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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)**

### **2020 Interim Results Announcement**

#### **Financial Highlights**

- For the six months ended 30 June 2020, the Group recorded a revenue of RMB20,198 million, representing an increase of RMB2,019 million or 11.10% as compared with that of RMB18,179 million (as restated) in the corresponding period of last year.
- For the six months ended 30 June 2020, the profit attributable to equity holders of the Company amounted to RMB740 million, representing an increase of RMB102 million or 15.98% as compared with that of RMB638 million (as restated) in the corresponding period of last year.

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 2020 prepared according to International Financial Reporting Standards as follows:

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**

**FOR THE SIX MONTHS ENDED 30 JUNE 2020**

	<u>NOTES</u>	Six months ended 30 June	
		<u>2020</u>	<u>2019</u>
		RMB'000	RMB'000
		(Unaudited)	(Unaudited) (Restated)
Revenue	3	20,197,605	18,178,682
Cost of sales		<u>(16,140,535)</u>	<u>(14,280,080)</u>
Gross profit		<u>4,057,070</u>	<u>3,898,602</u>
Other income and gains	5	139,935	164,895
Other expenses		<u>(6,715)</u>	<u>(16,300)</u>
Other income and gains, net		<u>133,220</u>	<u>148,595</u>
Selling and distribution expenses		(227,262)	(289,369)
Administrative expenses		(2,011,538)	(2,112,618)
Impairment loss of financial assets		<u>(136,552)</u>	<u>(88,301)</u>
Operating profit		<u>1,814,938</u>	<u>1,556,909</u>
Finance income		134,981	102,440
Finance costs		<u>(240,985)</u>	<u>(307,611)</u>
Finance costs, net	6	<u>(106,004)</u>	<u>(205,171)</u>
Share of profits of joint ventures		10,972	9,584
Share of profits of associates		<u>49,852</u>	<u>94,704</u>
Profit before tax	7	1,769,758	1,456,026
Income tax expenses	8	<u>(188,000)</u>	<u>(157,405)</u>
Profit for the period		<u>1,581,758</u>	<u>1,298,621</u>
Attributable to:			
Equity holders of the Company		740,030	638,232
Non-controlling interests		<u>841,728</u>	<u>660,389</u>
		<u>1,581,758</u>	<u>1,298,621</u>
Earnings per share attributable to ordinary equity holders of the Company			
Basic and diluted			
- For profit for the period	10	<u>RMB0.1186</u>	<u>RMB0.1022</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Profit for the period	1,581,758	1,298,621
<b>Other comprehensive income (loss)</b>		
<i>Items that may be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Exchange differences arising on translation of financial statements of foreign operations	9,796	993
<i>Items that will not be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Changes in fair value	(29,884)	81,119
Income tax effect	4,447	(14,952)
	<u>(15,641)</u>	<u>67,160</u>
Other comprehensive (loss) income for the period, net of tax		
	<u>(15,641)</u>	<u>67,160</u>
<b>Total comprehensive income for the period</b>	<b><u>1,566,117</u></b>	<b><u>1,365,781</u></b>
Attributable to:		
Equity holders of the Company	740,205	674,895
Non-controlling interests	825,912	690,886
	<u>1,566,117</u>	<u>1,365,781</u>

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	<u>NOTES</u>	30 June <u>2020</u> RMB'000 (Unaudited)	31 December <u>2019</u> RMB'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment		12,965,183	12,624,271
Right-of-use assets – land use rights		1,474,638	1,496,226
Right-of-use assets – others		843,124	880,067
Investment properties		299,664	303,102
Goodwill		69,122	69,122
Other intangible assets		465,285	480,621
Investments in joint ventures		154,553	151,428
Investments in associates		1,187,407	1,144,770
Financial assets at fair value through other comprehensive income		1,434,003	1,396,766
Deferred tax assets		389,734	349,947
Prepayments, deposits and other receivables		1,212,602	1,432,017
Contract assets		149,903	526,733
		<b>20,645,218</b>	<b>20,855,070</b>
<b>Current assets</b>			
Inventories		25,554,622	25,671,657
Accounts and notes receivables	11	25,386,378	21,673,943
Prepayments, deposits and other receivables		3,626,344	3,966,225
Contract assets		3,412,831	2,541,907
Financial assets at fair value through profit or loss (“FVTPL”)		555,724	502,343
Pledged deposits		462,687	955,999
Term deposits with initial terms of over three months		924,841	1,517,242
Cash and cash equivalents		12,039,622	13,059,640
		<b>71,963,049</b>	<b>69,888,956</b>
<b>Total assets</b>		<b>92,608,267</b>	<b>90,744,026</b>

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Continued)**

AS AT 30 JUNE 2020

	<u>NOTES</u>	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
<b>Current liabilities</b>			
Accounts and notes payables	12	26,723,423	27,223,029
Other payables and accruals		4,760,204	4,504,501
Interest-bearing bank and other borrowings		6,501,200	6,665,294
Contract liabilities		6,411,176	7,212,132
Lease liabilities		87,982	85,427
Tax payable		167,618	159,402
<b>Total current liabilities</b>		<u>44,651,603</u>	<u>45,849,785</u>
<b>Net current assets</b>		<u>27,311,446</u>	<u>24,039,171</u>
<b>Total assets less current liabilities</b>		<u>47,956,664</u>	<u>44,894,241</u>
<b>Non-current liabilities</b>			
Interest-bearing bank and other borrowings		4,071,399	2,042,809
Deferred income from government grants		722,246	755,827
Deferred tax liabilities		62,544	63,625
Convertible bonds		2,173,791	2,128,959
Contract liabilities		109,568	20,905
Lease liabilities		647,479	681,172
Other payables and accruals		643,622	651,366
<b>Total non-current liabilities</b>		<u>8,430,649</u>	<u>6,344,663</u>
<b>Total liabilities</b>		<u>53,082,252</u>	<u>52,194,448</u>
<b>Net assets</b>		<u>39,526,015</u>	<u>38,549,578</u>
<b>Equity</b>			
Share capital		6,213,163	6,245,122
Reserves		<u>12,761,474</u>	<u>12,235,782</u>
<b>Equity attributable to equity holders of the Company</b>		18,974,637	18,480,904
Non-controlling interests		<u>20,551,378</u>	<u>20,068,674</u>
<b>Total equity</b>		<u>39,526,015</u>	<u>38,549,578</u>

## **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 21 August 2020.

### **2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES**

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 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 2020 are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019.

