 30 June 2019		
Income from sale of materials	253,809	235,996
Cost from sale of materials	(215,796)	(207,355)
Profit from sale of materials	38,013	28,641
Income from rendering of maintenance and other services	25,579	49,228
Total other income from contracts with customers	63,592	77,869
Other income from other sources		
Dividend income	908	1,887
Net rental income	20,223	12,000
	84,723	91,756
Gains		
Fair value gains on financial assets at FVTPL, net	4,840	25,041
Net foreign exchange gains	-	10,178
Confiscatory related income	11,933	8,211
Loss on disposal of an associate	-	(933)
(Loss) gain on disposal of subsidiaries	(48)	7,276
Gain on disposal of financial assets at FVTPL	11,650	21,151
Gain on disposal of property, plant and equipment	34,844	2,826
Others	16,953	84,076
	80,172	157,826
Other income and gains	164,895	249,582

6. FINANCE COSTS, NET

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Bank interest income	95,995	91,262
Other interest income	1,027	5,431
	97,022	96,693
Finance costs		
Interest on bank borrowings and other borrowings	303,987	268,742
Interest on leases	12,199	9,752
Total interest expense for financial liabilities not classified at fair value through profit or loss	316,186	278,494
Less: Interest capitalised	(18,301)	(12,526)
Other financial costs	9,658	7,541
	307,543	273,509
Finance costs, net	(210,521)	(176,816)

7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	12,349,857	9,467,510
Cost of services provided	1,709,919	1,778,658
Depreciation of investment properties	6,127	4,063
Depreciation of property, plant and equipment	543,532	529,342
Depreciation of right-of-use assets	16,563	-
Less: Amortisation of deferred income from government grants	(16,460)	(25,758)
Total depreciation	549,762	507,647
Research and development costs	1,087,520	816,479
Less: Government grants released	(121,349)	(200,079)
Total research and development costs	966,171	616,400
Wages, salaries, housing benefits and other allowances (including directors' and supervisors' emoluments)	2,859,937	2,659,715
Share-based payment expense (including directors' and supervisors' emoluments)	8,531	11,412
Pension scheme contributions (including directors' and supervisors' emoluments)	430,453	402,292
Total staff costs	3,298,921	3,073,419
Auditors' remuneration	3,300	3,578
Amortisation of land use rights	20,735	21,004
Amortisation of intangible assets	22,789	23,496
Net foreign exchange losses (gains)	3,537	(10,178)
Interest expense on lease liabilities	3,172	-
Impairment loss on accounts and notes receivable and prepayments, deposits and other receivables	88,301	98,419
Impairment loss on property, plant and equipment	2,396	-
Write-down of inventories to net realisable value	19,145	5,963

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax		
- current period	172,234	199,010
Deferred tax	(14,829)	(39,042)
	157,405	159,968

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 2019 and 2018, certain subsidiaries of the Group were entitled a preferential tax rate of 15%.

9. DIVIDENDS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends recognised as distribution of 2018 final dividend – RMB 0.03 (2018: 2017 final dividend –RMB 0.03) per share	187,354	178,984

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to ordinary equity holders of the Company for the purpose of basic and diluted earnings per share	641,161	597,533
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	6,245,122	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 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Accounts receivable		
- Ultimate holding company	1,060	954
- Fellow subsidiaries	8,444,562	7,736,204
- Joint ventures	433	336
- Associates	46,698	2,050
- Others	10,207,264	9,224,286
Accounts receivable, gross	18,700,017	16,963,830
Less: allowance	(1,020,960)	(924,778)
	17,679,057	16,039,052
Notes receivables		
- Fellow subsidiaries	1,574,118	2,722,378
- A joint venture	213	228
- Associates	12,534	-
- Others	2,039,555	2,510,993
	3,626,420	5,233,599
Accounts and notes receivables	21,305,477	21,272,651

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 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 1 year	14,359,878	12,978,748
1 to 2 years	2,227,238	1,855,635
2 to 3 years	782,347	814,612
Over 3 years	309,594	390,057
	17,679,057	16,039,052

