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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)

2021 Interim Results Announcement

Financial Highlights

The Group completed acquisition of 100% equity interests in AVIC Helicopter in 2020, and has been preparing financial statements in accordance with the CASBE since 2021. Consequently, the financial data of the Group in the corresponding period of the preceding year was restated.

- For the six months ended 30 June 2021, the Group recorded a revenue of RMB27,893 million, representing an increase of RMB6,930 million or 33.06% as compared with that of RMB20,963 million (as restated) in the corresponding period of last year.
- For the six months ended 30 June 2021, the net profit attributable to the owners of the parent company amounted to RMB1,199 million, representing an increase of RMB341 million or 39.74% as compared with that of RMB858 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 2021 prepared according to the China Accounting Standards for Business Enterprises (the “**CASBE**”) as follows:

INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

UNIT: RMB

Items	Notes	January – June 2021 (Unaudited)	January - June 2020 (Unaudited) (Restated)
1. Total operating income		27,892,998,435	20,963,012,243
Including: Operating revenue	3	27,892,998,435	20,963,012,243
Interest income			
Earned premium			
Fee and commission income			
2. Total operating cost		25,150,538,225	19,142,653,034
Including: Operating cost	3	21,882,396,745	16,648,231,703
Interest expenses			
Fee and commission expenses			
Cash surrender amount			
Net expenses of claim settlement			
Net provision for insurance contract reserves			
Policyholder dividend expenses			
Reinsurance expenses			
Taxes and surcharges		59,969,661	53,071,230
Selling expenses	5	314,625,268	227,999,573
Administrative expenses	6	1,478,136,384	1,303,419,993
Research and development expenses	7	1,347,423,586	931,575,918
Finance costs	8	67,986,581	-21,645,383
Including: Interest expense		194,233,255	237,905,720
Interest income		157,520,223	237,679,552
Add: Other income	9	112,507,875	84,340,891
Investment income (loss to be listed with “-”)	10	190,837,973	99,735,749
Including: Income from investment in associates and joint ventures		133,501,275	62,075,022
Derecognition income of financial assets at amortized cost			
Exchange gain (loss to be listed with “-”)			
Net exposure hedging income (loss to be listed with “-”)			
Income from changes in fair value (loss to be listed with “-”)	11	-41,943,440	41,988,359
Credit impairment loss (loss to be listed with “-”)	12	-176,938,977	-170,728,036
Asset impairment loss (loss to be listed with “-”)	13	-64,853,658	-46,315,297
Income from assets disposal (loss to be listed with “-”)		52,035	53,298
3. Operating profit (loss to be listed with “-”)		2,762,122,018	1,829,434,173
Add: Non-operating income		27,425,394	10,779,688
Less: Non-operating expenses		7,119,355	9,404,444
4. Total profit (total loss to be listed with “-”)		2,782,428,057	1,830,809,417
Less: income tax expenses	14	339,589,403	210,347,560
5. Net profit (net loss to be listed with “-”)		2,442,838,654	1,620,461,857

(I) Classified according to operating continuity			
1. Net profit from continuing operations (net loss to be listed with “-”)		2,442,838,654	1,620,461,857
2. Net profit from discontinuing operations (net loss to be listed with “-”)			
(II) Classified according to attribution of the ownership			
1. Net profit attributable to the owners of the parent company (net loss to be listed with “-”)		1,199,349,671	858,127,920
2. Minority profit and loss (net loss to be listed with “-”)		1,243,488,983	762,333,937
6. Net of tax of other comprehensive income		14,247,404	-15,641,815
Net of tax of other comprehensive income attributable to the owner of the parent company		31,389,328	173,941
(I) Other comprehensive income that cannot be reclassified into profit or loss		36,638,451	-9,590,375
1. Changes arising from re-measurement of the defined benefit plan			
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method			
3. Changes in fair value of other equity instrument investments		36,638,451	-9,590,375
4. Changes in fair value of the enterprise’s credit risk			
5. Others			
(II) Other comprehensive income reclassified into the profit or loss		-5,249,123	9,764,316
1. Other comprehensive income that can be reclassified into profit or loss under the equity method			
2. Changes in fair value of other debt investments			
3. Amount of financial assets reclassified into other comprehensive income			
4. Provision for credit impairment of other debt investments			
5. Reserves for cash flow hedge (effective parts of cash flow hedge profit or loss)			
6. Translation difference of foreign currency financial statements		-5,249,123	9,764,316
7. Others			
Net of tax of other comprehensive income attributable to minority shareholders		-17,141,924	-15,815,756
7. Total comprehensive income		2,457,086,058	1,604,820,042
Total comprehensive income attributable to shareholders of the parent company		1,230,738,999	858,301,861
Total comprehensive income attributable to minority shareholders		1,226,347,059	746,518,181
8. Earnings per share:			
(1) Basic earnings per share (RMB/share)	16	0.16	0.11
(2) Diluted earnings per share (RMB/share)	16	0.16	0.11

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2021

UNIT: RMB

Items	Notes	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Current assets:			
Monetary funds		18,968,081,811	25,138,489,217
Settlement reserve			
Loans to banks and other financial institutions			
Financial assets held for trading		2,046,237,633	2,378,749,103
Derivative financial assets			
Notes receivable	17	4,964,215,630	8,739,588,328
Accounts receivable	18	21,005,813,039	16,370,668,841
Receivables financing		11,446,354	28,095,202
Prepayments		7,264,923,778	1,692,119,455
Premium receivable			
Reinsurance premium receivable			
Reinsurance contract provision receivable			
Other receivables		363,443,538	193,473,846
Including: Interest receivable			
Dividends receivable		51,611,778	309,300
Financial assets purchased under agreements to resell			
Inventories		33,392,536,519	30,713,010,487
Contract assets		7,075,449,547	4,542,892,460
Held-for-sale assets		55,181,576	57,424,372
Non-current assets due within one year			
Other current assets		743,621,678	702,992,333
Total current assets		95,890,951,103	90,557,503,644
Non-current assets:			
Loans and advances			
Debt investment			
Other debt investment			
Long-term receivables		8,776,634	1,566,033
Long-term equity investments		1,868,099,788	1,728,131,943
Other equity instrument investments		1,843,598,010	1,612,599,803
Other non-current financial assets			
Investment properties		356,673,422	381,485,092
Fixed assets		13,468,723,131	13,553,983,084
Construction-in-progress		3,900,082,951	3,235,117,559
Bearer biological assets			
Oil and gas assets			
Right-of-use assets		649,430,223	680,918,043
Intangible assets		2,736,853,297	2,767,248,483
Development expenditure			
Goodwill		69,121,895	69,121,895
Long-term deferred expenses		74,032,555	69,648,616
Deferred income tax assets		432,188,199	373,213,782
Other non-current assets		458,742,181	556,008,640
Total non-current assets		25,866,322,286	25,029,042,973
Total assets		121,757,273,389	115,586,546,617

