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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)

2017 Interim Results Announcement

Financial Highlights

- For the six months ended 30 June 2017, the Group recorded a revenue of RMB13,842 million, representing a decrease of 10.06% as compared with that of RMB15,391 million in the corresponding period of 2016.
- For the six months ended 30 June 2017, the profit attributable to equity holders of the Company was RMB550 million, representing an increase of 9.13% as compared with that of RMB504 million in the corresponding period of 2016.

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 2017 prepared according to International Accounting Standards as follows:

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

	<u>NOTES</u>	Six months ended 30 June <u>2017</u> RMB'000 (Unaudited)	<u>2016</u> RMB'000 (Unaudited)
Revenue	4	13,842,176	15,391,169
Cost of sales		<u>(10,917,411)</u>	<u>(12,512,079)</u>
Gross profit		<u>2,924,765</u>	<u>2,879,090</u>
Other income and gains	6	137,931	121,356
Other expenses		<u>(11,227)</u>	<u>(59,435)</u>
Other income and gains, net		<u>126,704</u>	<u>61,921</u>
Selling and distribution expenses		(253,169)	(252,207)
Administrative expenses		<u>(1,554,069)</u>	<u>(1,457,851)</u>
Operating profit		<u>1,244,231</u>	<u>1,230,953</u>
Finance income		74,079	112,039
Finance costs		<u>(202,366)</u>	<u>(207,948)</u>
Finance costs, net	7	<u>(128,287)</u>	<u>(95,909)</u>
Share of results of joint ventures		5,400	13,124
Share of results of associates		<u>72,261</u>	<u>25,089</u>
Profit before tax		1,193,605	1,173,257
Income tax expense	8	<u>(182,392)</u>	<u>(181,189)</u>
Profit for the period	9	<u>1,011,213</u>	<u>992,068</u>
Attributable to:			
Equity holders of the Company		550,217	504,202
Non-controlling interests		<u>460,996</u>	<u>487,866</u>
		<u>1,011,213</u>	<u>992,068</u>
Earnings per share attributable to ordinary equity holders of the Company			
Basic and diluted	11	<u>RMB0.0922</u>	<u>RMB0.0845</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME (Continued)**

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	1,011,213	992,068
Other comprehensive income (loss)		
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Net loss on changes in fair value of available-for-sale financial assets, net of tax	(87,112)	(157,987)
Exchange differences on translation of foreign operations	<u>(5,668)</u>	<u>3,415</u>
Other comprehensive loss, net of tax	<u>(92,780)</u>	<u>(154,572)</u>
Total comprehensive income for the period	<u><u>918,433</u></u>	<u><u>837,496</u></u>
Attributable to:		
Equity holders of the Company	496,634	424,163
Non-controlling interests	<u>421,799</u>	<u>413,333</u>
	<u><u>918,433</u></u>	<u><u>837,496</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<u>NOTES</u>	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		12,515,554	12,395,357
Investment properties		283,038	301,877
Land use rights		1,687,696	1,704,798
Goodwill		69,188	69,188
Other intangible assets		120,974	118,709
Investments in joint ventures		90,091	95,200
Investments in associates		876,515	839,427
Available-for-sale investments		1,406,509	1,477,284
Deferred tax assets		233,446	231,356
Prepayments, deposits and other receivables		693,810	638,067
Total non-current assets		17,976,821	17,871,263
Current assets			
Inventories		24,813,210	21,652,915
Accounts and notes receivables	12	16,750,573	16,147,794
Prepayments, deposits and other receivables		3,044,666	3,288,497
Financial assets held for trading		26,934	31,057
Pledged deposits		695,159	1,035,307
Term deposits with initial terms of over three months		2,187,066	709,047
Cash and cash equivalents		7,526,694	8,772,885
Total current assets		55,044,302	51,637,502
Total assets		73,021,123	69,508,765

