

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## 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)**

### **2015 Interim Results Announcement**

#### **Financial Highlights**

- For the six months ended 30 June 2015, the Group achieved a revenue of RMB11,354 million, representing an increase of 9.18% as compared with that of RMB10,399 million in the corresponding period of last year.
- For the six months ended 30 June 2015, the profit attributable to the equity holders of the Company amounted to RMB360 million, representing a decrease of 4.00% as compared with that of RMB375 million 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 2015 prepared according to International Accounting Standards as follows:

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Note	For the six months ended 30 June	
		2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
<b>Revenue</b>	3	11,354,405	10,398,535
Cost of sales	6	(8,763,964)	(8,302,004)
<b>Gross profit</b>		2,590,441	2,096,531
Other income and gains	4	124,401	103,496
Selling and distribution expenses	6	(203,125)	(203,893)
General and administrative expenses	6	(1,563,480)	(1,125,257)
Other operating expenses	5	(15,921)	(379)
<b>Operating profit</b>		932,316	870,498
Finance income	7	107,760	155,971
Finance costs	7	(203,636)	(171,923)
Share of profit of a joint venture		10,827	5,040
Share of profits of associates		61,220	46,343
<b>Profit before income tax</b>		908,487	905,929
Income tax expense	8	(126,034)	(119,272)
<b>Profit for the period</b>		782,453	786,657
<b>Attributable to:</b>			
Equity holders of the Company		359,534	375,223
Non-controlling interests		422,919	411,434
		782,453	786,657
<b>Earnings per share for profit attributable to equity holders of the Company during the period:</b>			
		RMB	RMB
Basic	10	0.0657	0.0688
Diluted	10	0.0657	0.0688
		0.0657	0.0688

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME**

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Profit for the period</b>	782,453	786,657
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax:</i>		
Change in fair value of available-for-sale financial assets	319,349	165,727
Exchange differences on translation of foreign operations	(60)	1,110
	<u>319,289</u>	<u>166,837</u>
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods, net of tax</b>	319,289	166,837
	<u>319,289</u>	<u>166,837</u>
<b>Total comprehensive income, net of tax</b>	1,101,742	953,494
	<u><u>1,101,742</u></u>	<u><u>953,494</u></u>
<b>Attributable to</b>		
Equity holders of the Company	524,298	440,979
Non-controlling interests	577,444	512,515
	<u>577,444</u>	<u>512,515</u>
	<u><u>1,101,742</u></u>	<u><u>953,494</u></u>

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		10,782,249	10,441,149
Investment properties		30,775	39,406
Land use rights		1,478,214	1,451,166
Intangible assets		206,311	218,567
Investments in associates		891,981	823,955
Investments in a joint venture		57,650	52,508
Available-for-sale financial assets		1,606,338	1,238,288
Deferred tax assets		205,771	169,839
Other receivables and prepayments		244,232	251,851
		15,503,521	14,686,729
<b>Total non-current assets</b>			
<b>Current assets</b>			
Inventories		17,235,546	16,593,469
Accounts and notes receivable	11	14,559,146	10,973,833
Other receivables and prepayments		1,551,960	1,771,607
Advances to suppliers		831,988	1,049,226
Financial assets held for trading		2,764	307
Pledged deposits		508,080	986,192
Term deposits		3,124,879	2,862,484
Cash and cash equivalents		4,246,086	5,797,986
		42,060,449	40,035,104
<b>Total current assets</b>		<b>42,060,449</b>	<b>40,035,104</b>
<b>Total assets</b>		<b>57,563,970</b>	<b>54,721,833</b>