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

AS AT 30 JUNE 2021

UNIT: RMB

Items	Notes	30 June 2021 (Unaudited)	31 December 2020 (Audited)
Current Liabilities:			
Short-term borrowings		3,828,721,861	4,380,394,913
Borrowings from the central bank			
Placements from banks and other financial institutions			
Financial liabilities held for trading		9,144,585	20,416,526
Derivative financial liabilities			
Notes payable	19	6,487,378,849	8,524,837,419
Accounts payable	20	26,002,744,526	23,543,797,350
Advances		3,630,010	
Contract liabilities		23,114,005,555	17,136,185,913
Financial assets sold under agreements to repurchase			
Deposits and placements from other financial institutions			
Securities brokering			
Securities underwriting			
Employee benefits payable		1,009,607,993	1,758,648,928
Tax payable		311,877,468	347,749,402
Other payables		2,369,510,647	2,318,625,756
Including: Interest payable			
Dividends payable		546,443,444	362,540,213
Fees and commissions payable			
Reinsurance amounts payable			
Held-for-sale liabilities			
Non-current liabilities due within one year		1,746,233,502	1,563,839,121
Other current liabilities		287,715,530	786,182,362
Total current liabilities		65,170,570,526	60,380,677,690
Non-current liabilities:			
Insurance contract reserves			
Long-term borrowings		3,421,299,956	3,598,431,047
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities		649,971,262	636,374,789
Long-term payables		-499,783,882	-23,867,989
Long-term employee benefits payable		1,540,056,566	1,605,589,110
Estimated liabilities		669,685,859	574,768,260
Deferred income		871,585,640	792,831,734
Deferred income tax liabilities		146,135,557	139,741,579
Other non-current liabilities		1,819,422,046	1,778,121,661
Total non-current liabilities		8,618,373,004	9,101,990,191
Total liabilities		73,788,943,530	69,482,667,881
Shareholders' equity:			
Share capital		7,711,332,242	7,711,332,242
Other equity instruments			
Including: Preferred shares			

Perpetual bonds			
Capital reserves		11,617,172,384	11,580,160,798
Less: treasury shares			
Other comprehensive income		-381,893,423	-444,304,828
Special reserves		516,738,311	437,521,387
Surplus reserves		248,737,213	248,737,213
General risk reserve			
Undistributed profits		4,179,761,287	3,397,017,986
Total shareholders' equity attributable to parent company		23,891,848,014	22,930,464,798
Minority shareholders' equity		24,076,481,845	23,173,413,938
Total shareholders' equity		47,968,329,859	46,103,878,736
Total liabilities and shareholders' equity		121,757,273,389	115,586,546,617

NOTES:

1. Basic Information of the Company

The Company was incorporated in Beijing in the People's Republic of China (the "PRC") on 30 April 2003 as a result of a group reorganization of China Aviation Industry Corporation II. The Company has obtained the business license with the unified social credit code of 91110000710931141J issued by Beijing Administration for Industry and Commerce. The registered capital is RMB 7,711,332,242 and the legal representative is Wang Xuejun. The address of its registered office is 2nd Floor, Building 27, No. 26 Xihuan South Street, Beijing Economic Technological Development Area, Beijing, the PRC. It was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 30 October 2003.

As at 30 June 2021, the Group is 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.

The controlling shareholder of the Company is Aviation Industry Corporation of China, Ltd. * (中國航空工業集團有限公司) ("AVIC"), and the ultimate controller is the State-owned Assets Supervision and Administration Commission of the State Council. The Board of the Company manages and controls the Company's major decisions and daily operation.

These financial statements were approved for issue by the Board on 27 August 2021.

The data of the following financial statements for the six months ended 30 June 2020 is unaudited and has been restated, and that for the six months ended 30 June 2021 is unaudited.

The notes to the financial statements are presented in RMB, except as otherwise noted.

2. BASIS OF PREPARATION

The Company has previously adopted the International Financial Report Standards in preparing the financial statements for information disclosure at the Hong Kong Stock Exchange. According to the Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong published by the Hong Kong Stock Exchange in December 2010, the Company has resolved, starting from the current financial period, to prepare its financial statements for information disclosure at the Hong Kong Stock Exchange pursuant to the Accounting Standard for Business Enterprises issued by the Ministry of Finance of the PRC and other relevant requirements.

3. Operating revenue and operating cost

Item	January to June 2021		January to June 2020	
	Revenue	Cost	Revenue	Cost
Main businesses	27,420,939,343	21,510,664,479	20,544,007,954	16,348,602,279
Other businesses	472,059,092	371,732,266	419,004,289	299,629,424
Total	27,892,998,435	21,882,396,745	20,963,012,243	16,648,231,703

4. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors who review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors classify the business into three reportable segments:

- Manufacturing, assembly, sales and servicing of helicopters, trainers and other aircraft ("Aviation entire aircraft");
- Manufacturing and sale of aviation ancillary system ("Aviation ancillary system and related business");
- Delivery of aviation engineering services such as planning, design, consultation, construction and operation ("Aviation engineering services").

The Group is domiciled in the PRC from where most of its revenue from external customers is derived and in where all of its assets are located.

