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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)

2013 Interim Results Announcement

Financial Highlights

- For the six months ended 30 June 2013, the Group achieved a revenue of RMB8,675 million, representing an increase of 18.66% as compared with RMB7,311 million of the corresponding period in 2012.
- For the six months ended 30 June 2013, the net profit attributable to the equity holders of the Company amounted to RMB348 million, representing an increase of 11.18% as compared with RMB313 million of that of the corresponding period in 2012.

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 2013 prepared according to the International Financial Reporting Standards as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Note	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Revenue	3	8,674,506	7,311,495
Cost of sales		(7,041,243)	(5,856,492)
Gross profit		<u>1,633,263</u>	<u>1,455,003</u>
Other income	4	31,320	45,260
Other (losses)/gains, net	5	(1,252)	8,257
Selling and distribution expenses		(154,961)	(146,723)
General and administrative expenses		(857,958)	(810,502)
Operating profit		<u>650,412</u>	<u>551,295</u>
Finance income	7	120,852	103,748
Finance costs	7	(91,011)	(71,920)
Finance income, net		29,841	31,828
Share of results of a joint venture		1,515	-
Share of results of associates		53,384	37,066
Profit before income tax		<u>735,152</u>	<u>620,189</u>
Income tax expense	8	(91,446)	(76,781)
Profit for the period		<u><u>643,706</u></u>	<u><u>543,408</u></u>
Attributable to:			
Equity holders of the Company		347,609	312,513
Non-controlling interests		296,097	230,895
		<u><u>643,706</u></u>	<u><u>543,408</u></u>
Earnings per share for profit attributable to equity holders of the Company during the period:			
		RMB	RMB
Basic	10	<u><u>0.0638</u></u>	<u><u>0.0589</u></u>
Diluted	10	<u><u>0.0637</u></u>	<u><u>0.0587</u></u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	643,706	543,408
	-----	-----
Other comprehensive income/(expenses), net of tax		
Items that may be reclassified subsequently to profit or loss		
Change in fair value of available-for-sale financial assets	40,931	(13,614)
	-----	-----
Total comprehensive income for the period	684,637	529,794
	=====	=====
Attributable to:		
Equity holders of the Company	365,186	306,814
Non-controlling interests	319,451	222,980
	-----	-----
	684,637	529,794
	=====	=====

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		5,251,010	4,856,146
Investment properties		26,139	26,529
Land use rights		592,486	557,910
Intangible assets		48,679	51,042
Interests in a joint venture		35,622	34,107
Interests in associates		1,069,827	1,059,579
Available-for-sale financial assets		1,143,927	1,095,772
Deferred income tax assets		77,398	69,319
Accounts receivable	11	51,342	51,342
Total non-current assets		8,296,430	7,801,746
Current assets			
Accounts receivable	11	6,023,172	5,957,238
Advances to suppliers		949,521	728,945
Other receivables and prepayments		1,207,975	1,081,522
Inventories		13,057,681	11,226,205
Financial assets held for trading		557	557
Pledged deposits		843,731	652,598
Term deposits with initial term of over three months		4,964,416	3,227,980
Cash and cash equivalents		2,680,428	5,219,321
Total current assets		29,727,481	28,094,366
Total assets		38,023,911	35,896,112

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	Note	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		5,474,429	5,474,429
Reserves		3,988,106	3,652,057
		9,462,535	9,126,486
Non-controlling interests		8,237,684	7,367,102
		17,700,219	16,493,588
		-----	-----
LIABILITIES			
Non-current liabilities			
Long-term borrowings		1,179,334	696,080
Deferred income from government grants		204,589	210,751
Deferred income tax liabilities		14,527	9,122
		1,398,450	915,953
		-----	-----
Current liabilities			
Accounts payable	12	11,311,247	10,042,566
Advances from customers		2,398,723	3,017,033
Other payables and accruals		2,178,418	2,175,869
Amounts payable to ultimate holding company		466,379	466,379
Current portion of long-term borrowings		605,080	658,000
Short-term borrowings		1,850,776	1,994,010
Current income tax liabilities		114,619	132,714
		18,925,242	18,486,571
		-----	-----
Total liabilities		20,323,692	19,402,524
		-----	-----
Total equity and liabilities		38,023,911	35,896,112
		-----	-----
Net current assets		10,802,239	9,607,795
		-----	-----
Total assets less current liabilities		19,098,669	17,409,541
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NOTES:

1 Organisation and principal activities

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 (“AVIC”) on 6 November 2008. The Company’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) on 30 October 2003. The address of its registered office is 8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing, the PRC.

