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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)**

### **2014 Interim Results Announcement**

#### **Financial Highlights**

- For the six months ended 30 June 2014, the Group achieved a revenue of RMB10,399 million, representing an increase of 11.75% as compared with RMB9,306 million of the corresponding period in 2013.
- For the six months ended 30 June 2014, the profit attributable to the equity holders of the Company amounted to RMB375 million, representing an increase of 0.54% as compared with RMB373 million of the corresponding period in 2013.

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 2014 prepared according to International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” as follows:

## CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

	Note	For the six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited) (Restated)
<b>Revenue</b>	3	10,398,535	9,306,066
Cost of sales		(8,302,004)	(7,353,136)
<b>Gross profit</b>		<u>2,096,531</u>	<u>1,952,930</u>
Other income	4	54,152	54,654
Other gains / (losses), net	5	48,965	(911)
Selling and distribution expenses		(203,893)	(178,141)
General and administrative expenses		(1,125,257)	(1,061,205)
<b>Operating profit</b>		<u>870,498</u>	<u>767,327</u>
Finance income	7	155,971	124,840
Finance costs	7	(171,923)	(128,923)
Finance costs, net		(15,952)	(4,083)
Share of profit of a joint venture		5,040	1,515
Share of profits of associates		46,343	53,384
<b>Profit before income tax</b>		<u>905,929</u>	<u>818,143</u>
Income tax expense	8	(119,272)	(113,093)
<b>Profit for the period</b>		<u><u>786,657</u></u>	<u><u>705,050</u></u>
<b>Attributable to:</b>			
Equity holders of the Company		375,223	372,844
Non-controlling interests		411,434	332,206
		<u><u>786,657</u></u>	<u><u>705,050</u></u>
<b>Earnings per share for profit attributable to equity holders of the Company during the period:</b>			
		RMB	RMB
- Basic and Diluted	10	<u><u>0.0688</u></u>	<u><u>0.0685</u></u>

## CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
<b>Profit for the period</b>	786,657	705,050
	-----	-----
<b>Other comprehensive income, net of tax</b>		
<b>Items that may be reclassified subsequently to profit or loss</b>		
Change in fair value of available-for-sale financial assets	165,727	40,931
Currency translation differences	1,110	(422)
	-----	-----
	166,837	40,509
	-----	-----
<b>Total comprehensive income for the period</b>	953,494	745,559
	=====	=====
<b>Attributable to:</b>		
Equity holders of the Company	440,979	390,132
Non-controlling interests	512,515	355,427
	-----	-----
	953,494	745,559
	=====	=====

## CONDENSED INTERIM CONSOLIDATED BALANCE SHEET

	Note	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		9,585,607	9,243,070
Investment properties		29,109	31,451
Land use rights		1,410,404	1,416,191
Intangible assets		114,325	112,177
Interests in a joint venture		41,756	37,681
Interests in associates		1,056,515	1,055,141
Available-for-sale financial assets		1,347,334	1,152,361
Deferred income tax assets		185,940	166,771
Accounts receivable	11	154,358	154,358
<b>Total non-current assets</b>		13,925,348	13,369,201
<b>Current assets</b>			
Accounts receivable	11	9,444,011	8,958,429
Advances to suppliers		777,675	1,219,315
Other receivables and prepayments		1,856,136	1,183,255
Inventories		16,784,157	14,780,402
Financial assets held for trading		247	247
Pledged deposits		762,790	1,313,240
Term deposits with initial term of over three months		3,785,826	3,378,697
Cash and cash equivalents		3,572,974	6,725,516
<b>Total current assets</b>		36,983,816	37,559,101
<b>Total assets</b>		50,909,164	50,928,302