12. ACCOUNTS AND NOTES PAYABLES

	30 June 2019 RMB' 000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Accounts payable		
- Ultimate holding company	122	25
- Fellow subsidiaries	4,146,298	3,436,959
- Joint ventures	59,112	7,084
- Associates	51,883	7,866
- Others	15,610,640	14,788,202
	19,868,055	18,240,136
Notes payable		
- Fellow subsidiaries	1,300,419	2,037,518
- A joint venture	42,715	45,259
- An associate	7,949	162
- Others	3,980,910	5,001,785
	5,331,993	7,084,724
	25,200,048	25,324,860

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 1 year	13,442,925	12,199,131
1 to 2 years	3,781,407	3,019,054
2 to 3 years	1,354,935	1,305,687
Over 3 years	1,288,788	1,716,264
	19,868,055	18,240,136

The notes payable are with an average maturity period of less than six months. As at 30June 2019, notes payable of approximately RMB1,046,617,000(31 December 2018: RMB2,964,814,000) were secured by pledged deposits to the extent of approximately RMB548,155,000(31 December 2018: RMB1,297,896,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2019, the international economic environment was generally tightening up, and the domestic economy faced downward pressure. In face of complicated and grim situation, Aviation Industry Corporation of China, Ltd. ("**AVIC**") proactively pushed forward its new strategies, implemented new development philosophy, firmly promoted high-quality development, and focused on furthering supply-side structural reform. AVIC has been listed in the Fortune Global 500 for eleven consecutive years and ranked the 151st in the list, jumping 275 spots from that of 2009 (i.e. the first year that AVIC was in the list). Meanwhile, AVIC ranked the fifth in the space and defense industry list of the Fortune Global 500.

Under the background of the development of AVIC, with an aim to build an aviation power in the new era in all respects, the Company was dedicated to becoming a flagship company to provide high-tech aviation products and services universally applied for military and civil purposes, continued to promote the development of aviation industry, and realized growth in both revenue and profit.

In the first half of 2019, the Company carried out two major assets reorganization projects. Jiangxi Hongdu Aviation Industry Co., Ltd.* ("**Hongdu Aviation**"), a subsidiary of the Company, signed an asset swap agreement with Jiangxi Hongdu Aviation Industry Group Co., Ltd.* ("**Hongdu Group**") to acquire relevant defense products business and assets of Hongdu Group with a consideration of some of its components manufacturing business and assets, so as to optimize resource allocation, improve industrial structure and enhance the market competitiveness of products of the Group. Meanwhile, the acquisition of 100% equity interest of AVIC Helicopter Co., Ltd. * by the Company is advancing in an orderly manner. Upon completion of the acquisition, the helicopter manufacturing business of the Group will be more complete, which will further promote the development of the helicopter business of the Group.

The Company proactively optimized its corporate governance structure, improved its company management level, and promoted brand building. Top 100 Hong Kong Listed Companies Research Centre issued the list of "Top 100 HK Stocks" for 2018 among Hong Kong listed companies, and the Company ranked the 33rd in the overall strength list and the 11th in the most investment value list. Moreover, the Company participated in the second session of selecting activity for HK Listed Companies with the Best IR (Investor Relations) held by New Fortune and won the award of New Fortune HK Listed Company with the Best IR in 2018.

In the first half of 2019, each business sector of the Group achieved steady development and satisfactory results.

Helicopter business: the Group continued to improve the quality and core competitiveness of its helicopter products, recording substantial growth in revenue. The application scope of AC311 helicopter (2-ton light civilian helicopter with single engine) was further extended and the fitting of medical rescue equipment, agriculture and forestry spraying equipment, external hanging of relevant equipment and test by fitting up with fire extinguishing equipment were completed. AC311 helicopter flied to disaster areas to carry out various rescue tasks such as air command, disaster inspection and personnel transport. Meanwhile, 13-ton Z8 firefighting helicopter participated in extinguishing the mountain fire in Anning, Yunnan province, fully exhibiting its capability of emergency rescue. In addition, AC312E (4-ton light civilian helicopter with two engines) completed all the subjects of the Civil Aviation Administration of China ("**CAAC**") certification flight test and the pilot aircraft type rating test, which laid foundations for AC312E helicopter to obtain CAAC type certificate and production certificate and to be delivered to the first batch of customers.