### **Restatement of prior period’s condensed consolidated financial statements due to business combinations involving entities under common control**

On 31 May 2019, Jiangxi Hongdu Aviation Industry Co.,Ltd.\*(“Hongdu Aviation”) (a non-wholly-owned subsidiary of the Company) entered asset swap agreement with Jiangxi Hongdu Aviation Industry (Group) Corporation Ltd. (“Hongdu Group”) (a connected person of the Company). The consideration for the acquisition assets is RMB1,362,424,500 which is satisfied by Hongdu Aviation transferring disposal assets to Hongdu Group. The consideration for the disposal assets is RMB2,208,462,300 which is satisfied by Hongdu Group (i) transferring acquisition assets to Hongdu Aviation; and (ii) paying the difference between the consideration for the acquisition and the disposal assets (i.e. RMB846,037,800) to Hongdu Aviation in cash. The asset swap transactions have been approved on the extraordinary general meeting convened on 23 August 2019 and have completed during the year ended 31 December 2019.

Given that Hongdu Aviation and Hongdu Group are indirectly and directly controlled by AVIC respectively. Therefore, they are under common control of AVIC before and after the business combination, and that control is not temporary, the acquisition of assets 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 business in preparing these consolidated financial statements.

By applying the principles of merger accounting, these condensed consolidated financial statements also included the financial position, results and cash flows of assets swap as if it had been combined within the Group throughout the six months ended 30 June 2019, and from the earliest date presented. Comparative figures for the six months ended 30 June 2019 and for the period then ended have been restated as a result of such. All intra-group transactions and balances have been eliminated on consolidation.

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

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

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

(i) The consolidated statement of profit or loss for the six months ended 30 June 2019

	<u>As previously reported</u>	<u>Assets swap of Hongdu Aviation</u>	<u>As restated</u>
	RMB'000	RMB'000	RMB'000
Revenue	17,957,582	221,100	18,178,682
Profit for the period	1,305,312	(6,691)	1,298,621
Attributable to Equity holders of the Company	641,161	(2,929)	638,232

(ii) The consolidated statement of comprehensive income for the six months ended 30 June 2019

	<u>As previously reported</u>	<u>Assets swap of Hongdu Aviation</u>	<u>As restated</u>
	RMB'000	RMB'000	RMB'000
Total comprehensive income for the period	1,372,472	(6,691)	1,365,781
Attributable to Equity holders of the Company	681,586	(6,691)	674,895



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

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

(iii) The consolidated statement of cash flows for the six months ended 30 June 2019

	As previously reported	Assets swap of Hongdu Aviation	As restated
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents at beginning of period	12,122,364	-	12,122,364
Net cash flows used in operating activities	(1,899,492)	2,694	(1,896,798)
Net cash flows used in investing activities	(1,707,027)	(2,694)	(1,709,721)
Net cash flows used in financing activities	(305,969)	-	(305,969)
Effect of foreign exchange rate changes, net	793	-	793
Cash and cash equivalents at end of the period	8,210,669	-	8,210,669

#### *Application of new and amendments to IFRSs*

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are effective for the Group's financial year beginning on 1 January 2020.

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRS and the 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.

### 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	
	<u>2020</u>	<u>2019</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
<b>Revenue from contracts with customers within the scope of IFRS 15</b>		
Sales of goods	18,000,942	16,099,738
Rendering of services	<u>2,196,663</u>	<u>2,078,944</u>
	<u>20,197,605</u>	<u>18,178,682</u>
	Six months ended 30 June	
	<u>2020</u>	<u>2019</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
<b>Disaggregation of revenue by timing of recognition</b>		
Timing of revenue recognition		
A point in time	10,414,164	9,772,554
Over time	<u>9,783,441</u>	<u>8,406,128</u>
	<u>20,197,605</u>	<u>18,178,682</u>

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 2020 and 2019 respectively:

##### For the six months ended 30 June 2020

	<u>Aviation entire aircraft</u>	<u>Aviation parts and components</u>	<u>Aviation engineering services</u>	<u>Total</u>
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<u>Segment Revenue:</u>				
External sales	7,741,726	10,008,529	2,447,350	20,197,605
Inter-segment sales				504,724
Segment revenue				20,702,329
Eliminations				(504,724)
Group revenue				<u>20,197,605</u>
Segment results	331,952	1,420,247	139,394	1,891,593
Finance income				134,981
Corporate and other unallocated expenses				(15,831)
Finance costs				(240,985)
Profit before tax				<u>1,769,758</u>

#### 4. SEGMENT INFORMATION (Continued)

##### Segment revenue and results (Continued)

For the six months ended 30 June 2019 (Restated)

	<u>Aviation entire aircraft</u>	<u>Aviation parts and components</u>	<u>Aviation engineering services</u>	<u>Total</u>
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<u>Segment Revenue:</u>				
External sales	6,349,540	9,337,084	2,492,058	18,178,682
Inter-segment sales				590,461
Segment revenue				18,769,143
Eliminations				(590,461)
Group revenue				18,178,682
Segment results	264,560	1,267,009	148,457	1,680,026
Finance income				102,440
Corporate and other unallocated expenses				(18,829)
Finance costs				(307,611)
Profit before tax				1,456,026

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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
<b>Segment assets</b>		
Aviation entire aircraft	29,387,451	30,659,636
Aviation parts and components	50,144,442	46,670,623
Aviation engineering services	<u>14,947,878</u>	<u>15,102,297</u>
Total segment assets	94,479,771	92,432,556
Elimination of inter-segment receivables	<u>(1,871,504)</u>	<u>(1,688,530)</u>
Consolidated assets	<u><u>92,608,267</u></u>	<u><u>90,744,026</u></u>
<b>Segment liabilities</b>		
Aviation entire aircraft	18,506,834	19,952,006
Aviation parts and components	26,612,169	23,871,902
Aviation engineering services	<u>9,834,753</u>	<u>10,059,070</u>
Total segment liabilities	54,953,756	53,882,978
Elimination of inter-segment payables	<u>(1,871,504)</u>	<u>(1,688,530)</u>
Consolidated liabilities	<u><u>53,082,252</u></u>	<u><u>52,194,448</u></u>