January to June 2021/30 June 2021	Aviation entire aircraft	Aviation ancillary system and related business	Aviation engineering services	Offset	Total
Revenue from external transactions	9,754,911,932	14,515,422,046	3,622,664,457		27,892,998,435
Revenue from inter-segment transactions	8,000,719,038	570,908,075	144,138,536	-8,715,765,649	
Investment income from associates and joint ventures	4,947,960	121,332,293	7,221,022		133,501,275
Asset impairment losses and credit impairment losses	15,185,408	187,973,885	38,633,342		241,792,635
Depreciation and amortization costs	357,673,649	360,931,984	150,437,803		869,043,436
Total profit	728,855,730	2,478,656,220	156,564,270	-581,648,163	2,782,428,057
Income tax expense	115,845,623	209,874,895	13,868,885		339,589,403
Net profit	613,010,107	2,268,781,325	142,695,385	-581,648,163	2,442,838,654
Total assets	64,090,284,605	68,490,452,119	13,231,024,033	-24,054,487,368	121,757,273,389
Total liabilities	45,877,169,367	28,539,088,932	10,334,763,591	-10,962,078,360	73,788,943,530
Other non-cash expenses other than depreciation and amortization costs and asset impairment losses	94,917,599	71,073,336			165,990,935
Long-term equity investment in associates and joint ventures	428,483,398	984,287,556	91,516,993		1,504,287,947

January to June 2021/30 June 2021	Aviation entire aircraft	Aviation ancillary system and related business	Aviation engineering services	Offset	Total
Increase in other non-current assets other than long-term equity investments	44,317,420	799,293,221	-146,299,173		697,311,468

(Continued)

January to June 2020/30 June 2020	Aviation entire aircraft	Aviation ancillary system and related business	Aviation engineering services	Offset	Total
Revenue from external transactions	8,126,184,725	9,819,665,968	3,017,161,550		20,963,012,243
Revenue from inter-segment transactions	7,146,253,454	447,803,932	77,582,727	-7,671,640,113	
Investment income from associates and joint ventures	3,069,068	59,010,031	-4,077		62,075,022
Asset impairment losses and credit impairment losses	54,906,376	126,046,765	36,090,192		217,043,333
Depreciation and amortization costs	393,812,429	337,130,180	98,968,860		829,911,469
Total profit	512,033,142	1,553,904,075	91,054,728	-326,182,528	1,830,809,417
Income tax expense	58,723,245	133,429,617	18,194,698		210,347,560
Net profit	453,309,897	1,420,474,458	72,860,030	-326,182,528	1,620,461,857
Total assets	51,552,151,178	64,552,011,771	15,379,256,839	-15,896,873,171	115,586,546,617
Total liabilities	36,694,024,334	25,132,978,554	10,504,335,337	-2,848,670,344	69,482,667,881
Other non-cash expenses other than depreciation and amortization costs and asset impairment losses	88,924,080	78,800,168			167,724,248
Long-term equity investment in associates and joint ventures	365,213,936	895,670,245	103,435,921		1,364,320,102
Increase in other non-current assets other than long-term equity investments	-116,265,660	839,038,203	-551,852,716		170,919,827

5. Selling expenses

Item	January to June 2021	January to June 2020
Employee compensation	152,676,888	124,952,847
After-sales service charges	38,970,923	19,215,106
Business travel costs	32,214,826	21,375,482
Transportation costs	27,803,939	20,750,458
Three guarantees loss	24,128,684	12,649,504
Advertising and publicity expenses	9,054,619	2,152,018
Packing charges	5,177,369	1,780,018
Exhibition fees	3,031,576	1,984,188

Item	January to June 2021	January to June 2020
Depreciation and amortization costs	1,178,996	1,316,694
Others	20,387,448	21,823,258
Total	314,625,268	227,999,573

6. Administrative expenses

Item	January to June 2021	January to June 2020
Employee compensation	879,077,055	837,668,940
Depreciation and amortization costs	171,754,792	164,920,705
Amortization of equity incentives	84,074,527	78,800,168
Maintenance and repair costs	64,751,500	33,853,944
Business entertainment expenses	27,506,041	12,353,866
Labor protection costs	27,170,848	18,169,765
Business travel costs	23,606,945	9,512,980
Professional service fees	20,362,379	8,060,048
Office fees	19,549,457	16,899,516
Power and fuel expenses	16,300,618	15,704,588
Afforestation fees	13,910,192	12,748,405
Rental	13,201,009	12,730,400
Insurance premium	10,730,879	7,161,851
Audit fee	7,920,130	3,664,109
Conference expenses	7,483,802	3,743,057
Property charges	7,237,597	10,619,508
Transportation fee	4,744,527	3,205,257
Publicity expenses	4,078,758	
Material amortization and consumption of low-value consumables	3,718,908	3,469,876
Others	70,956,420	50,133,010
Total	1,478,136,384	1,303,419,993

7. Research and development expenses

Item	January to June 2021	January to June 2020
Employee compensation	579,501,963	411,546,832
Materials expenses	433,079,547	281,753,518
Special fees	86,228,633	7,445,269
External negotiation fee	54,043,947	97,914,443
Depreciation and amortization costs	45,903,920	36,832,215

Item	January to June 2021	January to June 2020
Business travel costs	22,826,575	16,071,246
Administrative expense	18,671,262	13,655,081
Experimental expenses	16,653,240	18,707,376
Sampling inspection fee	10,247,199	
Design fee	5,787,509	6,951,383
Power and fuel expenses	3,864,215	3,499,069
Others	70,615,576	37,199,486
Total	1,347,423,586	931,575,918

8. Finance costs

Item	January to June 2021	January to June 2020
Interest expense	206,485,783	277,669,666
Less: Interest income	157,520,223	237,679,552
Less: Capitalized interest	12,252,528	39,763,946
Add: Exchange losses	27,465,791	-26,508,862
Add: Other expenditures	3,807,758	4,637,311
Total	67,986,581	-21,645,383

9. Other income

Sources of other income	January to June 2021	January to June 2020
Employment subsidy	54,436,765	9,934,043
Subsidies for other projects	42,180,644	42,922,773
Government relocation compensation	8,757,740	12,255,227
Refund of individual tax handling fee	2,686,771	9,243,275
Subsidies for research and development and industrialization project of a connector	2,569,855	876,123
High-tech allowance	1,750,000	8,820,000
Input value-added tax surplus deduction	87,174	136,278
Instant value-added tax refund	38,926	153,172
Total	112,507,875	84,340,891

10. Investment income

Item	January to June 2021	January to June 2020
Long-term equity investment income calculated at equity method	133,501,275	62,075,022
Investment income from disposal of long-term equity investments	6,591,790	-25,206
Investment income from holding financial assets held for trading	27,784,008	198,383
Investment income from disposal of financial assets held for trading	15,426,100	37,895,830
Investment income from holding other equity instrument investments	2,217,792	272,881
Investment income from disposal of financial liabilities held for trading	3,409,755	
Gain on revaluation of remaining equity at fair value after losing control	3,082,789	
Others	-1,175,536	-681,161
Total	190,837,973	99,735,749