Trainer business: the Group continued to improve its capability in business development and market exploration for trainer aircraft. The full size model of L15 advanced trainer was exhibited on the 11th Central China Investment and Trade Expo, arousing wide attention from the public. CJ6 primary trainer obtained the TC/PC (type certificate/ production certificate) from CAAC, which was approved to enter the domestic civil aviation market. Several K8W trainers completed the delivery flight test and training flight.

General aviation business: the general-purpose aircraft business of the Group kept developing. Y12E aircraft successfully completed the site verification of type certificate by Brazil Civil Aviation Administration, who spoke highly of Y12E aircraft, which laid solid foundation to the subsequent certificate application. The fitting of automatic flight control system and deicing and anti-icing system to Y12F aircraft was approved by CAAC, and recognized by the Federal Aviation Administration of the United States, taking a solid step in airworthiness verification capability enhancement.

Aviation parts and components business: the aviation parts and components business of the Group recorded fast development and obtained multiple achievements.

- China Aviation Optical-Electrical Technology Co., Ltd.* ("**JONHON Optronic**") became the first "Forward Quality Control" supplier of the 14th Research Institute of China Electronics Technology Group Corporation * ("**CETC**").
- By deploying 5G projects in advance, JONHON Optronic established cooperation relationship with leading 5G equipment suppliers in the world, and carried out pre-research work on several key models, such as optical interconnection products, power products and radio frequency products.
- By continuously accumulating technological advantages in connectors for new energy vehicle, JONHON Optronic successfully equipped world famous new energy vehicle enterprise, and maintained deep cooperation with domestic new energy vehicle enterprises, maintaining its leading position in domestic market share, and won admission qualification and product orders from multiple famous overseas vehicle enterprises.
- Chengdu CAIC Electronics Co., Ltd. played outstanding performance in the research & development, manufacturing, process optimization of the C919 total static pressure probe project, and won the "Honeywell Chief Designer Award" jointly granted by China Commercial Aircraft Co., Ltd. and Honeywell Co., Ltd.

- The Pressure vector wind gauge jointly researched and developed by AVIC Taiyuan Aviation Instrument Co., Ltd.* ("**Taiyuan Instrument**") and Fujian Atmospheric Exploration Technology Support Center successfully passed the finalization of design, laying solid foundation for exploration of meteorological observation market in depth.
- The Diamond CU42 unmanned aircraft of CETC equipped with rudder control system produced by Lanzhou Flight Control Co., Ltd. * ("**AVIC Lanfei**") made a successful trial flight, which was the first time for the rudder control products of AVIC Lanfei to be successfully equipped and applied on large twin-engine unmanned aircraft with long flight time made in China.
- Tianjin Aviation Mechanical and Electrical Co., Ltd.* completed the communication and feasibility plan on the power distribution system and the fire prevention and extinguishing system of AG600 (large amphibious aircraft). Meanwhile, several rounds of technical feasibility study on power distribution system, fire prevention and extinguishing system, and electric deicing system for CH drones were completed.

Aviation engineering service business: China Aviation Planning and Design Institute Co., Ltd.* ("**AVIC Planning**") successively participated in the construction of the terminal area, airfield area and supporting facilities for aircraft maintenance of Beijing Daxing International Airport, assisting the successful flight test in Beijing Daxing International Airport. Meanwhile, AVIC Planning won the bid for the comprehensive planning project of Airport Economic Zone of Wuhan City Circle (tentative name), which is a representative and prospective project in both domestic and overseas consultation and planning domain for airport economic zones demonstrating a testification of AVIC Planning's market strength in consultation and planning domain for airport economic zones, and also the frontier exploration for the consultation and planning of wide area airport zone.