## CONDENSED INTERIM CONSOLIDATED BALANCE SHEET (Continued)

	Note	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital		5,474,429	5,474,429
Reserves		5,000,254	4,648,396
		10,474,683	10,122,825
Non-controlling interests		12,051,120	11,684,072
<b>Total equity</b>		22,525,803	21,806,897
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings		1,963,071	1,910,696
Deferred income from government grants		760,024	747,122
Deferred income tax liabilities		58,085	20,036
Other payables and accruals		12,242	15,634
<b>Total non-current liabilities</b>		2,793,422	2,693,488
<b>Current liabilities</b>			
Accounts payable	12	14,176,758	14,031,733
Advances from customers		2,433,691	3,802,493
Other payables and accruals		4,029,129	3,739,745
Amounts payable to ultimate holding company		462,737	462,737
Current portion of long-term borrowings		380,000	255,080
Short-term borrowings		3,988,294	3,952,101
Current income tax liabilities		119,330	184,028
<b>Total current liabilities</b>		25,589,939	26,427,917
<b>Total liabilities</b>		28,383,361	29,121,405
<b>Total equity and liabilities</b>		50,909,164	50,928,302
<b>Net current assets</b>		11,393,877	11,131,184
<b>Total assets less current liabilities</b>		25,319,225	24,500,385

## 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 interim consolidated 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 26 August 2014.

This Condensed Financial Information has not been audited.

#### Major changes of Group structure

- (a) On 7 January 2014, China Aviation Optical-Electrical Technology Co., Ltd. (“JONHON Optronic”, a subsidiary of the Company) made a capital injection in cash of RMB 110 million to AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (“Shenyang Xinghua”, a subsidiary of JONHON Optronic).

Upon this injection, the equity interests held by JONHON Optronic in Shenyang Xinghua increased from 51.00% to 62.87%.

- (b) On 24 April 2014, JONHON Optronic acquired an additional 10% equity interest in Xi’an Forstar S&T Co., Ltd. (“Xi’an Forstar”) at a cash consideration of approximately RMB 27 million.

Upon this acquisition, the equity interests held by JONHON Optronic in Xi’an Forstar increased from 48.18% to 58.18%. JONHON had been controlling Xi’an Forstar before this transaction by virtue of an agreement conferring the power over more than half of the voting rights in Xi’an Forstar.

### 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 2013 annual financial statements.

## 2 Basis of preparation and accounting policies (Continued)

During the period from 1 July 2013 to 31 December 2013, the Group acquired certain entities which were all under common control of AVIC immediately before and after the business combinations, the Company applies the principles of merger accounting in preparing this Consolidated Financial Information of the Group.

By applying the principles of merger accounting, this Consolidated Financial Information also includes the financial positions, results and cash flows of those entities as if they had been combined with the Group throughout the six months ended 30 June 2013. Comparative figures for the six months ended 30 June 2013 have been restated as a result of such.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

The following amendments to standards and interpretation are mandatory for the first time for the financial year beginning 1 January 2014:

IFRS 10, IFRS 12, IAS 27 (Amendment)	Consolidation for investment entities
IAS 32 (Amendment)	Financial instruments: Presentation on asset and liability offsetting
IAS 36 (Amendment)	Impairment of assets
IAS 39 (Amendment)	Novation of derivatives
IFRIC 21	Levies

The adoption of the above does not have any significant impact to the results and financial position of the Group.

The following new standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1 January 2014 and have not been early adopted:

		<b>Effective for accounting periods beginning on or after</b>
IAS 19 (Amendment)	Employee benefits	1 July 2014
IAS 16 and IAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
IFRS 11 (Amendment)	Accounting for acquisitions of interests in joint Operation	1 January 2016
IFRS 14	Regulatory deferral accounts	1 January 2016
IFRS 15	Revenue from contracts with customers	1 January 2017
IFRS 9	Financial instruments	1 January 2018