11. Income from changes in fair value

Source of income from changes in fair value	January to June 2021	January to June 2020
Financial assets held for trading	-41,862,948	41,988,359
Including: Gain from changes in fair value of derivative financial instruments		
Financial liabilities held for trading	-80,492	
Total	-41,943,440	41,988,359

12. Credit impairment loss

Item	January to June 2021	January to June 2020
Loss on bad debts of accounts receivable	-176,177,951	-169,847,678
Loss on bad debts of notes receivable	1,672,483	2,551,166
Loss on bad debts of other receivables	-2,433,509	-3,431,524
Total	-176,938,977	-170,728,036

13. Assets impairment loss

Item	January to June 2021	January to June 2020
Inventory depreciation loss and contract performance cost impairment losses	-58,386,902	-10,339,334
Contract asset impairment losses	-6,466,756	-6,404,779
Loss from fixed assets impairment		-29,595,542
Prepayments impairment losses		24,358
Total	-64,853,658	-46,315,297

14. Income tax expenses

Item	January to June 2021	January to June 2020
Income tax expenses of the reporting period	409,301,366	246,849,710
Deferred income tax expenses	-69,711,963	-36,502,150
Total	339,589,403	210,347,560

15. Dividends

Item	January to June 2021	January to June 2020
Recognized as the dividend to be distributed as the 2020 final dividend — RMB0.05 per share (2019 final dividend — RMB0.03 per share)	385,566,612	187,353,655

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

16. Earnings per share

Based on the provisions in Preparation Rules for Information Disclosures by Companies Offering Shares to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (revised in 2010) issued by China Securities Regulatory Commission, the basic earnings per share and diluted earnings per share of the Group from January to June 2021 are listed below:

Profit for the reporting period	Earnings per share	
	Basic earnings per share	Diluted earnings per share
Net profit attributable to shareholders of the parent company	0.1555	0.1555
Net profit attributable to shareholders of the parent company after deduction of non-recurring profit or loss	0.1389	0.1389

17. Notes receivable

(1) Classified presentation of notes receivable

Item	30 June 2021	31 December 2020
Banker's acceptance bill	1,107,604,903	3,011,566,610
Commercial acceptance bill	3,856,610,727	5,728,021,718
Total	4,964,215,630	8,739,588,328

(2) Notes receivable pledged

Item	Amount pledged on 30 June 2021
Banker's acceptance bill	260,226,302
Commercial acceptance bill	934,112,617
Total	1,194,338,919

(3) Classified presentation by bad debt accrual method

Category	30 June 2021				Book value
	Book balance		Bad debt provision		
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Bad debt provision made individually					
Bad debt provision made as per portfolio	4,993,888,350	100.00	29,672,720	0.59	4,964,215,630
Total	4,993,888,350	—	29,672,720	—	4,964,215,630

(Continued)

Category	31 December 2020				Book value
	Book balance		Bad debt provision		
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Bad debt provision made individually					
Bad debt provision made as per portfolio	8,770,978,531	100.00	31,390,203	0.36	8,739,588,328
Total	8,770,978,531	—	31,390,203	—	8,739,588,328

1) Bad debt provision of notes receivable made as per portfolio

Name	30 June 2021		
	Book balance	Bad debt provision	Provision proportion (%)
Banker's acceptance bill	1,108,353,888	748,985	0.07
Commercial acceptance bill	3,885,534,462	28,923,735	0.74
Total	4,993,888,350	29,672,720	—

(4) Provisions for bad debt accrued, recovered and reversed for notes receivable in the reporting period

Category	31 December 2020	Changes in the reporting period				30 June 2021
		Accrued	Recovered or reversed	Written back or written off	Decrease due to other reasons	
Notes receivable subjected to provision for expected credit losses on portfolio basis	31,390,203	5,354,181	7,026,664		45,000	29,672,720
Total	31,390,203	5,354,181	7,026,664		45,000	29,672,720

Note: The decrease due to other reasons is that Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司), a subsidiary of the Company, disposed of 50% of the equity of Jiangxi Hongdu International Mechanical & Electrical Co., Ltd.* (江西洪都國際機電有限責任公司), which was therefore no longer included in the consolidation at the end of the period, resulting in a reduction of RMB45,000 in bad debt provision for notes receivable.

(5) The Group had no notes receivable that were actually written-off in the reporting period.

18. Accounts receivable

Item	30 June 2021	31 December 2020
Accounts receivable	22,098,155,527	17,288,750,241
Less: Impairment provision	1,092,342,488	918,081,400
Net accounts receivable	21,005,813,039	16,370,668,841

(1) Classified presentation of accounts receivable by bad debt accrual method

Category of portfolio	30 June 2021			
	Original value	Proportion of bad debt provision (%)	Bad debt provision	Book value
Accounts receivable with bad debt provision made individually	380,815,664	41.21	156,934,304	223,881,360
Accounts receivable with bad debt provision made as per portfolio	21,717,339,863	4.31	935,408,184	20,781,931,679
Including: Accounts receivable whose credit risk has not increased significantly since the initial recognition	21,717,339,863	4.31	935,408,184	20,781,931,679
Total	22,098,155,527	—	1,092,342,488	21,005,813,039

(Continued)

Category of portfolio	31 December 2020			
	Original value	Proportion of bad debt provision (%)	Bad debt provision	Book value
Accounts receivable with bad debt provision made individually	214,849,643	72.38	155,503,719	59,345,924
Accounts receivable with bad debt provision made as per portfolio	17,073,900,598	4.47	762,577,681	16,311,322,917
Including: Accounts receivable whose credit risk has not increased significantly since the initial recognition	17,073,900,598	4.47	762,577,681	16,311,322,917
Total	17,288,750,241	—	918,081,400	16,370,668,841

1) Bad debt provision of accounts receivable made individually

Name	30 June 2021			
	Book balance	Bad debt provision	Provision proportion (%)	Reasons for provision
Company 1	44,300,000	17,720,000	40.00	Poor customer business
Company 2	20,260,000	20,260,000	100.00	Unable to recover
Company 3	192,389,753	13,595,424	7.07	Part of it is expected to be difficult to recover
Company 4	12,250,000	12,250,000	100.00	Unable to recover
Company 5	11,701,493	11,701,493	100.00	Poor customer business
Others	99,914,418	81,407,387	81.48	Part of it is expected to be difficult to recover
Total	380,815,664	156,934,304	—	—