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 2020

	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure (Note)	118,486	767,614	350,155	1,236,255
Depreciation and amortisation	191,441	335,014	98,794	625,249
Impairment losses recognised in the statement of profit or loss	14,327	126,047	36,090	176,464
Other non-cash expenses	88,924	78,800	-	167,724
Share of (loss) profits of joint ventures	(367)	11,339	-	10,972
Share of profits (loss) of associates	2,185	47,672	(5)	49,852
Investments in associates	349,409	745,789	92,209	1,187,407
Investments in joint ventures	24,711	129,842	-	154,553

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	(36,240)	(86,671)	(12,070)	(134,981)
Finance costs	7,825	183,927	49,233	240,985
Income tax expenses	36,375	133,430	18,195	188,000

For the six months ended 30 June 2019 (Restated)

	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure (Note)	146,492	594,021	46,738	787,251
Depreciation and amortisation	182,971	343,698	99,414	626,083
(Reversal) 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)	(50,834)	(14,209)	(102,440)
Finance costs	50,397	208,803	48,411	307,611
Income tax expenses	42,366	103,601	11,438	157,405

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

## 5. OTHER INCOME AND GAINS

	Six months ended 30 June	
	<u>2020</u>	<u>2019</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
<b>Other income from contracts with customers within the scope of IFRS 15</b>		
Income from sale of materials	328,828	253,809
Cost from sale of materials	<u>(299,028)</u>	<u>(215,796)</u>
Profit from sale of materials	29,800	38,013
Income from rendering of maintenance and other services	<u>41,061</u>	<u>25,579</u>
Total other income from contracts with customers	<u>70,861</u>	<u>63,592</u>
<b>Other income from other sources</b>		
Dividend income	471	908
Net rental income	<u>23,223</u>	<u>20,223</u>
	<u>94,555</u>	<u>84,723</u>
<b>Gains</b>		
Fair value gains on financial assets at FVTPL, net	10,014	4,840
Net foreign exchange gains	26,470	-
Confiscatory related income	5,050	11,933
Gain on disposal of an associate	9	-
Loss on disposal of subsidiaries	-	(48)
Gain on disposal of financial assets at FVTPL	-	11,650
Gain on disposal of property, plant and equipment	-	34,844
Others	<u>3,837</u>	<u>16,953</u>
	<u>45,380</u>	<u>80,172</u>
Other income and gains	<u>139,935</u>	<u>164,895</u>

## 6. FINANCE COSTS, NET

	Six months ended 30 June	
	<u>2020</u>	<u>2019</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
<b>Finance income</b>		
Bank interest income	118,636	101,413
Other interest income	16,345	1,027
	<u>134,981</u>	<u>102,440</u>
<b>Finance costs</b>		
Interest on bank loans, overdrafts and other loans(including convertible bonds)	248,816	303,987
Interest on lease liabilities	28,370	12,199
	<u>277,186</u>	<u>316,186</u>
Total interest expense for financial liabilities not classified at fair value through profit or loss	277,186	316,186
Less: Interest capitalised	(39,764)	(18,300)
Other financial costs	3,563	9,725
	<u>240,985</u>	<u>307,611</u>
Finance costs, net	<u>(106,004)</u>	<u>(205,171)</u>



## 7. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	<u>2020</u>	<u>2019</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
Cost of inventories sold	14,291,967	12,570,161
Cost of services provided	1,848,568	1,709,919
Depreciation of investment properties	4,293	6,127
Depreciation of property, plant and equipment	535,609	559,165
Depreciation of right-of-use assets – land use rights	22,011	21,439
Depreciation of right-of-use assets – others	48,190	16,563
Less: Amortisation of deferred income from government grants	<u>(23,833)</u>	<u>(16,460)</u>
Total depreciation	<u>586,270</u>	<u>586,834</u>
Research and development costs	1,241,968	1,087,654
Less: Government grants released	<u>(298,010)</u>	<u>(121,349)</u>
Total research and development costs	<u>943,958</u>	<u>966,305</u>
Wages, salaries, housing benefits and other allowances (including directors' and supervisors' emoluments)	2,611,189	2,896,798
Share-based payment expense (including directors' and supervisors' emoluments)	78,800	8,531
Pension scheme contributions (including directors' and supervisors' emoluments)	<u>404,955</u>	<u>436,068</u>
Total staff costs	<u>3,094,944</u>	<u>3,341,397</u>
Auditors' remuneration	3,664	3,300
Amortisation of other intangible assets	15,146	22,789
Net foreign exchange (gains) losses	(26,470)	3,537
Impairment of accounts receivable, prepayment and other receivables	136,528	88,301
Impairment of property, plant and equipment	29,596	2,396
Write-down of inventories to net realisable value	<u>10,340</u>	<u>19,145</u>

## 8. INCOME TAX EXPENSES

	Six months ended 30 June	
	<u>2020</u>	<u>2019</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
PRC Enterprise Income Tax		
- current period	225,327	172,234
Deferred tax	<u>(37,327)</u>	<u>(14,829)</u>
	<u>188,000</u>	<u>157,405</u>

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 six months ended 30 June 2020 and 2019, certain subsidiaries of the Group were entitled a preferential tax rate of 15%.

## 9. DIVIDENDS

	Six months ended 30 June	
	<u>2020</u>	<u>2019</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends recognised as distribution of 2019 final dividend – RMB 0.03 (2019: 2018 final dividend – RMB 0.03) per share	<u>187,354</u>	<u>187,354</u>

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: 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	
	<u>2020</u>	<u>2019</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
<b>Earnings</b>		
Profit for the period attributable to ordinary equity holders of the Company for the purpose of basic and diluted earnings per share	<u>740,030</u>	<u>638,232</u>
<b>Number of shares</b>	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>6,238,797</u>	<u>6,245,122</u>

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 <u>2020</u> RMB'000 (Unaudited)	31 December <u>2019</u> RMB'000 (Audited)
Accounts receivable		
- Ultimate holding company	148	648
- Fellow subsidiaries	12,031,269	8,711,370
- A joint venture	712	198
- Associates	75,368	47,551
- Others	<u>10,393,570</u>	<u>8,627,722</u>
Accounts receivable, gross	22,501,067	17,387,489
Less: allowance	<u>(1,072,876)</u>	<u>(950,090)</u>
Accounts receivable, net	<u>21,428,191</u>	<u>16,437,399</u>
Notes receivables		
- Fellow subsidiaries	1,390,387	1,934,973
- Associates	-	9,034
- A joint venture	118	618
- Others	<u>2,567,682</u>	<u>3,291,919</u>
	<u>3,958,187</u>	<u>5,236,544</u>
Accounts and notes receivables	<u>25,386,378</u>	<u>21,673,943</u>