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	<u>NOTES</u>	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Current liabilities			
Accounts and notes payable	13	24,421,074	23,953,202
Other payables and accruals		7,147,332	6,247,523
Interest-bearing bank and other borrowings		5,769,181	4,336,590
Tax payable		183,645	252,200
Total current liabilities		<u>37,521,232</u>	<u>34,789,515</u>
Net current assets		<u>17,523,070</u>	<u>16,847,987</u>
Total assets less current liabilities		<u>35,499,891</u>	<u>34,719,250</u>
Non-current liabilities			
Interest-bearing bank and other borrowings		4,340,305	4,374,148
Deferred income from government grants		850,260	869,321
Deferred tax liabilities		101,019	117,595
Other payables and accruals		1,021,802	1,021,531
Total non-current liabilities		<u>6,313,386</u>	<u>6,382,595</u>
Total liabilities		<u>43,834,618</u>	<u>41,172,110</u>
Net Assets		<u>29,186,505</u>	<u>28,336,655</u>
Capital and reserves			
Share capital		5,966,122	5,966,122
Reserves		7,813,119	7,433,659
Equity attributable to equity holders of the Company		<u>13,779,241</u>	<u>13,399,781</u>
Non-controlling interests		15,407,264	14,936,874
Total equity		<u>29,186,505</u>	<u>28,336,655</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, and AVIC became the holding company of the Company thereafter. The Company’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“**Hong Kong Stock Exchange**”) on 30 October 2003. The address of its registered office is 8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing, the PRC.

The Company and its subsidiaries (the “**Group**”) are principally involved in the research, development, manufacture and sale of aviation products and the delivery of aviation engineering services such as planning, design, consultation, construction and operation etc.

The Company’s directors regard AVIC, a company established in the PRC, as being the ultimate holding company of the Company. AVIC is a state-owned enterprise under control of the State Council of the PRC government.

The interim condensed consolidated financial statements have been approved for issue by the Board of Directors on 30 August 2017.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements of the Group for the six months ended 30 June 2017 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” issued by the International Accounting Standard Board (“**IASB**”).

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2016.

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretation (“**new IFRSs**”) issued by the IASB which are effective for the Group’s financial year beginning 1 January 2017.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRSs	Annual Improvements to IFRSs 2014-2016 Cycle

The application of the new and revised IFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these condensed consolidated financial statements.

3. BUSINESS COMBINATION UNDER COMMON CONTROL

On 30 September 2015 and 10 March 2016, the Company entered into an Equity Transfer Agreement, a Supplementary Agreement and a Share Issuance Agreement (collectively “the Agreements”) with its parent company AVIC to acquire 100% of the equity interest of China Aviation Planning and Design Institute Co., Ltd (“AVIC Planning”) at the consideration of RMB2,173,281,600. The number of consideration shares issued by the Company to AVIC was 491,692,669 shares at the issue price of RMB4.42 per consideration share. AVIC Planning is a subsidiary of AVIC. It is controlled by AVIC before and after the combination, and that control is not temporary, therefore the business combination is involving entities under common control. In accordance with the Agreements, the consideration shares were fully issued by the Company on 28 June 2016, by when the Company obtained the control over AVIC Planning. 28 June 2016 is determined to be the date of acquisition.

	Book value recognised on acquisition (Unaudited) RMB'000
Inventories	3,109,187
Other non-current assets	762,296
Accounts and notes receivable	2,297,958
Cash and cash equivalents	884,382
Other current assets	562,323
Total liabilities	<u>(6,751,760)</u>
Net assets	864,386
Non-controlling interests	(693)
Consolidation difference (recorded in equity)	<u>1,309,589</u>
Consideration transferred	<u><u>2,173,282</u></u>

The consideration transferred consists of equity instrument issued amounting to RMB2,173,281,600.

Net cash inflow on acquisition of AVIC Planning:

	(Unaudited) RMB'000
Cash consideration paid	-
Add: cash and cash equivalent balances acquired	<u>884,382</u>
	<u><u>884,382</u></u>

For the period from 1 January 2016 to 28 June 2016, AVIC Planning had contributed RMB3,438,906,000 of revenue and RMB135,926,000 to the profit for the period of the Group.