2) Bad debt provision of accounts receivable made by portfolio

Aging	30 June 2021		
	Book balance	Bad debt provision	Provision proportion (%)
Within 1 year (including 1 year)	18,346,641,779	312,346,485	1.70
1-2 years	1,937,701,633	203,680,172	10.51
2-3 years	771,544,996	170,112,684	22.05
Over 3 years	661,451,455	249,268,843	37.69
Total	21,717,339,863	935,408,184	—

(Continued)

Aging	31 December 2020		
	Book balance	Bad debt provision	Provision proportion (%)
Within 1 year (including 1 year)	13,964,230,778	197,701,518	1.42
1-2 years	1,848,811,327	165,545,443	8.95
2-3 years	691,043,630	151,511,047	21.92
Over 3 years	569,814,863	247,819,673	43.49
Total	17,073,900,598	762,577,681	—

(2) Based on the date of billing, ageing of accounts receivable is as follows

Aging	30 June 2021		
	Accounts receivable	Bad debt provision	Proportion of bad debt provision (%)
Within 1 year (including 1 year)	18,539,382,081	319,172,380	1.72
1-2 years	1,984,309,840	227,118,135	11.45
2-3 years	817,596,855	202,839,612	24.81
3-4 years	310,286,703	106,245,610	34.24
4-5 years	194,042,395	94,588,964	48.75
Over 5 years	252,537,653	142,377,787	56.38
Total	22,098,155,527	1,092,342,488	—

(Continued)

Aging	31 December 2020		
	Accounts receivable	Bad debt provision	Proportion of bad debt provision (%)
Within 1 year (including 1 year)	13,976,854,221	204,804,155	1.47
1-2 years	1,894,233,113	186,457,279	9.84
2-3 years	734,065,952	172,806,359	23.54
3-4 years	264,836,067	98,404,978	37.16
4-5 years	161,885,566	99,838,277	61.67
Over 5 years	256,875,322	155,770,352	60.64
Total	17,288,750,241	918,081,400	—

(3) Bad debt provision of accounts receivable in the current period

Category	31 December 2020	Amount changed in the reporting period				30 June 2021
		Provision	Accounts recovered or transferred back	Amounts charged or written off	Decrease due to other reasons	
Accounts receivable	918,081,400	209,653,012	33,475,061	1,247	1,915,616	1,092,342,488
Total	918,081,400	209,653,012	33,475,061	1,247	1,915,616	1,092,342,488

Note: The decrease due to other reasons is that Jiangxi Hongdu Aviation Industry Co., Ltd. * (江西洪都航空工業股份有限公司), a subsidiary of the Company, disposed of 50% of the equity of Jiangxi Hongdu International Mechanical & Electrical Co., Ltd.*(江西洪都國際機電有限責任公司), which was therefore no longer included in the consolidation at the end of the period, resulting in a reduction of RMB1,915,616 in bad debt provision for accounts receivable.

19. Notes payable

Category	30 June 2021	31 December 2020
Banker's acceptance bill	2,557,500,694	3,199,148,001
Commercial acceptance bill	3,929,878,155	5,325,689,418
Total	6,487,378,849	8,524,837,419

At the end of the reporting period, the total amount of outstanding notes payable was RMB89,617,648.

20. Accounts payable

(1) Presentation of accounts payable

Item	30 June 2021	31 December 2020
Materials costs payable	20,862,963,484	18,029,855,583
Construction costs payable	3,747,230,960	4,040,587,703
Equipment costs payable	433,018,612	690,923,256
Retention payables	61,044,087	41,860,388
Others	898,487,383	740,570,420
Total	26,002,744,526	23,543,797,350

(2) The ageing of accounts payable based on their recording dates is analyzed as below

Ageing	30 June 2021	31 December 2020
Within 1 year (including 1 year)	19,394,896,570	18,810,204,504
1-2 years	3,357,439,517	2,332,144,625
2-3 years	1,859,788,448	968,723,841
Over 3 years	1,390,619,991	1,432,724,380
Total	26,002,744,526	23,543,797,350

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2021, mutant strains of the novel coronavirus pneumonia epidemic (the “**Epidemic**”) spread widely, inflation in major economies intensified, and global economic recovery was more uncertain. China’s economy registered even more stable performance with good momentum for growth. Faced with the complex and ever-changing domestic and international environment, AVIC insisted on self-reliance and self-strengthening in science and technology, speeded up independent research and development, and focused on upgrading innovation chain and industrial chain to make steady progress. By preventing and defusing risks, AVIC managed to coordinate Epidemic control with economic development and has been listed in the Fortune Global 500 for thirteen consecutive years, ranking the 140th, 23 places higher than 2020. Meanwhile, AVIC ranked the second on the Global 500 of Aerospace and Defense industry.

During the first half of 2021, the Company was committed to becoming a flagship company to provide high-tech aviation products and services for both military and civil purposes. It faced up to the challenges, made concerted efforts to improve operating performance, and realized growth in both revenue and profit.

During the first half of 2021, the Group was committed to building a new development pattern of “dual cycles” in domestic and overseas capital markets. AVICOPTER PLC*(中航直升機股份有限公司) completed the capital increase to Harbin Hafei Aviation Industry Co., Ltd.*(哈爾濱哈飛航空工業有限責任公司) (“**Hafei Aviation**”) and Jiangxi Changhe Aviation Industry Co., Ltd.*(江西昌河航空工業有限公司), and merged Tianjin Helicopter Company Limited.*(天津直升機有限責任公司) into Hafei Aviation, actively building a new pattern for open and shared civil helicopter development. Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都

航空工業股份有限公司) (“**Hongdu Aviation**”) transferred the equity of a subsidiary to focus on its principle business and effectively optimized the allocation of resources. AVIC JONHON Optronics Technology Co., Ltd.*(中航光電科技股份有限公司) (“**JONHON Optronics**”) proposed non-public issuance of shares and actively implemented the Huanan Industry Base Project to unite development and enhance the research and development (“**R&D**”) and manufacturing capabilities of products in the fields of communications and new energy vehicles.

Helicopter business: the Group continued to improve the core competitiveness of helicopter products. Multi-type helicopter formed an air guard of honor to salute and bless the centennial of the Communist Party of China. The AC352 helicopter successfully completed the test flight of the unusable fuel supply at the Jiansanjiang Wetland Airport, making great progress in the verification of the airworthiness clauses. Advanced twin-engine multi-purpose helicopter AC332 commenced in Tianjin, accelerating the comprehensive development of the Tianjin Civil Helicopter Industrial Base. AC311A helicopter for geophysical and remote sensing airborne surveys was delivered, greatly improving the operational capability.