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 <u>2020</u> RMB'000 (Unaudited)	31 December <u>2019</u> RMB'000 (Audited)
Within 1 year	18,291,529	13,420,484
1 to 2 years	2,263,888	2,204,172
2 to 3 years	478,334	483,146
Over 3 years	<u>394,440</u>	<u>329,597</u>
	<u>21,428,191</u>	<u>16,437,399</u>

## 12. ACCOUNTS AND NOTES PAYABLES

	30 June <u>2020</u> RMB' 000 (Unaudited)	31 December <u>2019</u> RMB'000 (Audited)
Accounts payable		
- Ultimate holding company	23	23
- Fellow subsidiaries	5,428,481	4,309,290
- Joint ventures	33,910	13,346
- Associates	43,049	69,553
- Others	15,664,423	15,080,124
	<u>21,169,886</u>	<u>19,472,336</u>
Notes payable		
- Fellow subsidiaries	1,143,256	1,729,164
- Joint ventures	54,234	65,844
- Associates	23,938	29,340
- Others	4,332,109	5,926,345
	<u>5,553,537</u>	<u>7,750,693</u>
	<u>26,723,423</u>	<u>27,223,029</u>

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

	30 June <u>2020</u> RMB'000 (Unaudited)	31 December <u>2019</u> RMB'000 (Audited)
Within 1 year	15,386,646	14,480,509
1 to 2 years	3,497,040	2,292,713
2 to 3 years	901,074	1,192,680
Over 3 years	1,385,126	1,506,434
	<u>21,169,886</u>	<u>19,472,336</u>

The notes payable are with an average maturity period of less than six months. As at 30 June 2020, notes payable of approximately RMB677,724,000 (31 December 2019: RMB2,249,525,000) were secured by pledged deposits to the extent of approximately RMB365,577,000 (31 December 2019: RMB867,481,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

As novel coronavirus pneumonia epidemic ("**Epidemic**") has spread all over the world during the first half of 2020, the global economic growth remained sluggish. Meanwhile, the intensifying global economic and trade conflicts has further led to mounting domestic economic downward pressure. Faced with this complicated development environment, Aviation Industry Corporation of China, Ltd.\* (中國航空工業集團有限公司) ("**AVIC**") has taken initiative to overcome difficulties and forged ahead by actively implementing the national strategy to build an aviation power, ensuring a smooth supply chain cycle, facilitating the synergy among industrial chains, as well as comprehensively implementing Epidemic prevention and corporate development strategies. AVIC has also continued to promote the implementation of state-owned capital investment pilot company, focused on its principle responsibilities and core businesses to improve market-oriented operating mechanism and deliver better performance through reform. AVIC has also improved innovation capacities so as to upgrade the industrial structure, promote core competitiveness, and support the overall national security and economic and social development. AVIC has been listed in the Fortune Global 500 for twelve consecutive years and ranked the 163rd. Meanwhile, AVIC ranked the fifth on the Global 500 of Aerospace and Defense industry.

During the first half of 2020, with the strategic goal of building an aviation power in the new era in all respects, the Company has been dedicated to becoming a flagship company to provide high-tech aviation products and services for both military and civil purposes. In order to fight the "two frontal battles", which refers to the Epidemic prevention and control as well as resumption of work and ramp-up productivity. The Company made concerted efforts to rapidly resume the manufacture and operation, ensured smooth progress in all respects and continuously realized growth in both revenue and profit.

During the first half of 2020, the Company's assets reorganization project has been carried out steadily. The acquisition of 100% equity of AVIC Helicopter Co., Ltd.\* (中航直升機有限責任公司) by the Company has been orderly pushed forward. According to relevant requirements from Chinese regulatory authorities, the Company was required to submit an application to China Securities Regulatory Commission for an administrative permission for such acquisition. Upon completion of the acquisition, the helicopter manufacturing business of the Group will be more integrated, which would further promote the development of the helicopter business of the Group. By seizing the development opportunities of the deepening reform of the National Equities Exchange and Quotations ("**NEEQ**"), AVIC Forstar S&T Company Limited\* (中航富士達科技股份有限公司), a subsidiary of AVIC JONHON Optronics Technology Co., Ltd.\* (中航光電科技股份有限公司) ("**JONHON Optronics**"), was quoted on NEEQ Select and raised a total of RMB239 million, which will be used in the construction of industrialization project of radio frequency business. This will further improve the Group's radio frequency industry capabilities. The grant of shares under the restricted stock incentive plan (phase two) of JONHON Optronics has been completed, further vitalizing human capital and motivating development in the long term.

The Company has been devoted to improving corporate governance and investor relations, as well as to proactively fulfilling social responsibility and promoting brand building. During the first half of 2020, the Company was awarded with the Best IR (Investor Relations) of HK Listed Companies in the third session held by New Fortune, and JONHON Optronics continued to be shortlisted on the "Top 50 A-share Core Assets". To strengthen market confidence and protect the interests of investors, the Company has commenced the share repurchase in the first half of 2020, and repurchased a total of 34,459,000 H shares of the Company for the six months ended 30 June 2020.

Helicopter business: the Group has continued to improve the quality and core competitiveness of its helicopter products, and achieved outstanding performance in various activities. The Group has made full preparation and successfully overcome the uncertainties caused by the Epidemic, thus its PT02 unit of AC352 helicopter has entered the stage of certificate application and flight tests. The 4-ton twin-engine light civil helicopter AC312E has successfully passed the Aircraft Evaluation Panel review, which laid a solid foundation for delivery to the first batch of users. Meanwhile, 2 AC312E helicopters were delivered to Harbin Public Security Bureau, marking the breakthrough of the first-ever application of AC312E helicopter in the Aviation Police Bureau. The AC312E helicopter fully demonstrated its fast response speed and strong deterrent abilities. 2-ton light civil helicopter AC311 was admitted to CCAR-135 Operation Regulations, which was the first domestic civil helicopter in East China to be admitted to CCAR-135 Operation Regulations. Two AC311A helicopters have completed the aerial photography in Tibet and the aerial spraying of agricultural chemicals in Qilian, Qinghai Province, respectively, which fully demonstrated their outstanding capabilities in plateau areas. Moreover, the "Civil Helicopter Design Assurance Manual" was approved by CAAC East China Regional Administration, representing the phased achievement of the construction of civil helicopter design assurance system.