4. REVENUE

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts, an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the period. An analysis of the Group's revenue for the period is as follows:

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of goods	11,813,077	12,394,008
Rendering of services	<u>2,029,099</u>	<u>2,997,161</u>
	<u>13,842,176</u>	<u>15,391,169</u>

5. SEGMENT INFORMATION

Information reported to the Executive Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under IFRS 8 are as follows:

1. Aviation entire aircraft - manufacturing, assembly, sales and servicing of helicopters, trainers and other aircraft;
2. Aviation parts and components - manufacturing and sales of aviation parts and components; and
3. Aviation engineering services - delivery of aviation engineering services such as planning, design, consultation, construction and operation etc.

5. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following table presents revenue and results information regarding the Group's operating segments for the six months ended 30 June 2017 and 2016 respectively:

For six months ended 30 June 2017

	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<u>Segment Revenue:</u>				
External sales	4,741,717	6,851,801	2,248,658	13,842,176
Inter-segment sales				<u>405,244</u>
Segment revenue				14,247,420
Eliminations				<u>(405,244)</u>
Group revenue				<u><u>13,842,176</u></u>
Segment results	161,082	1,015,135	161,347	1,337,564
Interest income				74,079
Unallocated corporate expenses				(15,672)
Finance costs				<u>(202,366)</u>
Profit before tax				<u><u>1,193,605</u></u>

5. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For six months ended 30 June 2016

	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<u>Segment Revenue:</u>				
External sales	5,126,443	6,741,047	3,523,679	15,391,169
Inter-segment sales				<u>528,649</u>
Segment revenue				15,919,818
Eliminations				<u>(528,649)</u>
Group revenue				<u>15,391,169</u>
Segment results	238,169	929,869	110,074	1,278,112
Interest income				112,039
Unallocated corporate expenses				(8,946)
Finance costs				<u>(207,948)</u>
Profit before tax				<u>1,173,257</u>

Segment results represent the profit earned by each segment without allocation of central administration costs, directors' emoluments, interest income and finance costs. This is the measure reported to the Executive Directors of the Company, being the chief operating decision maker, for purposes of resources allocation and performance assessment.

5. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Segment assets		
Aviation entire aircraft	29,565,951	28,031,082
Aviation parts and components	34,991,294	33,476,440
Aviation engineering services	10,276,119	9,866,710
Total segment assets	74,833,364	71,374,232
Elimination of inter-segment receivables	(1,812,241)	(1,865,467)
Consolidated assets	<u>73,021,123</u>	<u>69,508,765</u>
Segment liabilities		
Aviation entire aircraft	17,604,978	16,111,296
Aviation parts and components	18,844,377	17,970,048
Aviation entire aircraft	9,197,504	8,956,233
Total segment liabilities	45,646,859	43,037,577
Elimination of inter-segment payables	(1,812,241)	(1,865,467)
Consolidated liabilities	<u>43,834,618</u>	<u>41,172,110</u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments; and
- all liabilities are allocated to operating segments.

5. SEGMENT INFORMATION (Continued)

Other segment information

For the six months ended 30 June 2017

	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure (Note)	317,198	495,822	95,963	908,983
Depreciation and amortisation	189,465	274,811	21,529	485,805
Impairment losses recognised in the statement of profit or loss	(20,574)	70,738	6,497	56,661
Other non-cash expenses	6,917	6,283	-	13,200
Share of results of joint ventures	-	5,400	-	5,400
Share of results of associates	2,652	68,236	1,373	72,261
Investments in associates	451,218	398,708	26,589	876,515
Investments in joint ventures	-	82,571	7,520	90,091

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

Interest income	(22,690)	(26,456)	(24,933)	(74,079)
Finance costs	44,214	152,993	5,159	202,366
Income tax expenses	39,370	120,218	22,804	182,392

For the six months ended 30 June 2016

	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure (Note)	197,803	411,543	89,866	699,212
Depreciation and amortisation	195,638	263,301	19,104	478,043
Impairment losses recognised in the statement of profit or loss	(36,505)	70,658	22,316	56,469
Other non-cash expenses	5,294	-	-	5,294
Share of results of joint ventures	-	13,124	-	13,124
Share of results of associates	(14,542)	54,736	(15,105)	25,089
Investments in associates	400,007	309,178	98,996	808,181
Investments in joint ventures	-	71,053	7,509	78,562