Trainer business: the Group actively expanded its market in trainer business. Hongdu Aviation was selected as the training base for aircraft maintenance projects in the 46th World Skills Competition, which was conducive to building an all-round training system for aircraft maintenance professionals to train and reserve talents in this regard, extending the connotation of trainer business, and exploring the path from the sales of trainers to the sales of integrated systems and services.

General aviation business: the Group’s general-purpose aircraft business was steadily developing. Y-12F appeared at the first Yangtze River Delta International Emergency Disaster Reduction and Rescue Expo, demonstrating the latest achievement in the systematic development of China’s aviation emergency rescue equipment. Y-12E flew

the “Tongren-Zhangjiajie” route, marking the official opening of the first inter-provincial short-distance transportation route between Guizhou and Hunan.

Aviation ancillary system and related business: the Group developed rapidly in aviation ancillary system and related business. Lanzhou Flight Control Co., Ltd.*(蘭州飛行控制有限責任公司) further promoted the servo control valve project to expand in the nuclear industry market. Tianjin Aviation Mechanical and Electrical Co., Ltd.*(天津航空機電有限公司) developed the splitter box Q/DZH product equipped on "Jilong(冀龍)"-2H emergency disaster relief UAV.GF5 series 56Gbps High-speed backplane connector from JONHON Optronic was selected into the Recommended Catalogue of Scientific and Technological Innovation Achievements of Central Enterprises (2020) (《中央企業科技創新成果推薦目錄(2020年)》); its core technology has been highly recognized by many enterprises and won the “2020 Gold Supplier” and “Best Cooperation Award”; it supported Luoyang Metro with optical, electrical, liquid-cooling and integrated wiring product lines, significantly improving its competitiveness in the rail transit field. Guided by market and customer demand, the Group continued to improve production management capabilities and production support capabilities to achieve balanced production and precise delivery of aviation ancillary system and related products. The Company subscribed for the Chengdu Lighting micro-power Technology Co., Ltd.*(成都雷電微力科技股份有限公司) China Growth Enterprise Market IPO strategic placement to expand its aviation ancillary system business market.

Aviation engineering service business: the aviation engineering service business of the Group 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 CAPDI**”) got the EPC project for international subcontract of A320 fuselage equipping, realizing the cooperation between AVIC and Airbus again. The reconstruction and expansion project of Yichang Sanxia Airport successfully passed the test flight verification, making a major

breakthrough in airport project under EPC mode. The CSA base project of Beijing new airport, the construction project of Science and Technology Museum Complex of Zhumadian Youth Palace and many other projects designed by AVIC CAPDI won the “China Steel Construction Award (Gold)” and the “Science and Technology Special Award”. Construction of the world’s largest COVID-19 vaccine production workshop designed by AVIC CAPDI was successfully completed to ensure the steady progress of Epidemic prevention and control.

The Company is committed to maintaining high-level corporate governance, and actively fulfils economic, environmental and social responsibilities. It strived to contain the Epidemic, conducted targeted poverty alleviation, and was devoted to green aviation manufacturing to demonstrate dedication to its mission. The Company continued to expand investor relations, and actively communicated with the market and investors through online and offline channels including video conferences, teleconferences, and strategy meetings to continuously enhance its brand value.

BUSINESS OUTLOOK

2021 is a critical year for China during which timeframes of the Two Centenary Goals converge. Under the extensive influence of the Epidemic, the foundation for the rapid recovery of the global economy is not yet strong, and China’s development is still in a period of important strategic opportunities, with development and changes in both opportunities and challenges. In the second half of 2021, AVIC will actively respond to severe and complex circumstances and tasks, and enhance basic management to promote quality, efficiency and steady growth; strengthen risk prevention and control to ensure the safety and stability of the supply chain; and deepen reform and innovation to contiguously promote high-quality development. The Group will adhere to the goal of building a flagship company to provide high-tech aviation products and services for military and civil purposes, and steadily enhance its comprehensive strength. It will act proactively to develop itself into a world-class enterprise and build

a new development pattern; promote further business integration, and pool resources to fully utilize synergy; continue to promote the development of 5G communications and new energy vehicles, and improve core capabilities in areas such as aviation ancillary system products; seize the opportunities and strengthen the implementation to advance science and technology innovation along with institutional innovation as the dual driving force for building advantages in the aviation industry; improve systems and mechanisms, consolidate basic management, and actively move towards intelligent manufacturing; strengthen the integration and coordination of compliance management system, risk management system and internal control system, and continuously enhance the effective operation of the management and control system to achieve sustainable development.

FINANCIAL REVIEW

Due to the completion of the acquisition of 100% equity interests in AVIC Helicopter Co., Ltd.*(中航直升機有限責任公司) (“**AVIC Helicopter**”) in December 2020, AVIC Helicopter, Harbin Aircraft Industry Group Co., Ltd.*(哈爾濱飛機工業集團有限責任公司) and Changhe Aircraft Industries (Group) Co., Ltd.*(昌河飛機工業(集團)有限責任公司) all became wholly-owned subsidiaries of the Company. The financial data of the Group in the corresponding period of the preceding year was restated pursuant to the relevant regulations and requirements.

Since 2021, the Group has prepared financial statements in accordance with the CASBE. Therefore, the main financial indicators under the CASBE will be discussed and analyzed.

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 ancillary system and related business segment, and aviation engineering services segment.

Revenue

For the six months ended 30 June 2021, the Group recorded a revenue of RMB27,893 million, representing an increase of RMB6,930 million or 33.06% as compared with that of RMB20,963 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 ancillary system and related business segment.

Segment information

For the six months ended 30 June 2021, the revenue of the aviation entire aircraft segment of the Group amounted to RMB9,755 million, representing an increase of 20.05% 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 34.97% of the total revenue of the Group. The revenue of the aviation ancillary system and related business segment of the Group amounted to RMB14,515 million, representing an increase of 47.81% as compared with that in the corresponding period of last year, which was mainly attributable to the great increase in revenue of avionics business. The revenue of the aviation ancillary system and related business segment accounted for 52.04% of the total revenue of the Group. The revenue of the aviation engineering services segment of the Group amounted to RMB3,623 million, representing an increase of 20.09% as compared with that in the corresponding period of last year, which was mainly attributable to the revenue increase in engineering. The revenue of the aviation engineering services segment accounted for 12.99% of the total revenue of the Group.