### **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, sales and servicing of helicopters, trainers and other aircraft (“Aviation entire aircraft”)
- 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 interim 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)
<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)	4,932,217	5,466,318	10,398,535
Segment results	<u>197,144</u>	<u>725,782</u>	<u>922,926</u>
Depreciation and amortisation	169,991	225,687	395,678
Provision for impairments on receivables and inventories	7,665	14,703	22,368
Finance (income)/costs, net	(1,376)	17,328	15,952
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>
<b>For the six months ended 30 June 2013</b>			
	(Restated)	(Restated)	(Restated)
Total segment revenue	4,517,109	5,559,914	10,077,023
Inter-segment revenue	-	(770,957)	(770,957)
	<u>4,517,109</u>	<u>4,788,957</u>	<u>9,306,066</u>
Revenue (from external customers)	4,517,109	4,788,957	9,306,066
Segment results	<u>147,618</u>	<u>693,021</u>	<u>840,639</u>
Depreciation and amortisation	141,404	189,910	331,314
(Reversal of provision)/provision for impairments on receivables and inventories	(2,322)	38,400	36,078
Finance costs, net	197	3,886	4,083
Share of profit of a joint venture	-	1,515	1,515
Share of profits of associates	6,839	46,545	53,384
Income tax expense	27,690	85,403	113,093
	<u>141,404</u>	<u>189,910</u>	<u>331,314</u>

### 3 Segment information (Continued)

Reconciliation of segment results to profit for the period:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Total segment result for aviation entire aircrafts and aviation components & parts	922,926	840,639
Corporate overheads	(16,997)	(22,496)
Profit before income tax	905,929	818,143
Income tax expense	(119,272)	(113,093)
Profit for the period	<u>786,657</u>	<u>705,050</u>

### 4 Other income

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Rental income	3,129	6,156
Profit from sale of materials	17,380	18,986
Income from rendering of maintenance and other services	3,000	8,174
Dividend income from available-for-sale financial assets	30,643	21,338
	<u>54,152</u>	<u>54,654</u>

### 5 Other gains / (losses), net

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Fair value gain on financial assets held for trading	-	507
Gain/(loss) on disposal of:		
- property, plant and equipment	224	(1,418)
- investment properties	49,120	-
- interests in associates	(379)	-
	<u>48,965</u>	<u>(911)</u>

## 6 Expenses by nature

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Advertising costs	2,801	5,467
Amortisation on:		
- Land use rights	15,508	13,968
- Intangible assets	4,011	3,992
Auditors' remuneration	3,889	4,793
Raw materials and consumables used	2,920,631	2,298,454
Changes in inventories of finished goods and work-in-progress	(1,579,969)	(1,256,891)
Contract costs incurred	4,351,406	4,030,056
Depreciation on:		
- Investment properties	734	390
- Property, plant and equipment	375,425	312,964
Less: amortisation of deferred income from government grant	(25,708)	(16,222)
	<u>350,451</u>	<u>297,132</u>
Fuel	203,385	192,497
Insurance	15,217	10,836
Operating lease rentals	100,523	94,249
Provision/(reversal of provision) for impairment		
- Inventories	(161)	188
- Receivables	22,529	35,890
Repairs and maintenance expense	88,939	80,779
Research expenditures and development costs	374,528	260,455
Staff costs, including directors' emoluments	1,821,531	1,672,176
Sub-contracting charges	338,751	288,392
Sundries	478,138	457,635
Transportation expenses	53,486	40,974
Travelling	65,560	61,440
	<u>9,631,154</u>	<u>8,592,482</u>
Total cost of sales, selling and distribution expenses, and general and administrative expenses	<u><u>9,631,154</u></u>	<u><u>8,592,482</u></u>