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:

Interest income	(34,565)	(35,046)	(42,428)	(112,039)
Finance costs	30,470	164,137	13,341	207,948
Income tax expenses	30,117	119,422	31,650	181,189

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

6. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Other income		
Income from sale of materials	144,516	157,296
Cost from sale of materials	<u>(134,292)</u>	<u>(137,647)</u>
Profit from sale of materials	10,224	19,649
Income from rendering of maintenance and other services	56,161	44,359
Dividend income	5,206	16,105
Net rental income	<u>7,679</u>	<u>7,895</u>
	<u>79,270</u>	<u>88,008</u>
Gains		
Fair value gains on financial assets held for trading, net	2,456	-
Confiscatory related income	7,175	-
Gain on disposal of an associate	4,739	9
Gain on disposal of a subsidiary	210	-
Others	<u>44,081</u>	<u>33,339</u>
	<u>58,661</u>	<u>33,348</u>
Other income and gains	<u>137,931</u>	<u>121,356</u>

7. FINANCE COSTS, NET

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Bank interest income	68,423	101,441
Other interest income	5,656	10,598
	<u>74,079</u>	<u>112,039</u>
Finance costs		
Interest on bank borrowings and other borrowings	190,366	201,490
Interest on finance leases	235	130
	<u>190,601</u>	<u>201,620</u>
Total interest expense	190,601	201,620
Less: Interest capitalised	(7,129)	(13,493)
Other financial costs	18,894	19,821
	<u>202,366</u>	<u>207,948</u>
Finance costs, net	<u>(128,287)</u>	<u>(95,909)</u>

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax - current period	185,698	191,637
Deferred tax	<u>(3,306)</u>	<u>(10,448)</u>
	<u>182,392</u>	<u>181,189</u>

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods. During the periods ended 30 June 2017 and 2016, certain subsidiaries of the Group were entitled a preferential tax rate of 15%.

9. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging / (crediting):

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	9,124,451	9,749,745
Cost of services provided	1,792,960	2,762,334
Depreciation of investment properties	3,800	4,344
Depreciation of property, plant and equipment	448,186	431,520
Less: Amortisation of deferred income from government grants	<u>(30,861)</u>	<u>(92,315)</u>
Total depreciation	<u>421,125</u>	<u>343,549</u>
Research and development costs	674,641	684,060
Less: Government grants released	<u>(141,141)</u>	<u>(256,587)</u>
Total research and development costs	<u>533,500</u>	<u>427,473</u>
Wages, salaries, housing benefits and other allowances (including directors' and chief executive's remuneration)	2,313,391	2,180,289
Share-based payment expense (including directors' and chief executive's remuneration)	6,283	-
Pension scheme contributions (including directors' and chief executive's remuneration)	<u>346,134</u>	<u>330,231</u>
Total staff costs	<u>2,665,808</u>	<u>2,510,520</u>
Auditors' remuneration	2,495	2,409
Amortisation of land use rights	21,396	29,267
Amortisation of intangible assets	12,423	12,912
Net foreign exchange losses / (gains)	7,005	(13,673)
Impairment loss on available-for-sale investments	-	21,578
Impairment loss on accounts and notes receivable and prepayments, deposits and other receivables	48,199	30,140
Write-down of inventories to net realisable value	<u>8,462</u>	<u>4,751</u>

10. DIVIDENDS

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends recognised as distribution of 2016 final dividend – RMB 0.02 (2016: 2015 final dividend – RMB 0.02) per share	<u>119,322</u>	<u>109,489</u>

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	Six months ended 30 June	
	<u>2017</u>	<u>2016</u>
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit for the period attributable to equity holders of the Company for the purpose of basic and diluted earnings per share	<u>550,217</u>	<u>504,202</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>5,966,122</u>	<u>5,966,122</u>

Diluted earnings per share is same as basic earnings per share for both periods as the Company had no potential dilutive ordinary shares in issue during both periods.