The segment profit of the aviation entire aircraft segment of the Group amounted to RMB729 million, representing an increase of RMB217 million or 42.38% as

compared with that of RMB512 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 aircraft business. The segment profit of the aviation ancillary system and related business segment of the Group amounted to RMB2,479 million, representing an increase of RMB925 million or 59.52% as compared with that of RMB1,554 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 profit of the aviation engineering services segment of the Group amounted to RMB157 million, representing an increase of RMB66 million or 72.53% as compared with that of RMB91 million in the corresponding period of last year, the main reason was that the Group continued to improve business structure, and some subsidiaries completed the disposal of loss business at the end of last year.

Gross profit

For the six months ended 30 June 2021, the Group recorded a gross profit of RMB6,011 million, representing an increase of RMB1,696 million or 39.30% as compared with that of RMB4,315 million in the corresponding period of last year, which was mainly attributable to the increase in the revenue. The comprehensive gross profit margin was 21.55% during the reporting period, representing an increase of 0.97 percentage point as compared with that in the corresponding period of last year.

Selling expenses

For the six months ended 30 June 2021, the selling expenses of the Group amounted to RMB315 million, representing an increase of RMB87 million or 38.16% as compared with that of RMB228 million in the corresponding period of last year, which was mainly attributable to a low base of the corresponding period of last year as affected by the Epidemic, and the increase of the staff costs of sales persons, sales services expenses and business travelling expenses due to the production in normal manner during the reporting period. The selling expenses accounted for 1.13% of the

revenue during the reporting period, representing an increase of 0.04 percentage point as compared with 1.09% in the corresponding period of last year.

Administrative expenses

For the six months ended 30 June 2021, the administrative expenses of the Group amounted to RMB1,478 million, representing an increase of RMB175 million or 13.43% as compared with that of RMB1,303 million in the corresponding period of last year, which was mainly attributable to the increase of staff costs and no longer benefiting from the inclusive policy of social security relief as impacted by the Epidemic in the corresponding period of last year. The administrative expenses accounted for 5.30% of the revenue during the reporting period, representing a decrease of 0.92 percentage point as compared with that of 6.22% in the corresponding period of last year.

Research and development expenses

For the six months ended 30 June 2021, the R&D expenses of the Group amounted to RMB1,347 million, representing an increase of RMB415 million or 44.53% as compared with that of RMB932 million in the corresponding period of last year, which was mainly attributable to enhanced R&D input by some subsidiaries during the reporting period. The R&D expenses accounted for 4.83% of the revenue during the reporting period, representing an increase of 0.38 percentage point as compared with that of 4.45% in the corresponding period of last year.

Finance costs

For the six months ended 30 June 2021, the finance costs of the Group amounted to RMB68 million, representing an increase of RMB90 million as compared with that of RMB-22 million in the corresponding period of last year, which was mainly attributable to the decrease in interest income and the increase of exchange loss of certain subsidiaries as compared with that in the corresponding period of last year.

Net profit attributable to the owners of the parent company

For the six months ended 30 June 2021, the net profit attributable to the owners of the parent company amounted to RMB1,199 million, representing an increase of RMB341 million or 39.74% as compared with that of RMB858 million in the corresponding period of last year, which was mainly attributable to the increase in the gross profit as a result of the increase in the revenue during the reporting period.

Liquidity and financial resources

As at 30 June 2021, the cash and cash equivalents of the Group amounted to RMB16,213 million, which were mainly derived from cash and bank deposits at the beginning of 2021 and proceeds generated from business operations during the reporting period.

As at 30 June 2021, the total borrowings of the Group amounted to RMB10,746 million, of which short-term borrowings amounted to RMB3,944 million, current portion of long-term borrowings amounted to RMB1,676 million, and non-current portion of long-term borrowings amounted to RMB5,126 million.

As at 30 June 2021, the bank borrowings of the Group amounted to RMB4,873 million with an average interest rate of 4% per annum, representing a decrease of RMB28 million as compared with that at the beginning of the reporting period; and other borrowings amounted to RMB5,873 million with an average interest rate of 3% per annum, representing a decrease of RMB793 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 2021, 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 2021, the Group's secured borrowings amounted to RMB423 million, among which the borrowings of RMB3 million were pledged by accounts receivable with a net book value of RMB25 million; borrowings of RMB420 million were pledged by future collecting rights.

GEARING RATIO

As at 30 June 2021, the Group's gearing ratio was 8.83% (10.09% as at 31 December 2020), which was derived from dividing the total borrowings by the total assets as at 30 June 2021.

EXCHANGE RATE RISKS

The Group mainly operates in 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 2021, the Group had no significant contingent liabilities.

USE OF PROCEEDS

As at 30 June 2021, a total of RMB5,521 million out of the proceeds raised by the Company had been utilized 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 RMB963 million had been used to invest in the aviation products business such as aviation cabin interior trimming business. As at 30 June 2021, the actual remaining balance of the proceeds amounted to approximately RMB215 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 next year.

ADOPTION OF THE CASBE TO PREPARE FINANCIAL STATEMENTS AND NON-REAPPOINTMENT OF INTERNATIONAL AUDITOR

In view of the convergence of CASBE and international financial reporting standards, after the approval at the annual general meeting of the Company held on 28 May 2021 (the "AGM"), the Company amended its Article of Association to adopt and comply only with the CASBE to prepare its financial statements, and consequently decided not to re-appoint ShineWing (HK) CPA Ltd. as the international auditor of the Company. ShineWing Certified Public Accountant LLP is the Company's domestic auditor for the year 2021. The interim results of the Company for the six months ended 30 June 2021 were prepared only in accordance with the CASBE. The Company believes that adopting only the CASBE will not have any material and adverse impact on the publication of the Company's results for the six months ended 30 June 2021 and thereafter. For details, please refer to the announcements of the Company dated 30 March 2021 and 20 April 2021, as well as the circular of the Company dated 28 April 2021.