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

	<b>Notes</b>	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
<b>EQUITY</b>			
Issued capital		5,474,429	5,474,429
Reserves		5,955,820	5,341,005
<b>Equity attributable to equity holders of the Company</b>		<u>11,430,249</u>	<u>10,815,434</u>
Non-controlling interests		12,939,644	12,485,925
<b>Total equity</b>		<u>24,369,893</u>	<u>23,301,359</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings		2,296,414	1,784,728
Deferred revenue from government grants		824,347	831,608
Other payables and accruals		12,240	31,325
Deferred tax liabilities		98,086	51,682
<b>Total non-current liabilities</b>		<u>3,231,087</u>	<u>2,699,343</u>
<b>Current liabilities</b>			
Accounts and notes payable	12	14,729,081	15,049,990
Advances from customers		4,691,698	3,765,237
Other payables and accruals		4,045,451	3,810,415
Amounts payable to ultimate holding company		268,827	268,827
Current portion of long-term borrowings		481,000	567,000
Short-term borrowings		5,586,048	5,066,359
Income tax payable		160,885	193,303
<b>Total current liabilities</b>		<u>29,962,990</u>	<u>28,721,131</u>
<b>Total liabilities</b>		<u>33,194,077</u>	<u>31,420,474</u>
<b>Total equity and liabilities</b>		<u><u>57,563,970</u></u>	<u><u>54,721,833</u></u>

## **NOTES:**

### **1. Corporate information**

AviChina Industry & Technology Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on 30 April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation of China Aviation Industry Corporation II (“AVIC II”). AVIC II merged with China Aviation Industry Corporation I (“AVIC I”) to form Aviation Industry Corporation of China (“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 interim condensed consolidated financial information is presented in thousands of Renminbi (“RMB’000”), unless otherwise stated.

The unaudited interim condensed financial statements are approved for issue by the Board of Directors on 26 August 2015.

## 2 Basis of preparation and changes to the group's accounting policies

### 2.1 Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2015 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" promulgated by the International Accounting Standard Board ("IASB") and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

### 2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those of the Group's annual financial statements for the year ended 31 December 2014. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The adoption of the following new standards, interpretations and amendments which are effective for annual periods beginning on or after 1 July 2014 do not have a significant impact to the results and financial position of the Group:

#### *Amendments to IAS 19 Defined Benefit Plans: Employee Contributions*

##### *Annual Improvements 2010-2012 Cycle*

- IFRS 2 Share-based Payment*
- IFRS 3 Business Combinations*
- IFRS 8 Operating Segments*
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*
- IAS 24 Related Party Disclosures*

##### *Annual Improvements 2011-2013 Cycle*

- IFRS 3 Business Combinations*
- IFRS 13 Fair Value Measurement*
- IAS 40 Investment Property*

### **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 classifies the business into two reportable segments:

- Manufacturing, assembly, sale and servicing of helicopters, trainers and other aircraft ("Aviation entire aircraft")
- Manufacturing and sale 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 interim condensed consolidated statements of profit or loss.

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 aircraft RMB'000 (Unaudited)	Aviation parts & components RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>For the six months ended 30 June 2015</b>			
Total segment revenue	5,339,993	6,727,437	12,067,430
Inter-segment revenue	-	(713,025)	(713,025)
	<u>5,339,993</u>	<u>6,014,412</u>	<u>11,354,405</u>
Revenue (from external customers)			
	<u>5,339,993</u>	<u>6,014,412</u>	<u>11,354,405</u>
Segment results	<u>240,238</u>	<u>679,616</u>	<u>919,854</u>
Depreciation and amortization	193,747	254,635	448,382
Provision for impairments on receivables, inventories and available-for-sale financial assets	74,683	22,358	97,041
Finance income (note 7)	(23,455)	(84,305)	(107,760)
Finance costs (note 7)	46,272	157,364	203,636
Share of profit of a joint venture	-	10,827	10,827
Share of profits of associates	570	60,650	61,220
Income tax expense	17,767	108,267	126,034
	<u>193,747</u>	<u>254,635</u>	<u>448,382</u>
<b>For the six months ended 30 June 2014</b>			
Total segment revenue	4,932,217	6,171,250	11,103,467
Inter-segment revenue	-	(704,932)	(704,932)
	<u>4,932,217</u>	<u>5,466,318</u>	<u>10,398,535</u>
Revenue (from external customers)			
	<u>4,932,217</u>	<u>5,466,318</u>	<u>10,398,535</u>
Segment results	<u>197,144</u>	<u>725,782</u>	<u>922,926</u>
Depreciation and amortization	169,991	225,687	395,678
Provision for impairments on receivables, inventories and available-for-sale financial assets	7,665	14,703	22,368
Finance income (note 7)	(29,764)	(126,207)	(155,971)
Finance costs (note 7)	28,388	143,535	171,923
Share of profit of a joint venture	-	5,040	5,040
Share of (loss)/profits of associates	(17,152)	63,495	46,343
Income tax expense	27,967	91,305	119,272
	<u>169,991</u>	<u>225,687</u>	<u>395,678</u>