Trainer business: the Group continued to expand its market in trainer jet business. Jiangxi Hongdu Aviation Industry Co., Ltd.\* (江西洪都航空工业股份有限公司) ("**Hongdu Aviation**") has achieved timely and high-quality delivery for consecutive months to ensure the smooth advance of customer orders, L-15 advanced trainer jet was awarded the first prize of National Science and Technology Progress Award in 2019, and has aroused public attention.

General aviation business: the Group's general-purpose aircraft business is steadily



developing. Y-12E+ light aircraft with multi-purpose has passed the design preliminary review, indicating a major step for model research and development. Seat dynamic impact test for Y-12F aircrafts was completed, which was the first passenger seat dynamic test of CCAR-23 aircrafts for head injury criterion (HIC) in the country, indicating Y-12F aircrafts are one more step closer to European Union Aviation Safety Agency (EASA) certification.

Aviation parts and components business: the aviation parts and components business of the Group has achieved fast development. JONHON Optronic has further improved its research and development as well as the industrialization capability of 5G related products and high voltage connection products for new energy vehicles. JONHON Optronic has also provided a huge variety of opto-electronic interconnect products for the entire rocket and ground test and launch control system for Long March 5B Series Launch Vehicle, which provide a stable and reliable signal transmission channel for rocket launching and flight. Chengdu CAIC Electronics Co., Ltd.\* (成都凱天電子股份有限公司) ("**AVIC Kaitian**") has developed two types of altitude signal boxes based on non-similarity principles, which could secure a safe return of the Long March 5B Series Launch Vehicle test vessel. At the same time, AVIC Kaitian was listed as a state-owned "Innovative Technology Reform Demonstration Enterprise", with an upgraded innovative system so as to promote the high-quality development of the Company. The intelligent mechanical spraying project of Shanghai Aviation Electric Co., Ltd.\* (上海航空電器有限公司) has passed the review, which will be able to meet the requirements for surface paint of light guide plate products for various aviation equipment as well as civil aircrafts (such as C919 aircraft).

Aviation engineering service business: the aviation engineering service business of the Group has secured stable development. China Aviation Planning and Design Institute Co., Ltd.\* (中國航空規劃設計研究總院有限公司) ("**AVIC Planning**") has undertaken the initiation report of the new laboratory project and spared no effort to

respond to the prevention and control of Epidemic. Winning the bid of Beijing Anding recycling economy park project and Xi'an Baqiao district PPP project that turns household waste into thermoelectricity, AVIC Planning has achieved new breakthroughs in the super-large-scale household waste incineration power plant, and demonstrated its technical strength in solid waste management industry. Meanwhile, the new Chengdu Museum, which was designed by AVIC Planning in full stage involving all departments, has been awarded the highest honor in civil engineering in China - the Zhan Tianyou Award. By far, AVIC Planning has won six Zhan Tianyou Awards.

## **BUSINESS OUTLOOK**

The year of 2020 marks the decisive year of fighting against poverty alleviation and building a moderately prosperous society in all respects. Under the impact of the Epidemic, the complexity of domestic and international economic landscape is unprecedented. For the second half of 2020, AVIC will actively respond to the international situation changes to ensure the stability of the industrial chain and supply chain. Adhering to deepening reforms, AVIC will continuously promote in-depth reform, coordinate and strive for the perfect ending of the "13th Five-Year Plan" and the strategic start of the "14th Five-Year Plan" in order to build an aviation power in the new era. The Group will take initiatives to progress in all respects, with the ambition of becoming the flagship company to provide high-tech aviation products and services for military and civil purposes. The Group will complete the project in relation to the acquisition of the AVIC Helicopter Co., Ltd., facilitate the integration of the helicopter business, and display synergies in helicopter business. The Group will further push forward business integration upon the assets swap of Hongdu Aviation, accelerate the implementation of intelligent production lines, deeply promote the automation and informatization of production and manufacturing business, and steadily improve the core manufacturing capacity. The Group will actively focus on the expanding opportunities in high-tech industry, such as 5G in

communication field and data center construction. At the same time, the Group will continue to improve corporate governance, promote internal operation efficiency, strengthen risk control, and ensure the company's stable and healthy operation.

## **FINANCIAL REVIEW**

As a result of the completion of the asset swap in the second half of 2019 of Hongdu Aviation, a subsidiary of the Company, the corresponding financial data of the Group in the corresponding period of the preceding year was restated pursuant to the relevant regulations.

Unless otherwise stated, the corresponding financial data in the corresponding period of the preceding year referred in this announcement has 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 2020, Group recorded a revenue of RMB20,198 million, representing an increase of RMB2,019 million or 11.10% as compared with that of RMB18,179 million in the corresponding period of last year, which was mainly attributable to the growth of the revenue of aviation entire aircraft segment and aviation parts and components segment.

### **Segment information**

For the six months ended 30 June 2020, the revenue of the aviation entire aircraft segment of the Group amounted to RMB7,742 million, representing an increase of 21.92% as compared with that in the corresponding period of last year, which was mainly attributable to the increase in sales volume of helicopters and advanced trainers during the reporting period. The revenue of the aviation entire aircraft

segment accounted for 38.33% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB10,009 million, representing an increase of 7.20% as compared with that in the corresponding period of last year, which was mainly attributable to the increase in delivery of aviation parts and components. The revenue of the aviation parts and components segment accounted for 49.55% of the total revenue of the Group. The revenue of the aviation engineering services segment of the Group amounted to RMB2,447 million, representing a decrease of 1.81% as compared with that in the corresponding period of last year. The revenue of the aviation engineering services segment accounted for 12.12% of the total revenue of the Group.