## 7 Finance costs, net

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Finance income:		
Interest income on bank balances and deposits	155,971	124,840
	-----	-----
Finance costs:		
Interest expense on bank borrowings		
- Wholly repayable within 5 years	98,014	65,962
- Not wholly repayable within 5 years	346	-
	-----	-----
	98,360	65,962
Interest expense on other borrowings		
- Wholly repayable within 5 years	66,824	63,903
- Not wholly repayable within 5 years	10,275	12,535
	-----	-----
	175,459	142,400
Less: Amount capitalised in property, plant and equipment	(17,695)	(17,163)
	-----	-----
	157,764	125,237
Other finance costs	14,159	3,686
	-----	-----
	171,923	128,923
	-----	-----
	(15,952)	(4,083)
	=====	=====

## 8 Income tax expense

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
Current income tax	129,638	123,868
Deferred income tax	(10,366)	(10,775)
	<u>119,272</u>	<u>113,093</u>

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2013: 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% (2013: 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 2014 (six months ended 30 June 2013: 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.

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Profit attributable to equity holders of the Company (RMB'000)	375,223	372,844
Weighted average number of ordinary shares in issue less shares held for restricted share scheme for calculating basic earnings per share (thousands)	5,457,002	5,444,222
Basic earnings per share (in RMB)	0.0688	0.0685

### Diluted

Diluted earnings per share is the same as basic earnings per share due to the absence of dilutive potential ordinary shares for the six months ended 30 June 2014.

## 11 Accounts receivable

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Trade receivables, gross (note (a))		
- Fellow subsidiaries (note (b))	4,855,207	4,676,688
- A joint venture (note (b))	506	485
- Associates (note (b))	44,516	17,043
- Other related party (note (b))	12,033	12,033
- Others	3,290,065	2,738,880
	<u>8,202,327</u>	<u>7,445,129</u>
Less: Provision for impairment of receivables	(274,334)	(247,966)
	<u>7,927,993</u>	<u>7,197,163</u>
	-----	-----
Notes receivable (note (c))		
- Fellow subsidiaries	1,125,947	1,333,416
- Others	544,429	582,208
	<u>1,670,376</u>	<u>1,915,624</u>
	-----	-----
	<u>9,598,369</u>	<u>9,112,787</u>
	-----	-----
Less: non-current portion	(154,358)	(154,358)
	<u>9,444,011</u>	<u>8,958,429</u>
Current portion	<u><u>9,444,011</u></u>	<u><u>8,958,429</u></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 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Current to 1 year	6,475,489	6,012,460
1 year to 2 years	1,199,671	990,769
Over 2 years	527,167	441,900
	<u>8,202,327</u>	<u>7,445,129</u>

- (b) Trade receivables from these related parties 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 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Trade payables (note (a))		
- Fellow subsidiaries (note (b))	3,553,625	2,095,018
- Others	8,202,293	8,090,975
	<u>11,755,918</u>	<u>10,185,993</u>
Notes payable (note (c))		
- Fellow subsidiaries	942,650	2,899,868
- Others	1,478,190	945,872
	<u>2,420,840</u>	<u>3,845,740</u>
	<u>14,176,758</u>	<u>14,031,733</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 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Current to 1 year	10,132,363	7,030,113
1 year to 2 years	1,294,716	1,335,667
2 years to 3 years	153,325	1,418,780
Over 3 years	175,514	401,433
	<u>11,755,918</u>	<u>10,185,993</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. As at 30 June 2014, notes payable of RMB 2,020,989,000 (31 December 2013: RMB 3,288,767,000) were secured by pledged deposits to the extent of RMB 762,538,000 (31 December 2013: RMB 1,313,240,000).

## Management Discussion and Analysis

### BUSINESS REVIEW

In the first half of 2014, the global economic growth faced with various changes. With the PRC government vigorously promoting economic transformation and upgrading, plenty of opportunities arose for the development of high-end equipment manufacturing industry. By pushing on assets restructuring and further perfecting its aviation industry chain, the Group achieved a steady development in its various businesses.

For the six months ended 30 June 2014, the group recorded sales revenue of RMB10.399 billion, representing an increase of 11.75% as compared with that in the corresponding period of 2013. The profit attributable to the equity holders of the Company for the reporting period was RMB375 million, representing an increase of 0.54% as compared with that in the corresponding period of 2013.