### 3 Segment information (Continued)

Reconciliation of segment results to profit for the period:

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Total segment result for aviation entire aircraft and aviation components & parts	919,854	922,926
Corporate overheads	(11,367)	(16,997)
Profit before income tax	908,487	905,929
Income tax expense	(126,034)	(119,272)
Profit for the period	782,453	786,657

### 4 Other income and gains

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Changes in fair value of financial assets held for trading	167	-
Rental income	6,464	3,129
Profit from sale of materials	6,159	17,380
Income from rendering of maintenance and other services	46,213	3,000
Gains on disposal of available-for-sale financial assets	38,026	-
Gains on disposal of financial assets held for trading	5,372	-
Gains on disposal of investment in a subsidiary	7,368	-
Gains on disposal of investment properties	-	49,120
Gains on disposal of property, plant and equipment	-	224
Dividend income from available-for-sale financial assets	13,243	30,643
Others	1,389	-
	124,401	103,496

### 5 Other operating expenses

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment of available-for-sale financial assets	9,444	-
Losses on disposal of property, plant and equipment	905	-
Losses on disposal of interests in associates	-	379
Others	5,572	-
	15,921	379

## 6 Expenses by nature

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Advertising costs	3,810	2,801
Amortization on:		
– Intangible assets	12,982	4,011
– Land use rights	16,636	15,508
Auditors' remuneration	2,369	3,889
Raw materials and consumables used	2,924,567	2,920,631
Changes in inventories of finished goods and work-in-progress	(1,243,914)	(1,579,969)
Contract costs incurred	4,328,951	4,351,406
Depreciation on:		
– Investment properties	759	734
– Property, plant and equipment	418,005	375,425
Less: amortization of deferred income from government grant	(26,809)	(25,708)
	<u>391,955</u>	<u>350,451</u>
Fuel	205,978	203,385
Insurance	15,341	15,217
Operating lease rentals	51,384	100,523
Provision for impairment / (reversal of provision):		
– Inventories	700	(161)
– Receivables	86,897	22,529
Repairs and maintenance expenses	81,817	88,939
Research expenditures and development costs	625,336	374,528
Staff costs, including directors' emoluments	2,110,702	1,821,531
Outsourcing expenses	366,956	338,751
Sundries	429,812	478,138
Transportation expenses	48,010	53,486
Travelling expenses	70,280	65,560
	<u>10,530,569</u>	<u>9,631,154</u>
Total cost of sales, selling and distribution expenses, and general and administrative expenses	<u><u>10,530,569</u></u>	<u><u>9,631,154</u></u>

## 7 Finance income and finance costs

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income:		
Interest income on bank balances and deposits	107,760	155,971
	<u>          </u>	<u>          </u>
Finance costs:		
Interest expense on borrowings	211,761	175,459
Less: Amount capitalized in property, plant and equipment	(17,242)	(17,695)
	<u>          </u>	<u>          </u>
Other finance costs	194,519	157,764
	9,117	14,159
	<u>          </u>	<u>          </u>
	<u>203,636</u>	<u>171,923</u>

## 8 Income tax expense

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax	171,918	129,638
Deferred income tax	(45,884)	(10,366)
	<u>126,034</u>	<u>119,272</u>

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2014: 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% (2014: 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 2015 (the six months ended 30 June 2014: Nil).