The Company and its subsidiaries are collectively referred to as the “Group”. The Group is principally engaged in the research, development, manufacture and sale of aviation products.

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.

This condensed consolidated interim financial information (“Condensed Financial Information”) is presented in thousands of Renminbi (“RMB’000”), unless otherwise stated, and is approved for issue by the Board of Directors on 21 August 2013.

This Condensed Financial Information has not been audited.

Major changes of Group structure

- (a) On 3 April 2013, China Aviation Optical-Electrical Technology Co., Ltd. (“JONHON Optronic”, a subsidiary of the Company) issued approximately 62 million new shares (equivalent to approximately RMB 807 million) to six subscription targets including the Company.

Upon this share issuance, the equity interests held by the Company in JONHON Optronic was diluted from 43.34% to 41.57%. Although the Company holds less than 50% of the equity interests and voting rights in JONHON Optronic, it is deemed to have remained control since the balances of other shareholdings are dispersed and the other shareholders have not organized their interests in such a way that they exercise more votes than the Company.

- (b) On 17 June 2013, the Company acquired an additional 1.56% equity interests in Chengdu CAIC Electronics Co., Ltd. (“AVIC Kaitian”, a subsidiary of the Company) at a cash consideration of approximately RMB 12 million.

Upon this acquisition, the equity interests held by the Company in AVIC Kaitian increased from 86.74% to 88.30%.

2 Basis of preparation and accounting policies

This Condensed Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” promulgated by the International Accounting Standards Board (“IASB”) and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This Condensed Financial Information should be read in conjunction with the 2012 annual financial statements.

2 Basis of preparation and accounting policies (Continued)

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements.

The following revised/new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2013:

IAS 1 (Amendment)	Presentation of financial statements
IAS 19 (Amendment)	Employee benefits
IAS 27 (revised 2011)	Separate financial statements
IAS 28 (revised 2011)	Associates and joint ventures
IFRS 1 (Amendment)	Government loans
IFRS 7 (Amendment)	Financial instruments: Disclosures - Offsetting financial assets and financial liabilities
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of interests in other entities
IFRS 13	Fair value measurements
IFRIC 20	Stripping costs in the production phase of a surface mine

The adoption of the above does not have any significant impact to the results and financial position of the Group for the six months ended 30 June 2013.

The following new/revised standards, amendments to standards and interpretation have been issued but are not yet effective for the financial year beginning 1 January 2013 and have not been early adopted:

		Effective for accounting periods beginning on or after
IAS 32 (Amendment)	Financial instruments: Presentation - Offsetting financial assets and financial liabilities	1 January 2014
IAS 36 (Amendment)	Recoverable amount disclosures for non-financial assets	1 January 2014
IFRS 7 and IFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015
IFRS 9	Financial instruments	1 January 2015
IFRS 10, IFRS 12 and IAS 27 (revised 2011) (Amendment)	Investment entities	1 January 2014
IFRIC 21	Levies	1 January 2014

Management is in the process of assessing their related impacts to the Group.

3 Segment information

The chief operating decision-maker has been identified as the Board of Directors which reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board of Directors considers the business from a product perspective:

- Aviation - manufacturing, assembly, sales and servicing of helicopters, trainers and other aircrafts ("entire aircrafts").
- Aviation - manufacturing and sales of aviation parts and components ("aviation parts & components").

The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the condensed consolidated income statement.