The segment results of the aviation entire aircraft segment of the Group amounted to RMB332 million, representing an increase of RMB67 million or 25.28% as compared with that of RMB265 million in the corresponding period of last year. The increase was mainly attributable to increase of gross profit driven by the increase of revenue from the aviation entire aviation business as well as the improvement of operation efficiency upon the asset swap of Hongdu Aviation. The segment results of the aviation parts and components segment of the Group amounted to RMB1,420 million, representing an increase of RMB153 million or 12.08% as compared with that of RMB1,267 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 and the business in loss was decreased as compared with the corresponding period of last year as a result of the disposal of certain subsidiaries in loss in the second half of 2019. The segment results of the aviation engineering services segment of the Group amounted to RMB139 million, representing a decrease of RMB9 million or 6.08% as compared with that of RMB148 million in the corresponding period of last year.

### **Gross profit**

For the six months ended 30 June 2020, the Group recorded a gross profit of

RMB4,057 million, representing an increase of RMB158 million or 4.05% as compared with that of RMB3,899 million in the corresponding period of last year, which was mainly attributable to the increase in the revenue. The comprehensive gross profit margin was 20.09% during the reporting period, representing a decrease of 1.36 percentage points as compared with that in the corresponding period of last year.

### **Selling and distribution expenses**

For the six months ended 30 June 2020, the selling and distribution expenses of the Group amounted to RMB227 million, representing a decrease of RMB62 million or 21.45% as compared with that of RMB289 million in the corresponding period of last year. The decrease was mainly due to the decrease of the business travelling expenses, sales services expenses and staff costs of sales persons of certain subsidiaries as affected by the Epidemic. The selling and distribution expenses accounted for 1.12% of the revenue during the reporting period, representing a decrease of 0.47 percentage point as compared with 1.59% in the corresponding period of last year.

### **Administrative expenses**

For the six months ended 30 June 2020, the administrative expenses of the Group amounted to RMB2,012 million, representing a decrease of RMB101 million or 4.78% as compared with that of RMB2,113 million in the corresponding period of last year. The main reasons are: on one hand, the operation efficiency was improved as a result of completion of asset swap by Hongdu Aviation in the second half of 2019 and disposal of certain subsidiaries incurring loss; and on the other hand, there was a decrease in staff costs as compared with the corresponding period of last year as impacted by the Epidemic as well as benefiting from the inclusive policy of social security relief. The administrative expenses accounted for 9.96% of the revenue during the reporting period, representing a decrease of 1.66 percentage points as compared with that of 11.62% in the corresponding period of last year.

**Finance costs, net**

For the six months ended 30 June 2020, the net finance costs of the Group amounted to RMB106 million, representing a decrease of RMB99 million or 48.29% as compared with that of RMB205 million in the corresponding period of last year, which was mainly attributable to the significant decrease in interests expenses during the period resulted from the repayment of bank borrowings and repurchase of convertible bonds by certain subsidiaries during the second half of 2019. 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 2020, the profit attributable to equity holders of the Company amounted to RMB740 million, representing an increase of RMB102 million or 15.98% as compared with that of RMB638 million in the corresponding period of last year. The increase in the profit attributable to equity holders of the Company was because the increase in the revenue during the period resulted in the increase in the gross profit contribution and that the decrease of the selling and distribution expenses, the administrative expenses and the finance costs offset the impact of the decrease in gains generated from non-operating activities .

**Liquidity and financial resources**

As at 30 June 2020, the cash and cash equivalents of the Group amounted to RMB12,040 million, which were mainly derived from cash and bank deposits at the beginning of 2020 and proceeds generated from business operations during the reporting period.

As at 30 June 2020, the Group's total borrowings and convertible bonds amounted to RMB12,746 million, of which short-term borrowings amounted to RMB5,899 million, current portion of long-term borrowings amounted to RMB602 million, non-current portion of long-term borrowings amounted to RMB4,071 million, and convertible bonds amounted to RMB2,174 million.

As at 30 June 2020, the bank borrowings of the Group amounted to RMB5,217 million with an average interest rate of 4% per annum, representing an increase of RMB913 million as compared with that at the beginning of the reporting period; and other borrowings amounted to RMB5,356 million with an average interest rate of 4% per annum, representing an increase of RMB952 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 2020, 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 2020, the Group's secured borrowings amounted to RMB479 million, among which the borrowings of RMB78 million were pledged by accounts receivable and notes receivable with a net book value of RMB80 million; borrowings of RMB401 million were pledged by future collecting rights.

### **GEARING RATIO**

As at 30 June 2020, the Group's gearing ratio was 13.76% (as at 31 December 2019 was 11.94%), which was derived from dividing the total borrowings and convertible bonds by the total assets as at 30 June 2020.

### **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 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**

As at 30 June 2020, the Group had no significant contingent liabilities.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

On 18 February 2020, AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd.\* (中航科工智繪航空科技有限公司) (“**AviChina Intelligent**”) entered into the Equity Transfer Agreements to dispose of its existing equity interest in AVIC Jincheng Unmanned System Co., Ltd.\*(中航金城無人系統有限公司) (“**AVIC Jincheng Unmanned**”), namely, (1) the Equity Transfer Agreement I with the Company in relation to the transfer of 19.19% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB43,763,072; (2) the Equity Transfer Agreement II with Tianjin Aviation Mechanical and Electrical Co., Ltd.\* (天津航空機電有限公司) (“**Tianjin Aviation**”) in relation to the transfer of 2.47% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB5,626,681; (3) the Equity Transfer Agreement III with Shanghai Aviation Electronics Co. Ltd.\* (上海航空電子有限責任公司) (“**Shanghai Aviation Electronics**”) in relation to the transfer of 5.48% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB12,503,735; and (4) the Equity Transfer Agreement IV with AVIC Jincheng Nanjing Mechanics-electronics-hydraulics Research Center\* (中國航空工業集團公司金城南京機電液壓工程研究中心) (“**Jincheng Nanjing**”) in relation to the transfer of 2.06% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB4,688,901. Upon completion of the aforesaid equity transfers, AVIC Jincheng Unmanned will be owned as to 19.19% by the Company, 2.47% by Tianjin Aviation, 5.48% by Shanghai Aviation Electronics, 46% by Jincheng Group Limited\* (金城集團有限公司), 2.06% by Jincheng Nanjing, 14.80% by AviChina Intelligent and 10% by Nanjing Tianyue Investment Partnership (Limited Partnership)\*(南京天躍投資合夥企業(有限合夥)). As at the date of the Equity Transfer Agreements, AVIC is the controlling shareholder of the Company. AviChina



Intelligent is a subsidiary of the Company with over 10% equity interest indirectly held by the AVIC, thus is a connected subsidiary of the Company. Tianjin Aviation is a wholly-owned subsidiary of the Company. Each of Shanghai Aviation Electronics and Jincheng Nanjing is a subsidiary of AVIC and is therefore a connected person of the Company pursuant 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**”). The acquisition of 21.66% equity interest in AVIC Jincheng Unmanned by the Company and Tianjin Aviation from AviChina Intelligent contemplated under the Equity Transfer Agreement I and the Equity Transfer Agreement II constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules as AviChina Intelligent is a connected subsidiary of the Company. The disposal of 7.54% equity interest in AVIC Jincheng Unmanned by AviChina Intelligent to Shanghai Aviation Electronics and Jincheng Nanjing contemplated under the Equity Transfer Agreement III and the Equity Transfer Agreement IV also constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules as Shanghai Aviation Electronics and Jincheng Nanjing are connected persons of the Company. For details, please refer to the announcement of the Company dated 18 February 2020.