In the first half of 2014, facing with new situation and challenges, Aviation Industry Corporation of China (“**AVIC**”), the controlling shareholder of the Company, comprehensively deepened its reform and management and enhanced its economic efficiency, and was listed for the sixth consecutive year in the Fortune Global 500, ranking 178th, representing an advance of 34 places from 2013 and 248 places from its ranking for the first time in Fortune Global 500 in 2009, with a total revenue of USD56.4 billion and a profit of USD0.74 billion. AVIC also ranked 6th in the sub-list of the Fortune Global 500 which include companies engaging in the aerospace and defense industry. Meanwhile, it was once again nominated and elected as China’s 500 Most Valuable Brands, ranking 25th, with a brand value reaching RMB90.5 billion.

In the first half of 2014, the Company actively pursued its various business reforms and development and, by participating in international air shows, expanded its product markets, thereby contributing to the continuous enhancement of the image and recognition of the Company in the international capital market. Mr. Lin Zuoming, Chairman of the Board, was elected as one of the “China’s Most Influential Business Leaders” for 2014, with his ranking moving up from 39th in 2013 to 17th. To participate in the defense assets restructuring of AVIC, the Company, together with China AVIC Electronics Co., Ltd. (“**AVIC Avionics**”), subscribed the A shares of Sichuan Chengfei Integration Technology Co., Ltd. (“**CITC**”). To enhance the unified management of the avionics business, AVIC Avionics was entrusted by AVIC to manage its equity interest in AVIC Avionics Systems Co., Ltd. (“**AVIC Avionics Systems**”). Hafei Aviation Industry Co., Ltd. (“**Hafei Aviation**”) reorganized its board of directors and merged its subsidiaries, Jiangxi Changhe Aviation Industry Co., Ltd. and Jingdezhen Changfei Aviation Parts and Components Co., Ltd., with a view to improving the decision-making efficiency of its helicopter business and effective use of its manufacturing resources. China Aviation Optical-Electrical Technology Co., Ltd. (“**JONHON Optronic**”) acquired an additional 10% equity interest of Xi’an Forstar S&T Company Limited (“**Xi’an Forstar**”) to strengthen its profitability. To further deepen the reform of its remuneration

scheme, the Company proposed to launch the second grant of restricted shares under its restricted shares incentive scheme (the “**Incentive Scheme**”), following the successful implementation of its first grant of restricted shares in 2011.

In March 2014, AVIC and Airbus Helicopter signed a cooperation agreement in France in relation to the EC175/AC352 helicopter project. As a company specializing in the manufacturing of civil helicopters and helicopter aero-parts and components under AVIC, Hafei Aviation will receive new business opportunities from the signing of the above cooperation agreement. In April 2014, the new helicopter model AC312A, upon successfully passing the examination of the Civil Aviation Administration of China (“**CAAC**”), obtained the production certificate issued by CAAC and is expected to enter the domestic civil market in batches. The Company keeps on developing new customers for civil helicopters.

Focusing on the good market adaptability of Y-12 aircraft, the Group actively promoted the Y-12 aircraft series in the civil aviation market, with a particular focus on exploring the general aviation market and new orders have been received. In March 2014, Y-12F fully commenced its airworthiness test flights and is expected to receive the type certificate from CAAC in 2014 and application for the type certificate from Federal Aviation Administration (FAA) is being actively pushed forward.

In the first half of 2014, continuous upgrading by the application of new technology has been made to the advanced trainer L15 of Jiangxi Hongdu Aviation Industry Co., Ltd. Proprietary researched and developed small size trainers are also under tests and manufacturing.