## 10 Earnings per share

	For the six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
<b>Profit attributable to equity holders of the Company</b>		
Basic earnings attributable to ordinary shareholders(RMB'000)	359,534	375,223
Diluted earnings attributable to ordinary shareholders(RMB'000)	359,534	375,223
<b>Weighted average number of shares</b>		
Weighted average number of ordinary shares outstanding for basic earnings (thousands)	5,468,702	5,457,002
Weighted average number of ordinary shares adjusted for the effect of dilution (thousands)	5,471,954	5,457,002
<b>Basic earnings per share (in RMB)</b>	0.0657	0.0688
<b>Diluted earnings per share (in RMB)</b>	0.0657	0.0688

## 11 Accounts and notes receivable

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Accounts receivable		
– Related parties	7,922,261	4,753,040
– Others	5,153,258	4,168,716
	<hr/>	<hr/>
Accounts receivable, gross	13,075,519	8,921,756
Provision for bad debts	(408,519)	(290,650)
	<hr/>	<hr/>
Accounts receivable, net	12,667,000	8,631,106
Notes receivable		
– Related parties	390,742	1,421,873
– Others	1,501,404	920,854
	<hr/>	<hr/>
	1,892,146	2,342,727
Accounts and notes receivable	<hr/> <hr/>	<hr/> <hr/>
	14,559,146	10,973,833

Ageing analysis of accounts receivable is as follows:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Current to 1 year	11,587,627	7,778,126
1 year to 2 years	1,004,806	721,893
Over 2 years	483,086	421,737
	<hr/>	<hr/>
	13,075,519	8,921,756
	<hr/> <hr/>	<hr/> <hr/>

Certain accounts receivable were pledged and mortgaged as security for bank borrowings.

## 12 Accounts and notes payable

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Accounts payable		
– Related parties	3,295,667	2,495,861
– Others	8,609,796	7,894,358
	<u>11,905,463</u>	<u>10,390,219</u>
Notes payable		
– Related parties	716,586	2,649,640
– Others	2,107,032	2,010,131
	<u>2,823,618</u>	<u>4,659,771</u>
Accounts and notes payable	<u><u>14,729,081</u></u>	<u><u>15,049,990</u></u>

Ageing analysis of accounts payable is as follows:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Current to 1 year	9,462,666	9,124,298
1 year to 2 years	1,697,383	879,629
2 years to 3 years	417,726	214,708
Over 3 years	327,688	171,584
	<u>11,905,463</u>	<u>10,390,219</u>

The bank acceptance notes are with average maturity period of within six months. As at 30 June 2015, notes payable of RMB1,834,721,000 (31 December 2014: RMB2,938,413,000) were secured by pledged deposits to the extent of RMB800,727,000 (31 December 2014: RMB986,192,000).



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In the first half of 2015, facing the complex foreign and domestic economic environment and the continuously increasing downward pressure, China's economy has stepped into a "new normal" development period, bringing significant opportunities for transformation, upgrade, innovation and development of the manufacturing industry. The Group actively embraced the challenges, by reinforcing the overall planning, increasing the investment in innovation and research and development ("**R&D**") and accelerating the improvement of the internal regulations, thereby maintaining the steady development in all of its businesses.

For the six months ended 30 June 2015, the group recorded a revenue of RMB11,354 million, representing an increase of 9.18% as compared with that in the corresponding period of 2014. The profit attributable to the equity holders of the Company for the reporting period was RMB360 million, representing a decrease of 4.00% as compared with that in the corresponding period of 2014.

In the first half of 2015, Aviation Industry Corporation of China ("**AVIC**"), the controlling shareholder of the Company, adhering to its development strategy as guidance, has unremittingly promoted the technology innovation and management reform, leading to a continuous improvement in its competitiveness and market influence, and steady increase in its comprehensive strength. AVIC was listed on the Fortune Global 500 with an operating revenue of USD62.2 billion, ranked the 159th, representing an advance of 19 places from 2014 and 267 places from its first appearance on the Fortune Global 500 in 2009. For the fourth consecutive year, AVIC was elected as China's 500 Most Valuable Brands, ranked the 25th, with a brand value of RMB100.8 billion, marking a break-through of the RMB100 billion brand value for the first time. Meanwhile, the Chairman of the Company, Mr. Lin Zuoming, was elected as one of China's 50 Most Influential Business Leaders for year 2015 for the fifth consecutive year.