12. ACCOUNTS AND NOTES RECEIVABLE

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Accounts receivable		
-Ultimate holding company	222	4,310
- Fellow subsidiaries	5,319,946	5,961,059
- A joint venture	561	259
- Associates	2,477	26,523
- Others	9,541,796	6,686,343
	<u>14,865,002</u>	<u>12,678,494</u>
Less: impairment loss recognised	(711,772)	(664,157)
	<u>14,153,230</u>	<u>12,014,337</u>
Notes receivable		
- Fellow subsidiaries	1,272,785	2,191,714
- A joint venture	307	1,034
- Others	1,324,251	1,940,709
	<u>2,597,343</u>	<u>4,133,457</u>
	<u>16,750,573</u>	<u>16,147,794</u>

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

Accounts receivable are due according to the terms on the relevant contract. The following is an ageing analysis of accounts receivable net of accumulated impairment losses presented based on the invoice date at the end of reporting period which approximate the respective revenue recognition date.

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 1 year	11,822,973	9,735,933
1 to 2 years	1,853,116	1,788,223
2 to 3 years	343,669	376,470
Over 3 years	133,472	113,711
	<u>14,153,230</u>	<u>12,014,337</u>

13. ACCOUNTS AND NOTES PAYABLE

	30 June 2017 RMB' 000 (Unaudited)	31 December 2016 RMB' 000 (Audited)
Accounts payable		
- Ultimate holding company	61	138
- Fellow subsidiaries	3,418,988	3,037,576
- Joint ventures	-	8,172
- Associates	14,499	4,492
- Others	17,086,809	14,747,489
	<u>20,520,357</u>	<u>17,797,867</u>
Notes payable		
- Fellow subsidiaries	877,848	1,823,728
- Joint ventures	40,534	51,262
- Associates	-	600
- Others	2,982,335	4,279,745
	<u>3,900,717</u>	<u>6,155,335</u>
	<u>24,421,074</u>	<u>23,953,202</u>

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

	30 June 2017 RMB' 000 (Unaudited)	31 December 2016 RMB' 000 (Audited)
Within 1 year	16,686,659	13,139,169
1 to 2 years	2,129,211	3,079,340
2 to 3 years	827,025	1,178,862
Over 3 years	877,462	400,496
	<u>20,520,357</u>	<u>17,797,867</u>

The notes payable are with an average maturity period of less than six months. As at 30 June 2017, notes payable of approximately RMB2,953,253,000 (31 December 2016: RMB3,360,153,000) were secured by pledged deposits to the extent of approximately RMB832,144,000 (31 December 2016: RMB1,009,104,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2017, the national economy recorded steady development, and the supply-side structural reform presented significant early achievement. Following the strategic positioning of building a platform for China's aviation industry and related high-tech industries, the Company proactively conducted the initiatives of "leaner and healthier", improved the qualities and efficiencies of the economic operation, enhanced the competitiveness of major business, perfected the management and control on operations, and realized stable development on all businesses.

For the six months ended 30 June 2017, the Group recorded a revenue of RMB13,842 million, representing a decrease of 10.06% as compared with that of RMB15,391 million in the corresponding period of 2016. The profit attributable to equity holders of the Company for the reporting period was RMB550 million, representing an increase of 9.13% as compared with that of RMB504 million in the corresponding period of 2016.

In terms of the helicopter business, the Group insisted to focus on the system construction, build up the product brand and establish three systems including product research and development ("**R&D**"), market exploring and customer services. In the first half of 2017, the Group continued to strengthen the capabilities of R&D for helicopter, explore the market and launch products in line with the market demands. Upon awarded the civil aviation type certification and AEG (Aircraft Evaluation Group) review, AC311A helicopter was officially delivered to the customers for the first time, marking this model of helicopter officially stepping from manufacturing system to market operation system. At the same time, AC311 police helicopter was delivered smoothly and came into services officially, which will fully play its role in emergency reaction, social prevention and control, combating crime and terrorism and emergency rescue.