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

3 Segment information (Continued)

	Aviation- entire aircrafts RMB'000 (Unaudited)	Aviation-parts & components RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
For the six months ended 30 June 2013			
Total segment revenue	4,517,109	4,737,549	9,254,658
Inter-segment revenue	-	(580,152)	(580,152)
Revenue (from external customers)	<u>4,517,109</u>	<u>4,157,397</u>	<u>8,674,506</u>
Segment results	<u>159,084</u>	<u>598,564</u>	<u>757,648</u>
Depreciation and amortisation (Reversal of provision)/provision for impairments on receivables and inventories	92,241 (5,050)	136,542 36,761	228,783 31,711
Finance (costs)/income ,net	(1,820)	31,661	29,841
Share of results of a joint venture	-	1,515	1,515
Share of results of associates	6,839	46,545	53,384
Income tax expense	<u>25,652</u>	<u>65,794</u>	<u>91,446</u>
For the six months ended 30 June 2012			
Total segment revenue	3,856,698	3,778,112	7,634,810
Inter-segment revenue	-	(323,315)	(323,315)
Revenue (from external customers)	<u>3,856,698</u>	<u>3,454,797</u>	<u>7,311,495</u>
Segment results	<u>129,424</u>	<u>515,775</u>	<u>645,199</u>
Depreciation and amortisation Provision for impairments on receivables and inventories	86,247 12,967	137,622 33,741	223,869 46,708
Finance (costs)/ income ,net	(3,277)	35,105	31,828
Share of results of associates	(9,386)	46,452	37,066
Income tax expense	<u>20,727</u>	<u>56,054</u>	<u>76,781</u>

3 Segment information (Continued)

Reconciliation of segment results to profit for the period:

	For the six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Segment result for entire aircrafts and aviation components & parts	757,648	645,199
Corporate overheads	(22,496)	(25,010)
Profit before income tax	735,152	620,189
Income tax expense	(91,446)	(76,781)
Profit for the period	643,706	543,408

4 Other income

	For the six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Rental income	5,822	6,428
Profit from sale of scrap materials	3,231	3,224
Income from rendering of maintenance and other services	7,246	11,809
Dividend income from available-for-sale financial assets and financial assets held for trading	15,021	23,799
	31,320	45,260

5 Other (losses)/gains, net

	For the six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Fair value gain/(loss) on financial assets held for trading	507	(766)
(Loss)/gain on disposal of:		
- property, plant and equipment	(1,759)	1,447
- interests in subsidiaries	-	4,340
- financial assets held for trading	-	3,236
	(1,252)	8,257

7 Finance income, net

	For the six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income:		
Interest income on bank balances and deposits	120,852	103,748
	-----	-----
Finance costs:		
Interest expense on bank borrowings		
- Wholly repayable within 5 years	48,461	42,961
Interest expense on other borrowings		
- Wholly repayable within 5 years	38,586	24,193
- Not wholly repayable within 5 years	12,535	10,275
	-----	-----
	99,582	77,429
Less: Amount capitalised in property, plant and equipment	(10,839)	(8,479)
	-----	-----
	88,743	68,950
Other finance costs	2,268	2,970
	-----	-----
	91,011	71,920
	-----	-----
	29,841	31,828
	=====	=====

8 Income tax expense

	For the six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Current income tax	101,343	79,579
Deferred income tax	(9,897)	(2,798)
	<hr/>	<hr/>
	91,446	76,781
	<hr/> <hr/>	<hr/> <hr/>

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2012: 15%), in accordance with the relevant PRC enterprise income tax rules and regulations, provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25% (2012: 25%) on the assessable income of the companies within the Group.

9 Dividends

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

10 Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period excluding shares held for the restricted share incentive scheme .

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares issued under the restricted share incentive scheme. A calculation is done to determine the number of shares that could have been converted at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding unvested awarded shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the conversion of the restricted shares, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per shares, of which details are as follows:

	For the six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Profit attributable to equity holders of the Company	347,609	312,513
Weighted average number of ordinary shares in issue less shares held for restricted share scheme for calculating basic earnings per share (thousands)	5,444,222	5,308,132
Potential dilutive effect arising from restricted shares (thousands)	8,671	14,473
Weighted average number of ordinary shares in issue for calculating diluted earnings per share(thousands)	5,452,893	5,322,605

11 Accounts receivable

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Trade receivables, gross (note (a))		
- Fellow subsidiaries (note (b))	3,142,671	2,677,206
- Others	2,490,223	2,093,295
	<u>5,632,894</u>	<u>4,770,501</u>
Less: Provision for impairment of receivables	(262,470)	(216,158)
	<u>5,370,424</u>	<u>4,554,343</u>
Notes receivable (note (c))		
- Fellow subsidiaries	462,444	964,938
- Others	241,646	489,299
	<u>704,090</u>	<u>1,454,237</u>
	<u>6,074,514</u>	<u>6,008,580</u>
Less: non-current portion	(51,342)	(51,342)
Current portion	<u>6,023,172</u>	<u>5,957,238</u>