## **USE OF PROCEEDS**

As at 30 June 2020, a total of RMB4,970 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. Up to now, an amount of approximately RMB412 million had been used to invest in the aviation products business such as aviation cabin interior trimming business and funds for aviation industry. As at 30 June 2020, the actual remaining balance of the proceeds amounted to approximately RMB768 million. The Company proposes to use such proceeds for investment in aviation products

businesses, the industrialization projects of aviation research institutes and funds for aviation industry, the funding of acquisitions of aviation equity interest or aviation assets and for general corporate purposes in accordance with the Company's development strategy in the future two years.

## **EMPLOYEES**

As at 30 June 2020, the Group had 43,436 employees. The Group's staff costs amounted to RMB 3,095 million for the six months ended 30 June 2020, representing a decrease of RMB246 million or 7.36% as compared with that of RMB3,341 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 2019 annual report of the Company.

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

At the Board meeting held on 13 July 2020, the Board considered and approved the resolution in relation to the appointment of Mr. Liu Wanming as the deputy general manager of the Company, with the term of office commencing from the date of approval of such resolution to the date on which the Board removes his duty. Due to other work commitment, Mr. Gan Liwei ceased to be the Board Secretary 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 Hong Kong Listing Rules, 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 2020.

### **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 2020.

### **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 2020.

### **OTHER EVENTS**

As at 20 January 2020, JONHON Optronic completed the grant of shares under the A-share restricted stock incentive plan (Phase two). There were 1,164 incentive participants for the grant of restricted stock, and 31,041,157 shares were granted, which accounted for 2.90% of the total share capital of JONHON Optronic on the grant date. The grant date was 26 December 2019, and the grant price was RMB23.43 per share. For details, please refer to the announcements of the Company dated 27 December 2019, 14 January 2020, and 20 January 2020.

On 30 January 2019, AviChina Hong Kong Limited\* (中航科工香港有限公司) (“**AviChina Hong Kong**”), AVICT Global Holdings Limited\* (航信環球控股有限公司) (“**AVICT Global**”) and AVICT Dragon Holdings Limited\* (航龍控股有限公司) (“**AVICT Dragon Holdings**”) entered into the Loan Agreement, pursuant to which AviChina Hong Kong agreed to grant the loan with an amount of no more than HK\$260 million to AVICT Global for a term of twelve months, and AVICT Dragon Holdings agreed to grant the debt transfer right to AviChina Hong Kong in connection with the loan. On 22 January 2020, AviChina Hong Kong, AVICT Global and AVICT Dragon Holdings entered into the Supplemental Agreement, pursuant to which the parties agreed to extend the repayment date of the loan under the Loan Agreement dated 30 January 2019 from 30 January 2020 to 30 January 2021, with the principal amount and interest rate remaining unchanged for the above extension period. As at the date of the Supplemental Agreement, AVIC is the controlling shareholder of the Company. Both AVICT Global and AVICT Dragon Holdings are beneficially controlled by AVIC Trust Co., Ltd\* (中航信託股份有限公司), a subsidiary of AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVICT Global and AVICT Dragon Holdings is a connected person of the Company. Each of the grant of the loan by AviChina Hong Kong to AVICT Global and the grant of the debt transfer right by AVICT Dragon Holdings to AviChina Hong Kong contemplated under the Loan Agreement (as amended by the Supplemental Agreement) constitutes a connected transaction of the Company. For details, please refer to the announcements of the Company dated 30 January 2019 and 22 January 2020.

On 10 March 2020, China Avionics Systems Co., Ltd.\* (中航航空電子系統股份有限公司) (“**AVIC Avionics**”) entered into Shaanxi Huayan Capital Contribution Agreement with AVIC Shaanxi Huayan Aero-Instrument Co., Ltd.\* (陝西華燕航空儀錶有限公司) (“**Shaanxi Huayan**”) and AVIC Zhonghang Electric Measuring Instruments Co., Ltd.\* (中航電測儀器股份有限公司) (“**AVIC Electric**”).

**Measuring**”), pursuant to which AVIC Avionics and AVIC Electric Measuring as the existing shareholders will participate in the capital contributions in Shaanxi Huayan in a total amount of approximately RMB73.64 million on a pro-rata basis. As at the date of the Capital Contribution Agreement, Shaanxi Huayan is owned 80% by AVIC Avionics and 20% by AVIC Electric Measuring, respectively. Accordingly, AVIC Avionics will contribute an amount of approximately RMB58.91 million in cash in Shaanxi Huayan. On 10 March 2020, AVIC Avionics entered into AVIC Kaitian Capital Contribution Agreement with AVIC Kaitian, Chengdu Aircraft Industry (Group) Co., Ltd.\* (成都飛機工業（集團）有限責任公司) (“**Chengdu Aircraft Industry**”), AVIC Investment Holding Co., Ltd.\* (中航投資控股有限公司) (“**AVIC Investment Holding**”) and Chengdu Kaidi Aircraft Design Co., Ltd.\* (成都凱迪飛行器設計有限責任公司) (“**Chengdu Kaidi**”), pursuant to which AVIC Avionics, Chengdu Aircraft Industry, AVIC Investment Holding and Chengdu Kaidi as the existing shareholders will participate in the capital contributions in AVIC Kaitian in a total amount of approximately RMB50.55 million on a pro-rata basis. As at the date of the Capital Contribution Agreement, AVIC Kaitian is owned 88.3% by AVIC Avionics, 1.56% by Chengdu Aircraft Industry, 5.07% by AVIC Investment Holding and 5.07% by Chengdu Kaidi. Accordingly, AVIC Avionics will contribute an amount of approximately RMB44.64 million in cash in AVIC Kaitian. As at the date of the Capital Contribution Agreements, AVIC Avionics is a non-wholly-owned subsidiary of the Company. Each of Shaanxi Huayan and AVIC Kaitian is a connected subsidiary of AVIC Avionics by virtue of being owned as to over 10% by AVIC indirectly as AVIC Electric Measuring, Chengdu Aircraft Industry, AVIC Investment Holding and Chengdu Kaidi are subsidiaries of AVIC. Therefore, the capital contribution by AVIC Avionics in each of Shaanxi Huayan and AVIC Kaitian constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 10 March 2020.