BUSINESS OUTLOOK

2019 marks the 70th anniversary of the establishment of new China and a crucial year of building an overall well-off society. In the second half of 2019, in face of unpredictable international situations, complicated and sensitive surrounding environment, formidable tasks of reform and development and maintaining stability, the Company will aim at becoming a flagship company providing high-tech aviation products and services universally applied for military and civil purposes, speed up the pace and efficiency of connection and conversion with capital, improve and manifest the corporate value. The Company will continue to carry out integration of aviation industrial chain, complete the asset swap of Hongdu Aviation, and proceed with the helicopter asset reorganization. The Company will implement innovation-driven strategy, enhance the technical innovation capability in high-end technology. Aiming at strategic emerging industries, the Company will actively carry out investment, financing and equity operation by seizing opportunities in industrial investment and utilizing the industrial investment platform. The Company will endeavor to improve the level of corporate governance to world-class standard. Focusing on aviation business, the Company will make good work in equity operation, and become a "test field" for the reform and development, a "main battlefield" for industrial investment and a "new business card" for internationalized development of aviation industry.

FINANCIAL REVIEW

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 2019, the Group recorded a revenue of RMB17,958 million, representing an increase of RMB3,508 million or 24.28% as compared with that of RMB14,450 million in the corresponding period of last year, which was mainly attributable to the revenue increase in aviation entire aircraft segment and aviation parts and components segment.

Segment information

For the six months ended 30 June 2019, the revenue of the aviation entire aircraft segment of the Group amounted to RMB6,350 million, representing an increase of 40.61% as compared with that in the corresponding period of last year, which was mainly attributable to the sales volume increase in helicopters and trainers. The revenue of the aviation entire aircraft segment accounted for 35.36% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB9,116 million, representing an increase of 22.10% as compared with that in the corresponding period of last year, which was mainly attributable to the revenue increase in avionics business. The revenue of the aviation parts and components segment accounted for 50.76% of the total revenue of the Group. The revenue of the aviation engineering services segment of the Group amounted to RMB2,492 million, representing an increase of 1.01% as compared with that in the corresponding period of last year. The revenue of the aviation engineering services segment accounted for 13.88% of the total revenue of the Group.

The segment results of the aviation entire aircraft segment of the Group amounted to RMB265 million, representing an increase of RMB88 million or 49.72% as compared with that of RMB177 million in the corresponding period of last year. The increase was mainly attributable to the increase of revenue from the aviation entire aircraft business. The segment results of the aviation parts and components segment of the Group amounted to RMB1,279 million, representing an increase of RMB145 million or 12.79% as compared with that of RMB1,134 million in the corresponding period of last year, which was mainly attributable to increase of gross profit driven by the increase of revenue from the avionics business. The segment results of the aviation engineering services segment of the Group amounted to RMB148 million, representing an increase of RMB8 million or 5.71% as compared with that of RMB140 million in the corresponding period of last year.

Gross profit

For the six months ended 30 June 2019, the Group recorded a gross profit of RMB3,898 million, representing an increase of RMB694 million or 21.66% as compared with that of

RMB3,204 million in the corresponding period of last year, which was mainly attributable to the increase of revenue. The comprehensive gross profit margin was 21.71% during the reporting period, representing a decrease of 0.46 percentage point as compared with that in the corresponding period of last year.

Selling and distribution expenses

For the six months ended 30 June 2019, the selling and distribution expenses of the Group amounted to RMB289 million, representing an increase of RMB17 million or 6.25% as compared with that of RMB272 million in the corresponding period of last year. The increase was mainly due to the increase in the staff costs of sales persons and sales services expenses to explore the market by JONHON Optronic, a subsidiary of the Company. The selling and distribution expenses accounted for 1.61% of the revenue during the reporting period, representing a decrease of 0.27 percentage point as compared with 1.88% in the corresponding period of last year.

Administrative expenses

For the six months ended 30 June 2019, the administrative expenses of the Group amounted to RMB2,100 million, representing an increase of RMB360 million or 20.69% as compared with that of RMB1,740 million in the corresponding period of last year, which was mainly attributable to the increase of the R&D investment of certain subsidiaries. The administrative expenses accounted for 11.69% of the revenue during the reporting period, representing a decrease of 0.35 percentage point as compared with that of 12.04% in the corresponding period of last year.