11 Accounts receivable(Continued)

Notes:

- (a) Certain of the Group's sales were on advance payment. Sales to small, new or short-term customers are normally expected to be settled shortly after delivery. A credit period of up to six months may be granted in respect of sales to customers with good credit history and long-established relationship with the Group. Terms offered to related parties are similar to those offered to third parties. Ageing analysis of trade receivables is as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Current to 1 year	4,644,280	4,131,765
1 year to 2 years	662,222	478,460
Over 2 years	326,392	160,276
	<u>5,632,894</u>	<u>4,770,501</u>

- (b) Trade receivables from fellow subsidiaries are unsecured, non-interest bearing and are repayable in accordance with the relevant trading terms.
- (c) Substantially all of the notes receivable are bank acceptance notes with average maturity period of within six months.
- (d) Substantially all of the accounts receivable are denominated in RMB.
- (e) Certain trade receivables were pledged as security for bank loans.

12 Accounts payable

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Trade payables (note (a))		
- Fellow subsidiaries (note (b))	2,070,498	1,826,662
- Others	7,346,494	5,583,154
	<u>9,416,992</u>	<u>7,409,816</u>
Notes payable (note (c))		
- Fellow subsidiaries	1,112,207	1,411,954
- Others	782,048	1,220,796
	<u>1,894,255</u>	<u>2,632,750</u>
	<u>11,311,247</u>	<u>10,042,566</u>

Notes:

- (a) The normal credit period for trade payables generally ranges from 0 to 6 months. Ageing analysis of trade payables is as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Current to 1 year	8,837,761	5,386,693
1 year to 2 years	260,064	1,495,635
2 years to 3 years	120,238	265,108
Over 3 years	198,929	262,380
	<u>9,416,992</u>	<u>7,409,816</u>

- (b) Trade payables to fellow subsidiaries are unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms.
- (c) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months being secured by pledged deposits to the extent of RMB 843,731,000 (31 December 2012: RMB 652,598,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2013, faced with the complicated and volatile economic environment at home and abroad, the overall national economy realized a steady development with its GDP growth slowed, bringing general challenges to enterprises in their operations. The Group continued to push forward the assets reorganization under its established strategies to perfect the aviation industry chain. China AVIC Electronics Co., Ltd. (“**AVIC Avionics**”, a non wholly-owned subsidiary of the Company) commenced the acquisition of 100% equity interest in each of Beijing Keeven Aviation Instrument Co., Ltd. (“**Keeven Instrument**”) and Suzhou Changfeng Avionics Co., Ltd. (“**Changfeng Avionics**”). The acquisition of helicopter-related business assets through shares issuance by Hafei Aviation Industry Co., Ltd. (“**Hafei Aviation**”) was conditionally approved by the Review Committee of Merger, Acquisition and Reorganization of Listed Companies of the China Securities Regulatory Commission. The placing of shares by China Aviation Optical-Electrical Technology Co., Ltd. (“**JONHON Optronic**”) had been completed with approximately RMB800 million raised, which would mainly be used to fund the projects involving optical-electrical technology industry base and aircraft assembly mounting brackets, etc. The Company entered into an agreement with Zhonghang Electronic Measuring Instruments Co., Ltd. (“**ZEMIC**”) in respect of the subscription for the equity interest in ZEMIC using its fund raising proceeds. The Company also increased its shareholding in the equity interest of Chengdu CAIC Electronics Co., Ltd.. At the same time, the Group achieved a constant development in its overall businesses and a steady growth in its operating results.

For the six months ended 30 June 2013, the Group recorded a revenue of RMB8,675 million, representing an increase of 18.66% as compared with that of the corresponding period in 2012. The net profit attributable to the equity holders of the Company for the first half of 2013 was RMB348 million, representing an increase of 11.18% as compared with that of RMB313 million in the corresponding period in 2012.