The avionics and electromechanical business of the Group also achieved good results. In May 2014, Shanghai Aviation Electric Co., Ltd., a subsidiary of the Company, undertook the package work covering independent research and manufacturing as well as batch delivery of the control system for C919, and became the systematic supplier for the maiden flight of C919. AVIC Taiyuan Aviation Instrument Co., Ltd. and Beijing University of Aeronautics and Astronautics successfully co-developed a sensor technology to be used in the air control system, winning the National Award for Technological Invention. The experimental centre of Chengdu CAIC Electronics Co., Ltd. received an accreditation and approval certificate from the National Laboratory, certifying its international certification capabilities. Tianjin Aviation Mechanical and Electrical Co., Ltd., together with a reputable domestic university, successfully established an advanced lab for aviation electrical controlling. JONHON Optronic successfully entered into the domestic markets for assembly interconnection system and charging equipment of new energy vehicles. Meanwhile, JONHON Optronic and its subsidiary Xi’an Forstar received new orders by seizing the opportunities arising from the promotion of the fourth generation mobile communication technologies by the PRC government.

## **FUTURE OUTLOOK**

Under the guidance of “Promotion of deepened civil-military integration development” raised by the government, the Ministry of Industry and Information Technology of the PRC promulgated the “Guidance Opinions on the Promotion of Civil-Military Integration Development” in April 2014. Meanwhile, the State-owned Assets Supervision and Administration Commission of the State Council also launched the pilot reform of state-owned enterprises, including developing the mixed ownership and pushing forward the reform of remuneration schemes. In the near future, China will focus on accelerating the strategic transformation of the economic structure and, by stimulating development through reforms and innovations, it will implement the various plans relating to the development of national strategic emerging industries set out in the Outline of the Twelfth Five-Year Plan for the National Economic and Social Development of the PRC. The Company will fully utilize the policies of the PRC government on encouraging enterprise reforms and further work out the reform initiatives which promote the rapid development of aviation entire aircraft and aviation parts and components business.

In the Second half of 2014, the Company will persist in its established strategies, deepen its reforms and improve its management to achieve a steady development. By virtue of generating innovative synergies between equity management and business management, simultaneously promoting self innovation and international cooperation, and developing positive interaction between the aviation industry and the non-aviation industry, the Company will actively move forward capitalized operation, optimize its investment structure and bring in high quality resources, so as to achieve value maintenance and value creation. The Company will strive to achieve growth in operating results and generate returns to the shareholders.

## **FINANCIAL REVIEW**

### **Revenue**

For the six months ended 30 June 2014, the Group achieved a revenue of RMB10,399 million, representing an increase of RMB1,093 million or 11.75% as compared with that of RMB9,306 million in the corresponding period of 2013, which was mainly attributable to the growth in helicopter business and the avionics business during the period. Among that, the revenue from helicopter products amounted to RMB4,691 million, representing an increase of RMB451 million or 10.64% as compared with that in the corresponding period of last year. The revenue from avionics products amounted to RMB3,773 million, representing an increase of RMB424 million or 12.66% as compared with that in the corresponding period of last year.

## **Segment Information**

For the six months ended 30 June 2014, the revenue of the aviation entire aircraft segment of the Group amounted to RMB4,932 million, representing an increase of 9.19% as compared with that in the corresponding period of 2013 and accounting for 47.43% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB5,467 million, representing an increase of 14.16% as compared with that in the corresponding period of 2013 and accounting for 52.57% of the total revenue of the Group.

The segment results of the aviation entire aircraft segment of the Group amounted to RMB197 million, representing an increase of RMB49 million or 33.11% as compared with that of RMB148 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 RMB726 million, representing an increase of RMB33 million or 4.76% as compared with that of RMB693 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 investment income.

## **Gross profit**

For the six months ended 30 June 2014, the Group recorded a gross profit of RMB2,097 million, representing an increase of RMB144 million or 7.37% as compared with that of RMB1,953 million in the corresponding period of last year. The gross profit rate 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.