The aviation parts and components business of the Group also achieved good progress. In the first half of 2017, China Aviation Optical-Electrical Technology Co., Ltd.* ("**JONHON Optronic**") signed a strategic cooperation agreement with XJ Electric Co., Ltd., an electrical equipment manufacturer and system resolution provider, to improve the R&D capabilities and efficiency of the integrated products of JONHON Optronic. The TS Series Quick Plug Fluid connectors independently developed by JONHON Optronic reached advanced level in the world and the successful R&D of automated pressure-relief fluid connectors and pressure quick-disconnect connectors filled up the domestic technology blank. The establishment program of lean manufacturing model in aviation circuit breakers of Tianjin Aviation Mechanical and Electrical Co.,Ltd. won the excellent project in lean management of quality and technology award granted by China Quality Association. The establishment of the lean manufacture model has important guiding significance to improve the products of the same characteristics.

In the first half of 2017, C919 large scale passenger aircraft successfully made its first flight. Several subsidiaries of the Group participated in the subcontracting manufacture, equipment technology R&D and assembly test, providing solid guarantee for the first flight of C919. Jiangxi Hongdu Aviation Industry Co., Ltd.* and Harbin Hafei Aviation Industry Limited Liability Company* are the major suppliers of aircraft body of C919. JONHON Optronic successfully supplied products in parts of front and middle electronic compartment and rear cargo compartment. Chengdu CAIC Electronics Co., Ltd.* supplied air data heater controller for C919.

In June 2017, AVIC Guohua (Shanghai) Laser Display Technology Co., Ltd.* (“AVIC Guohua”), in which the Company invested, was established. As a golden sponsor of China pavilion of 2017 Astana World Expo, the Guohua series laser projectors of the Company will be the designated projectors for China pavilion. At that time, all the projection display and fusion solutions in China pavilion will use Guohua series laser projectors, which is also the first time that China self-brand projectors will be used in China pavilion in World Expo.

FUTURE OUTLOOK

2017 is an important connecting year to implement the 13th Five-Year Plan for National Economic and Social Development (“**13th Five-Year Plan**”) and also a year to deepen the supply-side structural reform. In the second half of 2017, the Company will continue to proactively push forward the initiatives of “leaner and healthier” and implement the requirements of supply-side structural reform, enhance the specialized integration of aviation industry to improve the core competitiveness. The Company will consistently carry reform through to the end, stimulate the vitality of working and starting businesses and speed up all reforms. Following the strategy of civil-military integration in aviation industry, the Company will create new model of industry development to set the business of civil-military integration as a new strategic increasing point of the Company, continue to explore new aviation manufacturing business and create core competitiveness of the aviation products.

FINANCIAL REVIEW

During the period of the first half of 2017, the business segments of the Group are divided into aviation entire aircraft, aviation parts and components and aviation engineering services.

Revenue

For the six months ended 30 June 2017, the Group achieved a revenue of RMB13,842 million, representing a decrease of RMB1,549 million or 10.06% as compared with that of RMB15,391 million in the corresponding period of last year, which is mainly attributable to the decrease in revenue of the aviation engineering services.

Segment information

For the six months ended 30 June 2017, the revenue of the aviation entire aircraft segment of the Group amounted to RMB4,742 million, representing a decrease of 7.49% as compared with that in the corresponding period of last year as certain entire aircraft products were in the course of upgrading. The revenue of the aviation entire aircraft segment accounted for 34.26% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB6,852 million, representing an increase of 1.65% as compared with that in the corresponding period of last year and accounting for 49.50% of the total revenue of the Group. The revenue of the aviation engineering services segment of the Group amounted to RMB2,248 million, representing a decrease of 36.21% as compared with that in the corresponding period of last year, which was mainly attributable to the decrease in the revenue of engineering constructions business due to the slowdown of progress in certain construction projects. Meanwhile, the revenue of the aviation engineering planning and consulting business with high gross profit margin remained stable as compared with that in the corresponding period of last year. The revenue of the aviation engineering services segment accounted for 16.24% of the total revenue of the Group.