During the first half of 2013, facing the new situations and challenges, Aviation Industry Corporation of China (“**AVIC**”), the Company’s controlling shareholder, by enhancing its quality and efficiency, was listed on the Fortune Global 500 for the fifth consecutive year with its ranking rose 38 to 212. AVIC was awarded as one of the China’s 500 Most Valuable Brands once again with a ranking at 26. The brand value amounted to RMB59,867 million. Mr. Lin Zuoming, Chairman of the Board, was enrolled in the “China’s Most Influential Business Leader” list for the third time.

In June 2013, AVIC participated in the 50th Paris Air Show with the theme of “Merging into the global aviation industry chain”, and China aviation industry showcased its power at the Paris Air Show. Business negotiations and contracting activities of AVIC involved the research and development of aircraft, engines and other aspects. Its new series of integrated

avionics systems with independent and proprietary intellectual property rights were physically exhibited.

In June 2013, the Company was awarded “Best of Asia- Potential Icon on Corporate Governance in 2013” by *Corporate Governance Asia Magazine*.

During the first half of 2013, the helicopter business of the Company maintained a steady growth and constantly received orders at home and abroad.

In the first half of 2013, Hafei Aviation delivered Y-12 series aircraft to customers as planned. In May 2013, Hafei Aviation signed a strategic cooperation agreement with Canada Aerospace Industry Corporation Ltd., which agreed to purchase at least 50 Y-12 series aircraft within five years, signifying the first entry of Y-12 series aircraft into the Canadian market.

In June 2013, “Shenzhou 10” was launched successfully. The subsidiaries of the Company, AVIC Avionics and JONHON Optronics, as the key suppliers of the Shenzhou series spacecraft, provided key components for “Shenzhou 10”, giving strong support for the tasks of spacecraft in every significant phase.

In June 2013, Harbin Embraer Aircraft Industry Co., Ltd., an associated company of the Group, successfully completed the wing assembly of the first Large Executive Jet Legacy 650. This jet will be delivered to the customer in the fourth quarter of 2013 as planned.

FUTURE OUTLOOK

In the first half of 2013, in order to optimize the self-development system of the aviation industry, constantly enhance the core competitiveness and the capacity for sustainable development, and achieve the leapfrog development of the civil aviation industry, the Ministry of Industry and Information Technology issued the Medium and Long-Term Development Plan for the Civil Aviation Industry (2013-2020) (the “**Plan**”) according to the overall deployment and requirements of the State Council of the PRC for the medium and long-term development of China's aviation industry. The plan defined the guiding ideology for the development of China's civil aviation industry, established the development goals for China's civil aviation industry up to year 2020, and provided a long-term and stable support to the aviation industry in respect of industry legislation, industrial policies and financial investment, etc. Pursuant to the Plan, the market share of locally made trunkline aircraft in the domestic emerging market will amount to over 5% while the domestic market share of regional aircraft and general aircraft will be substantially increased in 2020, with an expected annual revenue derived from the civil aircraft industry reaching more than RMB100 billion. At the same time, the further opening up of low altitude airspace will provide a strong support to the general aviation and the continuous development of general aviation will promote the rapid growth of the domestic general aviation industry. The overall aviation

manufacturing industry will become an important highlight of China's equipment manufacturing industry.

The next decade will be a crucial period presenting significant opportunities for the aviation industry to achieve a leapfrog development. In the process of transforming from a manufacturing country to a manufacturing powerhouse, the rapid development of the national economy and the modernization of the national defense industry will provide a broad space and essential support for the development of the aviation industry as well as impose new requirements. It will be the tenth anniversary of the listing of the Company in October 2013. The Group will continue to focus on development strategies in the second half of the year, take full advantage of every industry supporting policy, constantly review and assess the market trend and the situation of the Company, capitalize on the development of market efficiency to seize the opportunities and face the upcoming challenges in order to optimize and integrate the newly acquired helicopter and avionics assets, and improve its synergies and competitiveness; perfect its development strategies, focus on investment returns and select outstanding investment targets; expand its industry scale, invest in related industries and extend its value chains; further enhance its corporate governance and strengthen the establishment of internal control system; comprehensively promote the sustainable and stable growth in its overall businesses and endeavor to achieve its business growth to produce returns to the shareholders.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2013, the Group achieved a revenue of RMB8,675 million, representing an increase of RMB1,364 million or 18.66% as compared with that of RMB7,311 million in the corresponding period in 2012, which was mainly attributable to the increase of helicopter products and the aviation parts and components business during the period. Among that, the revenue from helicopter products amounted to RMB4,240 million, representing an increase of RMB621 million or 17.16% as compared with that of the corresponding period of last year.