## **Selling and distribution expenses**

For the six months ended 30 June 2014, the selling and distribution expenses of the Group amounted to RMB204 million, representing an increase of RMB26 million or 14.61% as compared with that of RMB178 million in the corresponding period of last year, which was mainly attributable to the increase in salaries of sales staff, transportation expenses and product quality assurance expenses. The selling and distribution expenses accounted for 1.96% of the revenue during the reporting period, representing a slight increase as compared with 1.91% in the corresponding period of last year.

## **General and administrative expenses**

For the six months ended 30 June 2014, the general and administrative expenses of the Group amounted to RMB1,125 million, representing an increase of RMB64 million or 6.03% as compared with that of RMB1,061 million in the corresponding period of last year. Such

increase was mainly attributable to the increase of the research and development expenses of subcontracting business. The general and administrative expenses accounted for 10.82% of the revenue during the reporting period, representing a decrease of 0.58 percentage points as compared with that of 11.40% in the corresponding period of last year.

### **Finance costs, net**

For the six months ended 30 June 2014, the net finance costs of the Group amounted to RMB16 million, representing an increase of RMB12 million as compared with that of RMB4 million in the corresponding period of 2013. This was mainly attributable to the increase in total borrowings. Please refer to note 7 to the financial information for details.

### **Net profit attributable to the equity holders of the Company**

For the six months ended 30 June 2014, the net profit attributable to the equity holders of the Company amounted to RMB375 million, representing an increase of RMB2 million or 0.54% as compared with that of RMB373 million in the corresponding period of 2013. As part of the helicopter assets newly acquired are still under construction with small profit contribution and the Company's shareholding ratio in Hafei Aviation was diluted. As a result, the Company's profit attributions to equity holders do not achieve the same level of growth during the period.

### **Liquidity and financial resources**

As at 30 June 2014, cash and cash equivalents of the Group amounted to RMB3,573 million, which were mainly derived from cash and bank deposits at the beginning of 2014 and proceeds generated from its operations during this period.

As at 30 June 2014, the Group's total borrowings amounted to RMB6,331 million, out of which short-term borrowings amounted to RMB3,988 million, with the current portion of long-term borrowings amounted to RMB380 million and the non-current portion of long-term borrowings amounted to RMB1,963 million.

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

	RMB million
Within one year	380
In the second year	482
In the third to fifth year	1,033
After the fifth year	448
Total	2,343

As at 30 June 2014, the Group's bank borrowings amounted to RMB3,670 million (the average interest rate of which was 6% per annum), representing an increase of RMB130 million as compared with that at the beginning of 2014; and other borrowings amounted to RMB2,662 million (the average interest rate of which was 5% per annum), representing an increase of RMB84 million as compared with that at the beginning of 2014.

Seasonal influence on the Group's borrowings was insignificant.

## **CAPITAL STRUCTURE**

As at 30 June 2014, the Group's borrowings were mainly denominated in Renminbi and cash and cash equivalents were mainly denominated in Renminbi and Hong Kong Dollar.

## **PLEDGE ON ASSETS**

As at 30 June 2014, the Group's secured borrowings amounted to RMB764 million, which were secured by receivables with a net book value of RMB1,015 million.

## **GEARING RATIO**

As at 30 June 2014, the Group's gearing ratio was 12.44% (31 December 2013: 12.01%), which was derived from dividing the total borrowings by the total assets as at 30 June 2014.

## **EXCHANGE RATE RISKS**

The Group mainly operates in the PRC with most of its transactions settled in Renminbi. Meanwhile, the Company has some deposits denominated in Hong Kong Dollar. The directors of the Company (the "**Directors**") 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 2014, 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 24 April 2014, JONHON Optronics entered into equity transfer agreements with Shaanxi State-Owned Assets Management Co., Ltd. and other related parties, all being independent third parties, pursuant to which, JONHON Optronics agreed to acquire an additional 10% equity interest in Xi'an Forstar (the “**Equity Transfer**”) with its own funds, at a consideration of RMB26.752 million. Upon completion of the Equity Transfer, JONHON Optronics will in aggregate hold 58.182% equity interest in Xi'an Forstar. Details can be referred to in the announcement of the Company dated 25 April 2014.