In the first half of 2015, with a view to continuously improving the aviation industrial chain, the Company actively expanded into new businesses by making capital contributions in the establishment of Nanjing Servo Control Systems Co., Ltd. ("**Nanjing Servo Control**") jointly with China Aviation Industry Corporation Jincheng Nanjing Mechanics-electronics-hydraulics Research Center ("**AVIC Jincheng**") and in the establishment of AVIC Nanjing Electromechanical Technology Co., Ltd. ("**Nanjing Electromechanical**") jointly with AVIC Jincheng and AVIC Electromechanical Systems Co., Ltd. ("**AMES**"), thereby expanding the scale of the electromechanical business of the Group.

In June 2015, the EC175 project of AVICOPTER PLC ("**AVICOPTER**") successfully passed the POA annual examination conducted by EASA, which meant that the parts and components products developed and manufactured by AVICOPTER relating to the aircraft body of EC175 could continue to be manufactured in bulk and sold and used in the European

market. In March 2015, Harbin Hafei Airbus Composite Materials Manufacture Center Co., Ltd. successfully completed the delivery of the A320 work package.

In the first half of 2015, Jiangxi Hongdu Aviation Industry Co., Ltd. (“**Hongdu Aviation**”) smoothly implemented the R&D, manufacture and international marketing of L15; commenced the application process for the CAAC type certificate for N5B aircraft upon completion of the design and upgrading plan; and completed all ground testing verification for L7 aircraft.

The avionics and electromechanical business of the Group has achieved a good progress. In the first half of 2015, AVIC Avionics Systems Co., Ltd (“**AVIC Avionics**”) focused on the R&D and management of the C919 project and completed the delivery of products and system testing as scheduled. AVIC Avionics also deepened the overseas cooperation of the MA700 project by commencing the joint R&D of airborne system for MA700 aircraft. In March 2015, China Aviation Optical-Electrical Technology Co., Ltd. (“**JONHON Optronic**”) entered into a strategic cooperation agreement with China Electronics Standardization Institute, to promote the further reasonable planning and improvement of the existing product mix and standards system of JONHON Optronic, thereby facilitating JONHON Optronic to establish standards in new technologies and turning the standards into production capabilities and actual benefits. JONHON Optronic and its subsidiary AVIC Forstar S&T Co., Ltd, participated in the 40th optical fiber exhibition in the U.S. and the 18th electronic devices exhibition in Russia to promote the brand image, and achieved good results. In April 2015, Tianjin Aviation Mechanical & Electrical Co., Ltd., a subsidiary of the Company, obtained the airworthiness standards label for manufacturing parts and components of the C919 system.

## **FUTURE OUTLOOK**

In May 2015, the State Council published “Made in China 2025” program for the comprehensive implementation of a strong manufacturing nation industry strategy. Among the nine strategic tasks and key focuses set out in the “Made in China 2025” program, the State Council commenced the promotion of the ground-breaking developments of the aeronautics and astronautics equipment industry by accelerating the industrialization of artery airliner and regional aircraft, helicopter, UAV and general aircraft and develop advanced airborne equipment and system and facilitating the formation of an independent and complete aviation industrial chain. The Company will, by making full use of this opportunity, define its deployment strategy, consolidate resources with competitive advantages, actively respond to national policies, enlarge the market share and promote steady development of all businesses of the Company.

In the second half of 2015, the economic downturn will bring more challenges for the manufacturing industry. The Company will further optimize its development strategy, further improve its management regulations and increase the investment in R&D and innovations to improve the core competitiveness and sustainable development capability of the Company. Under the forceful support from AVIC, the Company will improve the industrial chain and

gradually enlarge its investment in defense areas by building upon its steady development in the civil aviation industry. The Company will actively utilize global resources and markets and enlarge its global industrial layout by international mergers and acquisitions.