Segment Information

For the six months ended 30 June 2013, the revenue of the entire aircraft segment of the Group amounted to RMB4,517 million, representing an increase of 17.11% as compared with that of the corresponding period in 2012 and accounting for 52.07% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB4,158 million, representing an increase of 20.35% as compared with that of the corresponding period in 2012 and accounting for 47.93% of the total revenue of the Group.

The segment results of the entire aircraft segment of the Group amounted to RMB159 million, representing an increase of RMB30 million or 23.26% as compared with that of RMB129 million in the corresponding period of last year, which was mainly attributable to the increase in the revenue of entire aircraft. The segment results of the aviation parts and components segment of the Group amounted to RMB599 million, representing an increase of RMB83 million or 16.09% as compared with that of RMB516 million in the corresponding period of last year, which was mainly attributable to the increase in the revenue of aviation parts and components and the enhanced control on relevant expenses.

Gross profit

For the six months ended 30 June 2013, the Group recorded a gross profit of RMB1,633 million, representing an increase of RMB178 million or 12.23% as compared with that of RMB1,455 million in the corresponding period of last year. The gross profit of aviation products remained relatively stable during the reporting period and the increase of the gross profit was mainly attributable to the increase in the revenue.

Sales and distribution expenses

For the six months ended 30 June 2013, the sales and distribution expenses of the Group amounted to RMB155 million, representing an increase of RMB8 million or 5.44% as compared with that of RMB147 million in the corresponding period of last year, which was mainly attributable to the increase in staff costs. The sales and distribution expenses accounted for 1.79% of the revenue during the reporting period, representing a decrease of 0.22 percentage points as compared with 2.01% in the corresponding period of last year.

General and administrative expenses

For the six months ended 30 June 2013, the general and administrative expenses of the Group amounted to RMB858 million, representing an increase of RMB47 million or 5.80% as compared with that of RMB811 million in the corresponding period of last year. Such increase was mainly attributable to the increase in the research and development expenses and staff costs. The general and administrative expenses accounted for 9.89% of the revenue during the reporting period, representing a decrease of 1.2 percentage points as compared with that of 11.09% in the corresponding period of last year.

Finance income, net

For the six months ended 30 June 2013, the net finance income of the Group amounted to RMB30 million, representing a decrease of RMB2 million as compared with that of RMB32 million in the corresponding period in 2012. This was mainly attributable to the increase in interest expenses resulting from the issuance of corporate bonds by a subsidiary.

Net profit attributable to equity holders of the Company

For the six months ended 30 June 2013, the net profit attributable to the equity holders of the Company amounted to RMB348 million, representing an increase of RMB35 million or 11.18% as compared with that of RMB313 million in the corresponding period of 2012. Such increase was mainly attributable to the steady growth in the revenue of the aviation products.

CASH FLOW AND FINANCIAL RESOURCES

As at 30 June 2013, cash and cash equivalents of the Group amounted to RMB2,680 million, which were mainly derived from cash and bank deposits at the beginning of 2013 and proceeds generated from its operations during this period.

As at 30 June 2013, the Group's total borrowings amounted to RMB3,635 million, out of which short-term borrowings amounted to RMB1,851 million, current portion of long-term borrowings amounted to RMB605 million and non-current portion of long-term borrowings amounted to RMB1,179 million.

The Group's long-term borrowings are repayable as follows:

	RMB million
Within one year	605
In the second year	58
In the third to fifth year	621
After the fifth year	500
Total	1,784

As at 30 June 2013, the Group's bank borrowings amounted to RMB1,631 million (the average interest rate of which was 5% per annum), representing a decrease of RMB266 million as compared with that at the beginning of 2013; and other borrowings amounted to RMB2,004 million (the average interest rate of which was 5% per annum), representing an increase of RMB553 million as compared with that at the beginning of 2013.

Seasonal influence on the Group's borrowings was insignificant.

CAPITAL STRUCTURE

As at 30 June 2013, the Group's borrowings were mainly denominated in Renminbi whilst cash and cash equivalents were mainly denominated in Renminbi and Hong Kong Dollar.