2. On 16 May 2014, each of the Company and AVIC Avionics entered into a share subscription agreement with CITC respectively (the “**Share Subscriptions**”), completion of which is subject to conditions, one of which is the Share Issuance and Asset Purchase Agreement(s) entered into between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Jiangxi Hongdu Aviation Industry (Group) Corporation Limited having become effective. Pursuant to the share subscription agreements, the Company has conditionally agreed to subscribe for not more than 100,301,200 new CITC A Shares for a total consideration of not more than RMB1,665 million in cash; and AVIC Avionics has conditionally agreed to subscribe for 33,132,500 new CITC A Shares for a total consideration of not more than RMB550 million in cash. The Share Subscriptions have been approved by the general meeting of shareholders of the Company.

The Company indirectly held 0.95% equity interest in CITC as at the reporting date and the Group will in aggregate hold approximately 8.45% equity interest in CITC upon completion of the Share Subscriptions. Details can be referred to in the announcement of the Company dated 16 May 2014 and the circular of the Company dated 9 June 2014.

## **USE OF PROCEEDS**

As at 30 June 2014, a total of RMB3,239 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 short-term deposits.

## **EMPLOYEES**

As at 30 June 2014, the Group had approximately 42,950 employees. The Group's staff costs amounted to RMB1,822 million for the six months ended 30 June 2014, representing an increase of RMB150 million or 8.97% as compared with that of RMB1,672 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 2013 annual report of the Company.

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

At the Board meeting convened on 25 March 2014, Mr. Chen Yuanxian was appointed as the vice president and chief financial officer of the Company. Mr. Wang Jun resigned as vice president and chief financial officer of the Company due to reaching the statutory retirement age with effect from 25 March 2014.

At the annual general meeting convened on 13 June 2014, Mr. Liu Renhuai was appointed as a new independent non-executive Director with a term of office commencing from the date on which his proposed appointment was approved at that annual general meeting until the date on which the resolution relating to the re-election of the 5th session of the Board is considered at the annual general meeting to be convened in 2015. Meanwhile, he was appointed as a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Board. Former independent non-executive director Mr. Li Xianzong resigned from his positions as an independent non-executive director, the chairman of the audit committee, as well as member of the remuneration committee and the nomination committee of the Board, due to other work commitments as required by his current employer.

## **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 and 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 2014.

## **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 2014.

## **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 2014.

## **OTHER SIGNIFICANT EVENTS**

1. On 25 March 2014, the Board resolved, according to the requirements of the Incentive Scheme, among other things, that the conditions for unlocking had been fulfilled in full by the Company and the scheme participants and accordingly, another one-third of the restricted shares granted to the eligible scheme participants under the initial grant were unlocked on 31 March 2014. Details can be referred to in the announcement of the Company dated 25 March 2014.

2. On 18 June 2014, the board of directors of AVIC Avionics, a non wholly-owned subsidiary of the Company, resolved to accept the entrustment from AVIC to manage its equity interest in AVIC Avionics Systems. Pursuant to the entrustment, and during the entrusted management period, AVIC would only retain the relevant shareholders' rights including right to profit distribution, right to distribution and disposition of residual property and shareholders' rights of 18.15% equity interest in AVIC Avionics held by AVIC Avionics Systems. AVIC Avionics will be entitled to exercise the remaining shareholder's rights and exert full decision rights on the manufacture and operation of the entrusted AVIC Avionics Systems. Details can be referred to in the announcement of the Company dated 18 June 2014.

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

For the six months ended 30 June 2014, 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 2014, 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 2014

*As at the date of this announcement, the Board 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. Lau Chung Man, Louis and Mr. Liu Renhuai.*

*\* For identification purpose only*