On 18 March 2020, AVIC Planning, a wholly-owned subsidiary of the Company, entered into the Framework Agreement with AVIC Construction and Development (Beijing) Technology Co., Ltd.\* (中航建發(北京)科技有限公司) (“**AVIC Construction and Development Technology**”), pursuant to which, AVIC Planning agreed to grant the entrusted loans (each for a term of not more than one year) to AVIC Institute of Geotechnical Engineering Co., Ltd.\* (中航勘察設計研究院有限公司) (“**AVIC Geotechnical**”) and China Aviation Changsha Design and Research Co., Ltd.\* (中航長沙設計研究院有限公司) (“**AVIC Changsha Design**”), both being subsidiaries of AVIC Construction and Development Technology, through AVIC Finance Co., Ltd.\* (中航工業集團財務有限責任公司) (“**AVIC Finance**”) for the three years ending 31 December 2022. The daily balance of the outstanding entrusted loans under the Framework Agreement shall not be more than RMB200 million during the three years ending 31 December 2022. Pursuant to the Framework Agreement, AVIC Planning also agreed to provide guarantees to AVIC Geotechnical and AVIC Changsha Design, both being subsidiaries of AVIC Construction and Development Technology, for the economic businesses with banks and financial institutions for the three years ending 31 December 2022. The daily balance of the outstanding guarantees under the Framework Agreement shall not be more than RMB200 million during the three years ending 31 December 2022. As at the date of the Framework Agreement, AVIC is the controlling shareholder of the Company, and AVIC Construction and Development Technology, AVIC Geotechnical and AVIC Changsha Design are subsidiaries of AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, AVIC Construction and Development Technology, AVIC Geotechnical and AVIC Changsha Design are connected persons of the Company and the grant of the entrusted loans and guarantees under the Framework Agreement by AVIC Planning to AVIC Geotechnical and AVIC Changsha Design constitutes continuing connected transactions of the Company. For details, please refer to the announcement of the Company dated 18 March 2020.

On 28 April 2020, Tianjin Aviation entered into the Joint Venture Agreement with Tianjin Shunying Investment Centre (Limited Partnership)\* (天津順盈投資中心(有限合夥)) (“**Tianjin Shunying Investment**”) and Tianjin Jindian Feiyue Enterprise Management Consulting Partnership (Limited Partnership)\* (天津津電飛悅企業管理諮詢合夥企業(有限合夥)) (“**Tianjin Jindian Feiyue**”) in relation to the proposed formation of AVIC Surface Treatment Technology (Tianjin) Co., Ltd.\* (中航表面處理技術(天津)有限公司) (subject to the final approval by the industrial and commercial administrative authorities) (“**AVIC Surface**”). Pursuant to the Joint Venture Agreement, Tianjin Aviation agreed to make a capital contribution of RMB27.20 million in cash, representing 34% of the total capital contribution of AVIC Surface. As at the date of the Joint Venture Agreement, Tianjin Aviation is a wholly-owned subsidiary of the Company and AVIC is the controlling shareholder of the Company. Therefore, Tianjin Shunying Investment is a connected person of the Company by virtue of AVIC's partnership interest and management power in Tianjin Shunying Investment pursuant to the Hong Kong Listing Rules. The formation of AVIC Surface constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. Given that Tianjin Aviation, at the request of Tianjin Shunying Investment, may purchase the initial 17% equity interest held by Tianjin Shunying Investment in AVIC Surface under the Joint Venture Agreement, it constitutes a grant of option to a connected person under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 28 April 2020.

As considered and approved by the board meeting of AVICOPTER PLC\* (中航直升機股份有限公司) (“**AVICOPTER**”) held on 28 April 2020, AVICOPTER proposed to provide joint liability guarantee in favour of AVIC Huiyang Aviation Propeller Company Limited\* (惠陽航空螺旋槳有限責任公司) (“**AVIC Huiyang**”) for the loan granted by AVIC Finance in the extended period, in an amount of not more than RMB190,000,000 for not more than one year. And AVIC Huiyang proposed to

provide counter guarantee in favour of AVICOPTER in return by setting mortgage over the land use rights for the land with a gross area of 369 mu and buildings and other attachments constructed thereon. As at the date of the board meeting of AVICOPTER, each of AVICOPTER and AVIC Huiyang is a subsidiary of the Company. AVIC Finance is a subsidiary of AVIC, which is the controlling shareholder of the Company. Therefore, AVIC Finance is a connected person of the Company pursuant to the Hong Kong Listing Rules. The proposed guarantee, if proceed with, will constitute a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. No concrete agreement has been entered into by the relevant parties in relation to the proposed guarantee as at the date of this announcement. For details, please refer to the announcement of the Company dated 29 April 2020.

The 2019 annual general meeting held on 22 May 2020 considered and approved the proposal in relation to the general mandate authorizing the Board to repurchase H shares. On 26 May 2020, the Company began to exercise the above repurchase mandate to repurchase its H shares on the Hong Kong Stock Exchange. For details, please refer to the announcements of the Company dated 22 May 2020 and 26 May 2020.

#### **PURCHASE, SALE AND REDEMPTION OF SECURITIES**

For the six months ended 30 June 2020, the Company repurchased a total of 34,459,000 H shares of the Company on the Hong Kong Stock Exchange for a total cash consideration of HK\$133,324,700 (excluding expenses). For the six months ended 30 June 2020, 31,959,000 H shares of the Company that have been repurchased have been cancelled. In addition to the above repurchased shares, for the six months ended 30 June 2020, 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 2020, 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, 21 August 2020

*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*