PLEDGE ON ASSETS

As at 30 June 2013, the Group's borrowings amounted to RMB304 million, which were secured by receivables with a net book value of RMB319 million.

GEARING RATIO

As at 30 June 2013, the Group's gearing ratio was 9.56% (31 December 2012: 9.33%), which was derived from dividing the total borrowings by the total assets as at 30 June 2013.

EXCHANGE RATE RISKS

The Group mainly operates in the PRC with most of its transactions settled in Renminbi. The Group's exposures to foreign currencies exchange risks mainly arises from assets, liabilities and transactions involving operating activities and are primarily associated with Hong Kong Dollar. Meanwhile, the Company has some deposits denominated in Hong Kong Dollar, being part of the proceeds raised from fund raising activities. The directors of the Company are of the opinion that the exchange rate risks to the Group are low and will not have any material adverse impact on the Group's financial results.

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2013, the Group did not provide any guarantees in favor of any third party and had no significant contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

1. On 21 March 2013, Hafei Aviation, AVIC Helicopter Limited (“**AVIC Helicopter**”) and Harbin Aircraft Industry Group Limited (“**AVIC Hafei**”) entered into the Supplementary Agreement II to vary certain terms of the original subscription agreement dated 25 May 2012, as amended by the supplementary agreement I dated 11 July 2012 (together, the “**Original Subscription Agreement**”), pursuant to which the parties confirmed and agreed that according to the final valuation report filed with and ascertained by the State-owned Assets Supervision and Administration Commission of the State Council, the aggregate consideration in respect of the target assets shall be adjusted to RMB3,320,466,700. Accordingly, the total number of new Hafei Aviation A Shares to be issued by Hafei Aviation to the Company, AVIC Helicopter and AVIC Hafei under the Original Subscription Agreement, as amended by the Supplementary Agreement II will be adjusted to 193,839,271. Upon completion of the aforesaid transactions, the equity interest to be held by the Company in Hafei Aviation will be diluted by approximately 15.42% from 50.05% to approximately 34.63% but Hafei Aviation will remain to be a subsidiary of the Company. Details relating to the aforesaid transactions can be referred to in the announcements of the Company dated 25 May 2012, 14 June 2012, 11 July 2012, 22 March 2013 and 14 June 2013, respectively and the circulars of the Company dated 20 July 2012 and 13 May 2013, respectively.
2. On 6 June 2013, the Company entered into the Share Subscription Agreement with ZEMIC (whose A shares are listed on the Shenzhen Stock Exchange), pursuant to which the Company has conditionally agreed to subscribe for approximately 4,579,700 A shares of ZEMIC for a total consideration of approximately RMB52.85 million. Upon completion of the subscription, the Company will directly hold approximately 2.28% equity interest in ZEMIC. The aforesaid number of shares to be subscribed for and the consideration will be subject to the approval of the shareholders of ZEMIC at its general meeting after the same have been approved by the competent government authorities. Details can be referred to in the announcement of the Company dated 7 June 2013.
3. On 26 June 2013, AVIC Avionics entered into the Acquisition Agreement with AVIC Avionics Systems Co., Ltd. (“**AVIC Avionics Systems**”), pursuant to which AVIC Avionics Systems has agreed to sell and AVIC Avionics has agreed to purchase, subject to conditions, the 100% equity interest in each of Keeven Instrument and Changfeng Avionics for an aggregate consideration of RMB1,417,700,361 in cash. Details can be referred to in the announcement and the circular of the Company dated 26 June 2013 and 19 July 2013, respectively.

USE OF PROCEEDS

As at 30 June 2013, a total of RMB3,011 million proceeds raised by the Company from various fund raising activities had been invested in the manufacturing of advanced trainers, helicopters, aviation composite materials and general aircraft as well as the acquisition of aviation business assets and equity investment. The remaining balance was deposited in banks in the PRC as short-term deposits.

EMPLOYEES

As at 30 June 2013, the Group had approximately 35,931 employees. The Group's staff costs amounted to RMB1,405 million for the six months ended 30 June 2013, representing an increase of RMB137 million or 10.80 % as compared with that of RMB1,268 million in the corresponding period of last year.