## **FINANCIAL REVIEW**

### **Revenue**

For the six months ended 30 June 2015, the Group achieved a revenue of RMB11,354 million, representing an increase of RMB955 million or 9.18% as compared with that of RMB10,399 million in the corresponding period of last year. Among that, the revenue from avionic products during the reporting period amounted to RMB4,431 million, representing an increase of RMB658 million or 17.44% as compared with that in the corresponding period of last year. The revenue from helicopter products amounted to RMB4,991 million, representing an increase of RMB300 million or 6.40% as compared with that in the corresponding period of last year. The relatively higher increase in revenue from avionic products is mainly attributable to the new production capacity formed by commencement of operation of the optronic technology industrial base.

### **Segment Information**

For the six months ended 30 June 2015, the revenue of the aviation entire aircraft segment of the Group amounted to RMB5,340 million, representing an increase of 8.27% as compared with that in the corresponding period of last year and accounting for 47.03% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB6,014 million, representing an increase of 10.01% as compared with that in the corresponding period of last year and accounting for 52.97% of the total revenue of the Group.

The segment results of the aviation entire aircraft segment of the Group amounted to RMB240 million, representing an increase of RMB43 million or 21.83% as compared with that of RMB197 million in the corresponding period of last year. Such increase was mainly attributable to the increase in the comprehensive gross profit of aviation entire aircraft. The results of the aviation parts and components segment of the Group amounted to RMB680 million, representing a decrease of RMB46 million or 6.34% as compared with that of RMB726 million in the corresponding period of last year, which was mainly attributable to the increase in the R&D investment and labor cost .

## **Gross profit**

For the six months ended 30 June 2015, the Group recorded a gross profit of RMB2,590 million, representing an increase of RMB493 million or 23.51% as compared with that of RMB2,097 million in the corresponding period of last year. The increase of the gross profit was mainly attributable to the increase in the comprehensive gross margin and the revenue.

## **Selling and distribution expenses**

For the six months ended 30 June 2015, the selling and distribution expenses of the Group amounted to RMB203 million, which is generally at the same level with that of RMB204 million in the corresponding period of last year. The selling and distribution expenses accounted for 1.79% of the revenue during the reporting period, representing a slight decrease as compared with that of 1.96% in the corresponding period of last year.

## **General and administrative expenses**

For the six months ended 30 June 2015, the general and administrative expenses of the Group amounted to RMB1,563 million, representing an increase of RMB438 million or 38.93% as compared with that of RMB1,125 million in the corresponding period of last year. Such increase was mainly attributable to the increase of RMB251 million in R&D investment as compared with that of last year and the increase of labor cost. The general and administrative expenses accounted for 13.77% of the revenue during the reporting period, representing an increase of 2.95 percentage points as compared with that of 10.82% in the corresponding period of last year.

## **Finance costs, net**

For the six months ended 30 June 2015, the net finance costs of the Group amounted to RMB96 million, representing an increase of RMB80 million as compared with that of RMB16 million in the corresponding period of last year. This was mainly attributable to the increase in external borrowings of certain subsidiaries as compared with that in the corresponding period of last year. Please refer to Note 7 to the financial report for details.

## **Profit attributable to the equity holders of the Company**

For the six months ended 30 June 2015, the profit attributable to the equity holders of the Company amounted to RMB360 million, representing a decrease of RMB15 million or 4.00% as compared with that of RMB375 million in the corresponding period of last year, which was mainly attributable to the increase in R&D investment and labor cost during the reporting period.

## **Liquidity and financial resources**

As at 30 June 2015, cash and cash equivalents of the Group amounted to RMB4,246 million, which were mainly derived from cash and bank deposits at the beginning of 2015 and proceeds generated from its operations during the reporting period.

As at 30 June 2015, the Group's total borrowings amounted to RMB8,363 million, in which short-term borrowings amounted to RMB5,586 million, current portion of long-term borrowings amounted to RMB481 million and non-current portion of long-term borrowings amounted to RMB2,296 million.