EMPLOYEES

As at 30 June 2021, the Group had 44,884 employees. The Group's staff costs amounted to RMB4,546 million for the six months ended 30 June 2021, representing an increase of RMB747 million or 19.66% as compared with that of RMB3,799 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 2020 annual report of the Company.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At the AGM, certain members of the sixth session of the Board of the Company, namely Mr. Wang Xuejun (executive director), Mr. Zhao Hongwei (executive director), Mr. Lian Dawei (non-executive director), Mr. Xu Gang (non-executive director) and Mr. Liu Weiwu (independent non-executive director) participated in the re-election of directors of the seventh session of the Board and were re-elected as the directors. Other members of the sixth session of the Board, namely Mr. Yan Lingxi (non-executive director), Mr. Liu Renhuai (independent non-executive director) and Mr. Wang Jianxin (independent non-executive director) confirmed that they would not participate in the re-election of the directors of the seventh session of the Board upon expiry of their terms of office. Meanwhile, Mr. Li Xichuan, Mr. Wang Jun, Mr. Mao Fugen and Mr. Lin Guiping were elected as the non-executive director, non-executive director, independent non-executive director and independent non-executive director of the seventh session of the Board of the Company, respectively.

After the conclusion of the AGM, the seventh session of the Board consists of the following members: Mr. Wang Xuejun (executive Director), Mr. Zhao Hongwei (executive Director), Mr. Lian Dawei (non-executive Director), Mr. Li Xichuan (non-executive Director), Mr. Xu Gang (non-executive Director), Mr. Wang Jun (non-executive Director), Mr. Liu Weiwu (independent non-executive Director), Mr. Mao Fugen (independent nonexecutive Director) and Mr. Lin Guiping (independent non-executive Director).

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

At the AGM, Mr. Zheng Qiang and Mr. Guo Guangxin, members of the sixth session of the Supervisory Committee, participated in the re-election as shareholder

representative supervisor of the seventh session of the Supervisory Committee and were re-elected as shareholder representative supervisors. Meanwhile, Mr. Zhao Zhuo was re-elected as the employee representative supervisor of the seventh session of the Supervisory Committee.

After the conclusion of the AGM, the seventh session of the Supervisory Committee consists of the following members: Mr. Zheng Qiang (shareholder representative supervisor), Mr. Guo Guangxin (shareholder representative supervisor) and Mr. Zhao Zhuo (employee representative supervisor).

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

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 on the Hong Kong Stock Exchange (the "**Hong Kong Listing Rules**"), and the Shares Trading Management Rules for Directors, supervisors, senior management and employees of the Company (the "**Rules**") as its own guidelines for securities transactions by the Directors, supervisors, senior management and employees of the Company. In the first half of 2021, the Company amended the Rules timely according to relevant regulatory requirements. 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 2021.

AUDIT AND RISK MANAGEMENT COMMITTEE

In order to strengthen the integration and coordination of the compliance management system, risk management and internal control system, and continuously improve the effective operation of the Company's management and control systems, the seventh session of the Board established the Audit and Risk Management Committee on 28 May 2021 to replace the Audit Committee in carrying out the duty of assisting the Board and independently monitoring the financial operation, audit procedures and the risk management operation of the Company; and as considered and approved by the meeting of the Board of the Company held on 27 August 2021, the Terms of Reference of the Audit and Risk Management Committee were amended in accordance with the actual situation of the Company and related regulations. The Audit and Risk Management Committee had reviewed the Company's unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021.

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 2021.

OTHER EVENTS

On 15 January 2021, the Company and AVIC Heavy Machinery Company Limited* (中航重機股份有限公司) (“**AVIC Heavy Machinery**”) entered into a share subscription agreement, pursuant to which the Company agrees to subscribe for the A shares to be issued by AVIC Heavy Machinery through non-public offering at the total subscription amount of RMB200 million by way of cash, with the total number of shares to be subscribed not exceeding 20% of the total number of issued shares of AVIC Heavy Machinery prior to such issuance, i.e., 187,936,168 shares (inclusive).

Upon completion of the subscription, AVIC Heavy Machinery will not become a subsidiary of the Company. As at the date of the share subscription agreement, AVIC is the controlling Shareholder of the Company, and AVIC Heavy Machinery is a subsidiary of AVIC. Therefore, AVIC Heavy Machinery is a connected person of the Company under the Hong Kong Listing Rules. As such, the transaction contemplated under the share subscription agreement constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 15 January 2021.

MAJOR SUBSEQUENT EVENTS

On 9 July 2021, the board of directors of JONHON Optronic approved the proposed issuance of new A shares by JONHON Optronic to raise proceeds of no more than RMB3.4 billion to facilitate its daily operations and construction of industrialization projects. As part of the A share issuance of JONHON Optronic, JONHON Optronic entered into a subscription agreement with China Aviation Emerging Industry Investment Co., Ltd.* (中航資本產業投資有限公司) (“**AVIC Industry Investment**”) and a subscription agreement with the Company on 9 July 2021. Pursuant to such agreements, JONHON Optronic has conditionally agreed to allot and issue, and each of AVIC Industry Investment and the Company has conditionally agreed to subscribe for the new A shares with RMB190 million and RMB200 million in cash, respectively. As at the date of such subscription agreements, AVIC is the controlling Shareholder of the Company, and AVIC Industry Investment is a subsidiary of AVIC. Therefore, AVIC Industry Investment is a connected person of the Company and such proposed subscription by AVIC Industry Investment constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. Following the completion of the issuance of JONHON Optronic, the Company's shareholding percentage in JONHON Optronic may be diluted, which constitutes a deemed disposal of the Company's equity interest in JONHON Optronic under Rule 14.29 of the Hong Kong Listing Rules. However, the issuance of JONHON Optronic will not result in any change of control of JONHON Optronic,

and JONHON Optronic will remain a subsidiary of the Company following the completion of such issuance. For details, please refer to the announcements of the Company dated 17 May 2021 and 9 July 2021.

On 6 August 2021, after due consideration of various factors, including the market condition and the Company's actual situations, the Company decided not to proceed with the exploration of the possibility of issuance of ordinary shares of the Company to be traded in Renminbi (the “**Proposed A Share Offering**”). As at the date of this announcement, the Company has not made any formal listing application to relevant securities regulatory authorities in the PRC for approval of the Proposed A Share Offering. For details, please refer to the announcements of the Company dated 30 October 2020 and 6 August 2021.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

For the six months ended 30 June 2021, 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 2021, which contains all information as required by Appendix 16 to the Hong Kong Listing Rules, will be dispatched 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
Wang Xuejun

Beijing, 27 August 2021

As at the date of this announcement, the Board comprises executive Directors Mr. Wang Xuejun and Mr. Zhao Hongwei, non-executive Directors Mr. LianDawei, Mr. Li Xichuan, Mr. Xu Gang and Mr. Wang Jun as well as independent non-executive Directors Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping.

** For identification purpose only*