The remuneration policies and the training plans of the Company remain the same as those set out in the 2012 annual report of the Company.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There was no change of the directors, supervisors and senior management of the Company during the reporting period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities (the "**Hong Kong Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") as its code for securities transactions by its directors and supervisors. The Board has also confirmed that, having made specific enquiries of all 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 2013.

AUDIT COMMITTEE

The Board has established an audit committee and set out the Terms of Reference of the Audit Committee in accordance with “A Guide for Effective Audit Committees” issued by the Hong Kong Institute of Certified Public Accountants and other rules. The audit committee had reviewed the Company’s unaudited condensed consolidated interim financial statements for the six months ended 30 June 2013.

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 practices adopted by the Company, the Board was of the view that the Company 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 2013, except for the deviation that the chairman of the Board was not able to attend the annual general meeting of the Company held on 14 June 2013 due to work arrangement and Mr. Tan Ruisong, vice chairman of the Board was authorized to chair the annual general meeting and answered the questions raised at the meeting.

OTHER SIGNIFICANT EVENTS

1. On 29 January 2013, JONHON Optronics completed the issuance of Renminbi-denominated corporate bonds in the aggregate principal amount of RMB500 million with a maturity term of five years. The Company provided a full, unconditional and irrevocable joint liability guarantee in respect of the issuance of the aforesaid corporate bonds. Details can be referred to in the announcements of the Company dated 23 January 2013 and 29 January 2013, respectively.
2. On 25 March 2013, in order to strengthen the competitiveness and support the development of AVIC Avionics, the Company entered into the Guarantee Agreement with AVIC Avionics, pursuant to which the Company agreed to provide a guarantee of RMB600 million to AVIC Avionics for its issuance of the corporate bonds in the aggregate principal amount of not more than RMB1.5 billion with a maturity term of not more than five years. Details can be referred to in the announcement of the Company dated 25 March 2013.

3. On 25 March 2013, the Company and Aviation Industry Corporation Finance Company Limited (“**AVIC Finance**”) conditionally entered into the Financial Services Framework Agreement, pursuant to which AVIC Finance has agreed to provide the Group with deposit services, loan services, settlement services, guarantee services and other financial services on a non-exclusive basis for a further term of three years. Details can be referred to in the announcements of the Company dated 25 March 2013 and 14 June 2013, respectively and the circular of the Company dated 13 May 2013.
4. On 25 March 2013, the Board resolved to unlock one-third of the restricted shares granted to the eligible scheme participants under the initial grant on 2 April 2013, as the conditions for unlocking were fulfilled in full by the Company and the scheme participants according to the rules of the restricted share incentive scheme adopted by the Company. Details can be referred to in the announcement of the Company dated 25 March 2013.
5. On 16 April 2013, JONHON Optronic completed the placing of 61,847,988 new A shares at the placing price of RMB14.63 per new A share to six subscribers including the Company. Upon completion of the placing, 192,681,823 A shares of JONHON Optronic are held by the Company, representing approximately 41.57% of the total issued share capital of JONHON Optronic, which remains as a subsidiary of the Company. Details can be referred to in the announcements of the Company dated 17 April 2012, 4 May 2012 and 16 April 2013 respectively.
6. In view of the latest regulatory environment of the PRC and to cater for the development of the Company, the Board proposed certain amendments to be made to the Articles of Association of the Company in relation to the voting requirements for the transfer or conversion and listing of domestic invested shares issued by the Company and traded on overseas stock exchange(s). In the meantime, the Board also adjusted the means of corporate communication to improve the operational efficiency of the Company. The amendments to the Articles of Association of the Company were approved at the extraordinary general meeting and class shareholders meetings convened on 21 August 2013 as special resolutions. Details can be referred to in the announcements dated 14 June 2013, 5 July 2013, 19 July 2013, 24 July 2013 and 21 August 2013, and the circulars of the Company dated 5 July 2013 and 19 July 2013, respectively.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

For the six months ended 30 June 2013, 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 THE HONG KONG STOCK EXCHANGE

The electronic version of this announcement will be published on both the websites of the 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 2013, 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 the Hong Kong Stock Exchange and the Company in due course.

By Order of the Board
AviChina Industry & Technology Company Limited*
Chairman
Lin Zuoming

Beijing, 21 August 2013

As at the date of this report, the Board of the Company comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and non-executive directors Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Sheng Mingchuan, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.

** For identification purpose only*