The segment results of the aviation entire aircraft segment of the Group amounted to RMB161 million, representing a decrease of RMB77 million or 32.35% as compared with that of RMB238 million in the corresponding period of last year, which was mainly attributable to the decrease in the scale of revenue and the level of gross profit margin of aviation entire aircraft segment. The segment results of the aviation parts and components segment of the Group amounted to RMB1,015 million, representing an increase of RMB85 million or 9.14% as compared with that of RMB930 million in the corresponding period of last year, which was mainly attributable to the increase in the growth in the revenue and gross profit margin of avionics business. The segment results of the aviation engineering services segment of the Group amounted to RMB161 million, representing an increase of RMB51 million or 46.36% as compared with that of RMB110 million in the corresponding period of last year, the main reasons for which were: on one hand, the revenue from the aviation engineering planning and consulting business with high gross profit margin remained stable as compared with that in the corresponding period of last year; and on the other hand, the transforming and upgrading of the aviation engineering construction business was actively pushed forward to expand value-added services, increase gross profit margin and thus drive the increase of the results.

Gross profit

For the six months ended 30 June 2017, the Group recorded a gross profit of RMB2,925 million, representing an increase of RMB46 million or 1.60% as compared with that of RMB2,879 million in the corresponding period of last year. The comprehensive gross profit margin is 21.13%, representing an increase of 2.42 percentage points as compared with that in the corresponding period of last year.

Selling and distribution expenses

For the six months ended 30 June 2017, the selling and distribution expenses of the Group amounted to RMB253 million, representing a relatively flat level with that of RMB252 million in the corresponding period of last year. The selling and distribution expenses accounted for 1.83% of the revenue during the reporting period, basically same as that in the corresponding period of last year.

Administrative expenses

For the six months ended 30 June 2017, the administrative expenses of the Group amounted to RMB1,554 million, representing an increase of RMB96 million or 6.58% as compared with that of RMB1,458 million in the corresponding period of last year, which was mainly attributable to the increase in R&D investment as compared with that of the corresponding period of last year. The general and administrative expenses accounted for 11.23% of the revenue during the reporting period, representing an increase of 1.76 percentage points as compared with that of 9.47% in the corresponding period of last year.

Finance costs, net

For the six months ended 30 June 2017, the net finance costs of the Group amounted to RMB128 million, representing an increase of RMB32 million or 33.33% as compared with that of RMB96 million in the corresponding period of last year, which was mainly attributable to the decrease of interest income resulted from the decrease of daily bank deposits as compared with those of the corresponding period of last year.

Profit attributable to equity holders of the Company

For the six months ended 30 June 2017, the profit attributable to equity holders of the Company amounted to RMB550 million, representing an increase of RMB46 million or 9.13% as compared with that of RMB504 million in the corresponding period of last year. Although the revenue of the Group recorded a decrease as compared with that in the corresponding period of last year, the gross profit and subsidies increased, and the investment loss and impairment decreased as a result of the initiatives of “leaner and healthier” and the work of cleaning up the investments during the first half of 2017, all leading to the increase in the profit attributable to equity holders of the Company as compared with that in the corresponding period of last year.

Liquidity and financial resources

As at 30 June 2017, the cash and cash equivalents of the Group amounted to RMB7,527 million, which were mainly derived from cash and bank deposits at the beginning of 2017 and proceeds generated from business operations during the reporting period.

As at 30 June 2017, the Group's total borrowings amounted to RMB10,109 million, among which short-term borrowings amounted to RMB4,907 million, current portion of long-term borrowings amounted to RMB862 million and non-current portion of long-term borrowings amounted to RMB4,340 million.

As at 30 June 2017, the Group's bank borrowings amounted to RMB3,920 million with an average interest rate of 4% per annum, representing an increase of RMB1,383 million as compared with that at the beginning of the reporting period; and other borrowings amounted to RMB6,189 million with an average interest rate of 5% per annum, representing an increase of RMB15 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 2017, the Group's borrowings were mainly to be settled in Renminbi and cash and cash equivalents were mainly denominated in Renminbi.

MORTGAGE AND PLEDGE ON ASSETS

As at 30 June 2017, the Group's secured borrowings amounted to RMB197 million, which were mortgaged and pledged by pledged deposits, accounts receivable and notes receivable with a net book value of RMB206 million.