As at 30 June 2015, the Group's bank borrowings amounted to RMB4,499 million (the average interest rate of which was 5% per annum), representing an increase of RMB1,024 million as compared with that at the beginning of the reporting period; and other borrowings amounted to RMB3,864 million (the average interest rate of which was 5% per annum), representing a decrease of RMB79 million as compared with that at the beginning of the reporting period.

Seasonal influence on the Group's borrowings was insignificant.

## **CAPITAL STRUCTURE**

As at 30 June 2015, the Group's borrowings were mainly denominated in Renminbi and cash and cash equivalents were mainly denominated in Renminbi.

## **MORTGAGE AND PLEDGE ON ASSETS**

As at 30 June 2015, the Group's secured borrowings amounted to RMB618 million, which were mortgaged and pledged by receivables with a net book value of RMB722 million.

## **GEARING RATIO**

As at 30 June 2015, the Group's gearing ratio was 14.53% (31 December 2014: 13.56%), which was derived from dividing the total borrowings by the total assets as at 30 June 2015.

## **EXCHANGE RATE RISKS**

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

## **CONTINGENT LIABILITIES AND GUARANTEES**

As at 30 June 2015, the Group did not provide any guarantees in favor of any third party and had no significant contingent liabilities.

## **MATERIAL ACQUISITIONS AND DISPOSALS**

On 30 March 2015, the Company entered into a capital contribution agreement with AVIC Jincheng in relation to establishment of Nanjing Servo Control, pursuant to which the Company proposed to contribute RMB140 million in cash to Nanjing Servo Control. Upon the establishment of Nanjing Servo Control, the Company and AVIC Jincheng would hold 46.67% and 53.33% of the equity interests in Nanjing Servo Control, respectively. Meanwhile, the Company entered into a capital contribution agreement in relation to establishment of Nanjing Electromechanical with AVIC Jincheng and AMES, pursuant to which the Company proposed to contribute RMB30 million in cash to Nanjing Electromechanical. Upon the establishment of Nanjing Electromechanical, the Company, AVIC Jincheng and AMES would hold 10%, 56.67% and 33.33% of the equity interests in Nanjing Electromechanical, respectively. Please refer to the announcement of the Company dated 30 March 2015 for details.

## **USE OF PROCEEDS**

As at 30 June 2015, a total of RMB3,371 million proceeds raised by the Company had been invested in the manufacturing, research and development of advanced trainers, helicopters, and aviation composite materials as well as the acquisition of aviation business assets and equity investment. The remaining balance was deposited in banks in the PRC as interest-bearing short-term deposits.

## **EMPLOYEES**

As at 30 June 2015, the Group had approximately 45,480 employees. The Group's staff costs amounted to RMB2,111 million for the six months ended 30 June 2015, representing an increase of RMB289 million or 15.86% as compared with that of RMB1,822 million in the corresponding period of last year.

The remuneration policies and training plans of the Company remain the same as those set out in the 2014 annual report of the Company.

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

At the annual general meeting convened on 12 June 2015, as the term of office for all the Directors of the fourth session of the Board and Supervisors of the fourth session of the Supervisory Committee had expired, the Company elected the Directors of the fifth session of the Board and the shareholder representative Supervisors of the fifth session of the Supervisory Committee. At the Board meeting convened on 12 June 2015, Mr. Lin Zuoming was appointed as the Chairman of the fifth session of the Board, and Mr. Tan Ruisong was appointed as the Vice Chairman of the fifth session of the Board. At the same time, Mr. Tan Ruisong was appointed as the President of the Company. Mr. Chen Yuanxian, Mr. Zhang Kunhui and Mr. Lv Jie were appointed as the vice presidents of the Company. Mr. Chen Yuanxian was appointed as the CFO of the Company and Mr. Yan Lingxi was appointed as the company secretary of the Company. Upon conclusion of the aforementioned annual general meeting and Board meeting, the fifth session of the Board comprises Mr. Lin Zuoming (Chairman, Executive Director) , Mr. Tan Ruisong (Vice Chairman, Executive Director, President) ,Mr. Gu Huizhong (non-executive director), Mr. Gao Jianshe (non-executive director), Mr. Guo Chongqing (non-executive director) and Mr. Maurice Savart (non-executive director) as well as Mr. Lau Chung Man, Louis (independent non-executive director), Mr. Liu Renhuai (independent non-executive director) and Mr. Yeung Jason Chi Wai (independent non-executive director).