Finance costs, net

For the six months ended 30 June 2019, the net finance costs of the Group amounted to RMB211 million, representing an increase of RMB34 million or 19.21% as compared with that of RMB177 million in the corresponding period of last year, which was mainly attributable to the increase in bank borrowings by Hongdu Aviation during the reporting period and issuance of convertible bonds by JONHON Optronic at the end of last year. Please refer to note 6 to the financial statements for details.

Profit attributable to equity holders of the Company

For the six months ended 30 June 2019, the profit attributable to equity holders of the Company amounted to RMB641 million, representing an increase of RMB43 million or 7.19% as compared with that of RMB598 million in the corresponding period of last year. The increase was due to the increased contribution in gross profit driven by the increase of the revenue during the reporting period.

Liquidity and financial resources

As at 30 June 2019, the cash and cash equivalents of the Group amounted to RMB8,211 million, which were mainly derived from cash and bank deposits at the beginning of 2019 and proceeds generated from business operations during the reporting period.

As at 30 June 2019, the Group's total borrowings and convertible bonds amounted to RMB13,207 million, of which short-term borrowings amounted to RMB6,996 million, current portion of long-term borrowings amounted to RMB1,377 million, non-current portion of long-term borrowings amounted to RMB1,775 million, and convertible bonds amounted to RMB3,059 million.

As at 30 June 2019, among the Group's total borrowings, the bank borrowings amounted to RMB4,988 million with an average interest rate of 4% per annum, representing an increase of RMB1,335 million as compared with that at the beginning of the reporting period; and other borrowings amounted to RMB5,160 million with an average interest rate of 4% per annum, representing a decrease of RMB1,504 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 2019, 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 2019, the Group's secured borrowings amounted to RMB527 million, among which the borrowings of RMB57 million were pledged by accounts receivable and notes receivable with a net book value of RMB59 million and the borrowings of RMB470 million were pledged by a future collecting right with an amount of not more than RMB512 million.

GEARING RATIO

As at 30 June 2019, the Group's gearing ratio was 15.28% (as at 31 December 2018 was 15.28%), which was derived from dividing the total borrowings and convertible bonds by the total assets as at 30 June 2019.

EXCHANGE RATE RISKS

The Group mainly operates in the People's Republic of China and most of its transactions are settled in Renminbi. The directors of the Company (the "**Directors**") 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 2019, the Group did not provide any guarantees in favor of any third party and had no significant contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

On 22 April 2019, AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd.*(**"AviChina Intelligent"**) entered into the Joint Venture Agreement with Jincheng Group Limited* and Nanjing Tianyue Investment Partnership (Limited Partnership)* in relation to the proposed formation of AVIC Jincheng Unmanned System Co., Ltd. * (**"AVIC Jincheng"**). Pursuant to the Joint Venture Agreement, AviChina Intelligent agreed to make a capital contribution of RMB100.32 million in cash, representing 44% of the total capital contribution of AVIC Jincheng. For details, please refer to the announcement of the Company dated 22 April 2019.

In order to optimize resource allocation, and improve industrial structure and further enhance the competitiveness and profitability of Hongdu Aviation, Hongdu Aviation and Hongdu Group entered into the Asset Swap Agreement on 31 May 2019, pursuant to which Hongdu Aviation agreed to (i) acquire the Acquisition Assets from Hongdu Group; and (ii) dispose of the Disposal Assets to Hongdu Group. The Acquisition Assets are Hongdu Group's defence business related assets. The Disposal Assets are Hongdu Aviation's parts and components manufacturing business related assets. The consideration for the acquisition of the Acquisition Assets is RMB1,362,424,500, and such consideration shall be satisfied by Hongdu Aviation transferring the Disposal Assets to Hongdu Group. The consideration for the disposal of the Disposal Assets is RMB2,208,462,300, and such consideration shall be satisfied by Hongdu Group (i) transferring the Acquisition Assets to Hongdu Aviation; and (ii) paying the difference between the consideration for the Acquisition and the Disposal (being RMB846,037,800) to Hongdu Aviation in cash. For details, please refer to the announcement of the Company dated 31 May 2019 and the circular dated 23 July 2019.

USE OF PROCEEDS

As at 30 June 2019, a total of RMB4,931 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. In the end of 2018, the net proceeds raised by the Company through H share placing were approximately HK$ 1,346 million (equivalent to approximately RMB1,172 million). In the first half of 2019, part of such proceeds of RMB374 million have been used to invest in the aviation business such as aviation cabin interior trimming business. As at 30 June 2019, the remaining balance of the proceeds amounted to approximately RMB798 million. The Company proposes to use such proceeds for investment in aviation businesses, the industrialization projects of aviation research institutes and military civilian fund for aviation industry, the funding of acquisitions of aviation equity interest or aviation assets in accordance with the Company's development strategy and for general corporate purposes in the future three years.

EMPLOYEES

As at 30 June 2019, the Group had 47,607 employees. The Group's staff costs amounted to RMB3,299 million for the six months ended 30 June 2019, representing an increase of RMB226 million or 7.35% as compared with that of RMB3,073 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 2018 annual report of the Company.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Due to other work commitment, Mr. Tan Ruisong resigned as the Chairman of the Board. At the Board meeting held on 20 March 2019, Mr. Chen Yuanxian, an executive director of the Company, was elected as the chairman of the sixth session of the Board.

Due to other work commitment, each of Mr. Tan Ruisong, Mr. Li Yao and Mr. Patrick de Castelbajac tendered a resignation to the Board to retire as Director and other positions in the special committees under the Board, respectively. At the annual general meeting convened on 17 May 2019, Mr. Yan Lingxi, Mr. Lian Dawei and Mr. Xu Gang were elected as the non-executive directors, respectively.

Mr. He Zhiping applied to the Board to resign from his positions as a non-executive director and a member of the development and strategy committee, due to other work arrangement. The resignation of Mr. He Zhiping took effect on 17 May 2019.

Due to other work commitment, Mr. Chen Yuanxian and Mr. Yan Lingxi applied to the Board for resignation as the general manager and standing deputy general manager of the Company respectively. At the Board meeting held on 20 March 2019, Mr. Wang Xuejun was appointed as the general manager of the Company. Upon his appointment as the general manager, the Board resolved to re-designate Mr. Wang Xuejun from a non-executive Director to an executive Director.

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 2019.

AUDIT COMMITTEE

The Board has established the audit committee and formulated the Terms of Reference of the Audit Committee in accordance with the 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 2019.

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 Hong Kong Listing Rules for the six months ended 30 June 2019.

OTHER EVENTS

On 30 January 2019, to improve the capital income level of AviChina Hong Kong Limited* ("**AviChina Hong Kong**"), AviChina Hong Kong entered into the Loan Agreement with AVICT Global Holdings Limited* ("**AVICT Global**") and AVICT Dragon Holdings

Limited* ("**AVICT Dragon Holdings**"), pursuant to which, AviChina Hong Kong has agreed to grant the loan with an amount of not more than HK$260 million to AVICT Global for a term of twelve months, and AVICT Dragon Holdings has agreed to grant the debt transfer right to AviChina Hong Kong in connection with the loan. For details, please refer to the announcement of the Company dated 30 January 2019.

As at 18 June 2019, the term of the shareholding increase plan expired and the Company had completed the shareholding increase in JONHON Optronic. During the period, the Company purchased a total number of 1,711,300 shares of JONHON Optronic through centralized bidding system of Shenzhen Stock Exchange, accounting for approximately 0.22% of the total share capital of JONHON Optronic, at an average purchasing price of RMB34.77 per share, with a total amount of RMB59,500,012.90 (including transaction fees). The Company would not reduce its shareholding in JONHON Optronic during the six months upon implementation of such shareholding increase and any period as prescribed by laws. For details, please refer to the announcements of the Company dated 18 December 2018 and 19 June 2019.