At the supervisory committee meeting convened on 12 June 2015, Mr. Chen Guanjun was appointed as the Chairman of the fifth session of the supervisory committee. Upon conclusion of the aforementioned annual general meeting and the supervisory committee meeting, the fifth session of the supervisory committee comprises Mr. Chen Guanjun (Chairman of the supervisory committee, shareholders' representative Supervisor), Mr. Liu Fumin (shareholders' representative Supervisor) and Ms. Li Jing (employee representative Supervisor).

## **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 Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”) and the Shares Trading Management Rules as its own guidelines for securities transactions by its Directors, supervisors and employees of the Company. 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 2015.

## **AUDIT COMMITTEE**

The Board has established an audit committee and set out the Terms of Reference of the Audit Committee in accordance with “A Guide for Effective Audit Committees” issued by the Hong Kong Institute of Certified Public Accountants and other rules. The audit committee had reviewed the Company’s unaudited interim condensed consolidated financial statements for the six months ended 30 June 2015.

## **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 2015.

## **OTHER EVENTS**

1. On 30 March 2015, the Board resolved that, according to the requirements of the restricted share incentive scheme of the Company, the last one-third of the restricted shares granted to the eligible scheme participants under the initial grant should be unlocked on 31 March 2015. Please refer to the announcement of the Company dated 30 March 2015 for details.
2. On 8 July 2015, AVIC, through China Aviation Industry (Hong Kong) Company Limited, one of its subsidiaries, purchased 13,076,000 H Shares of the Company on the trading system of The Stock Exchange of Hong Kong Limited, for an aggregate amount of approximately HK\$59,898,900 and the average price per H Share was HK\$4.58. Upon the completion of the purchase, the aggregate number of shares held by AVIC and its subsidiaries in the Company is 3,002,568,900, representing 54.85% of the total issued share capital of the Company. Please refer to the announcement of the Company dated 8 July 2015 for details.
3. On 9 July 2015, the Company purchased 1,000,084 shares of Hongdu Aviation, a subsidiary of the Company, on the Shanghai Stock Exchange, representing approximately 0.14% of the total share capital of Hongdu Aviation in issue. Upon the completion of purchase, the number of shares in Hongdu Aviation held by the Company changed from 312,883,210 to 313,883,294, and the percentage of Hongdu Aviation shares held by the Company over the total issued share capital of Hongdu Aviation changed from 43.63% to 43.77%. Please refer to the announcement of the Company dated 9 July 2015 for details.



4. In June 2015, Harbin Aviation Industry (Group) Co., Ltd. (the “**Harbin Aviation Group**”) disposed of 2,585,721 shares of AVICOPTER on Shanghai Stock Exchange. Upon completion of the disposal, the Company holds 166,270,802 shares in AVICOPTER through Harbin Aviation Group, representing approximately 28.21% of the total issued share capital of AVICOPTER. On 15 July 2015, the Company through a targeted asset management scheme purchased 622,800 shares of AVICOPTER, on the Shanghai Stock Exchange at an average price of RMB50.33 per share, amounting to a total sum of approximately RMB31,345,500. Please refer to the announcement of the Company dated 15 July 2015 for details.

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

For the six months ended 30 June 2015, 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 Exchanges and Clearing Limited (“**HKEx**”) ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.avichina.com](http://www.avichina.com)). The interim report of the Company for the six months ended 30 June 2015, 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 HKEx and the Company in due course.

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

Beijing, 26 August 2015

*As at the date of this announcement, the Board comprises executive directors Mr. Lin Zuoming and Mr. Tan Ruisong and non-executive directors Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Guo Chongqing and Mr. Maurice Savart as well as independent non-executive directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Jason Chi Wai.*

*\* For identification purpose only*