MAJOR SUBSEQUENT EVENTS

On 9 July 2019, the Board proposed that the existing registered address of the Company in the PRC would be changed from "8th floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing" to "2nd floor, Building 27, No. 26 Xihuan South Street, Beijing Economic Technological Development Area, Beijing" with effect from the approval of the proposed amendments to the Articles of Association by the shareholders at the shareholders' general meeting. For details, please refer to the announcement of the Company dated 9 July 2019 and the circular of the Company dated 23 July 2019.

On 9 July 2019, AVIC Heavy Machinery Company Limited* ("**AVIC Heavy Machinery**") entered into the Counter Guarantee Agreement with AVIC Renewable Energy Investment Co., Ltd.* ("**AVIC Renewable Energy**"), pursuant to which AVIC Renewable Energy agreed to provide the counter guarantee in favour of AVIC Heavy Machinery to create security for the joint liability guarantee provided by AVIC Heavy Machinery in favour of Jinzhou (Baotou) Renewable Energy Co., Ltd. * for the loan. For details, please refer to the announcement of the Company dated 9 July 2019.

On 25 July 2019, the Company entered into the Partnership Agreement with AVIC, AVIC Capital Co., Ltd.* ("**AVIC Capital**"), AVIC Rongfu Fund Management Limited Company* ("**AVIC Rongfu**"), China Life Guangde (Tianjin) Equity Investment Fund Partnership (Limited Partnership)* ("**Guangde Investment Fund**") and Zhenjiang Dingqiang Intelligent Manufacturing Investment Partnership (Limited Partnership)* ("**Zhenjiang Investment**") in relation to the formation of Beijing AviChina Phase I Aviation Industrial Investment Fund (Limited Partnership)* (tentative name) (the "**Fund**") with an initial total capital commitment of RMB4 billion. Pursuant to the Partnership Agreement, the Company and AVIC Rongfu agreed to make a capital contribution of RMB600 million and RMB50 million in cash, representing 15% and 1.25% of the total capital contribution of the Fund, respectively. Upon establishment, the partnership interest in the Fund will be held as to 15%, 10%, 15%, 1.25%, 50% and 8.75% by the Company, AVIC, AVIC Capital, AVIC Rongfu, Guangde Investment Fund and Zhenjiang Investment, respectively. For details, please refer to the announcements of the Company dated 26 February 2018, 2 July 2019 and 25 July 2019.

On 29 July 2019, the Company and Fuguo Zhongzheng Military Industry Leading Exchange Traded Fund*(the "**ETF Fund**") confirmed that the Company subscribed for 130,252,505 partnership interest in the ETF Fund in consideration of 6,469,200 A shares in Zhonghang Electronic Measuring Instruments Co., Ltd*("**ZEMIC**") (representing approximately 1.10% equity interest in ZEMIC) and 2,430,500 A shares in AVIC Shenyang Aircraft Company Limited*("**AVIC Shenyang Aircraft**") (representing approximately 0.17% equity interest in AVIC Shenyang Aircraft) held by the Company. The average price of the A shares in ZEMIC and AVIC Shenyang Aircraft for such subscription was RMB9.10 per share and RMB29.37 per share, respectively. Upon completion of the subscription, the Company held 7,043,584 A shares in ZEMIC and 1 A share in AVIC Shenyang Aircraft, representing approximately 1.19% and 0.00% equity interest of ZEMIC and AVIC Shenyang Aircraft, respectively. For details, please refer to the announcements of the Company dated 16 July 2019 and 29 July 2019.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

For the six months ended 30 June 2019, 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 2019, 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
Chen Yuanxian

Beijing, 23 August 2019

As at the date of this announcement, the Board comprises executive Directors Mr. Chen Yuanxian and Mr. Wang Xuejun, non-executive Directors Mr. Yan Lingxi, Mr. Lian Dawei and Mr. Xu Gang as well as independent non-executive Directors Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin.

** For identification purpose only*