GEARING RATIO

As at 30 June 2017, the Group's gearing ratio was 13.84% (as at 31 December 2016 was 12.53%), which was derived from dividing the total borrowings by the total assets as at 30 June 2017.

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 significant and will not have any material adverse impact on the Group's financial results.

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2017, 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 15 March 2017, AviChina Industrial Investment Co., Ltd. * (“**AviChina Industrial Investment**”), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (the “**Joint Venture Agreement**”) with Shanghai Aviation Electric Co., Ltd. * (“**Shanghai Aviation Electric**”), a subsidiary of the Company, AVIC Avionics Systems Co., Ltd. *, a subsidiary of AVIC, and Shanghai Jiliang Photoelectric Technology Co., Ltd. * in relation to the proposed establishment of AVIC Guohua. Pursuant to the Joint Venture Agreement, the Company agreed to make indirect capital contributions of RMB76.674 million in aggregate, including a contribution of RMB55.324 million through Shanghai Aviation Electric and a contribution of RMB21.35 million through AviChina Industrial Investment, respectively. Upon establishment of AVIC Guohua, AVIC Guohua became a subsidiary of the Company, which was owned as to 47.77% and 18.44% by Shanghai Aviation Electric and AviChina Industrial Investment, respectively. For details, please refer to the announcement of the Company dated 15 March 2017.

2. On 10 April 2017, the Company entered into an investment agreement (the “**Investor Agreement**”) with AVIC Xi’an Flight Automatic Control Research Institute, BUAA Holdings Co., Ltd.* and BUAA electrooptical technology team. Pursuant to the Investor Agreement, the Company agreed to contribute RMB60 million for participation in the capital increase of Aviation Gyro (Beijing) Photoelectricity Technology Co., Ltd.* (“**AVIC Gyro**”). Upon completion of the capital increase, the Company, AVIC Xi’an Flight Automatic Control Research Institute, BUAA Holdings Co., Ltd. * and BUAA electrooptical technology team held 23.45%, 53.59%, 11.48% and 11.48% of the equity interest of AVIC Gyro, respectively. For details, please refer to the announcement of the Company dated 10 April 2017.

USE OF PROCEEDS

As at 30 June 2017, a total of RMB3,736 million out of the proceeds raised by the Company had been invested in the manufacturing, R&D 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 2017, the Group had approximately 50,070 employees. The Group’s staff costs amounted to RMB2,666 million for the six months ended 30 June 2017, representing an increase of RMB155 million or 6.17% as compared with that of RMB2,511 million in the corresponding period of last year.

The remuneration policies and training plans for employees of the Company remained the same as those set out in the 2016 annual report of the Company.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Gu Huizhong tendered a resignation to the Board to retire as the non-executive Director and related duties due to his age, and Mr. Gao Jianshe and Mr. Kiran Rao also applied to the Board for the resignation from their positions as the non-executive Directors and related duties due to other business commitments. At the annual general meeting convened on 18 May 2017 (the “AGM”), Mr. Wu Xiandong, Mr. Li Yao and Mr. Patrick de Castelbajac were appointed as the new non-executive Directors of the Company.

After the conclusion of the AGM, Mr. Gu Huizhong ceased to be a non-executive Director and a member of the development and strategy committee and the audit committee of the Board, Mr. Gao Jianshe ceased to be a non-executive Director and a member of the remuneration committee and the nomination committee of the Board, and Mr. Kiran Rao ceased to be a non-executive Director and a member of the development and strategy committee of the Board.

At the Board meeting convened following the AGM on the same date, Mr. Wu Xiandong was appointed as a member of the remuneration committee and the nomination committee of the Board, Mr. Li Yao was appointed as a member of the development and strategy committee and the audit committee of the Board, Mr. Patrick de Castelbajac was appointed as a member of the development and strategy committee of the Board, and Mr. He Zhiping was appointed as a member of the development and strategy committee and the remuneration committee of the Board.

Due to other business commitments, Mr. Chen Yuanxian and Mr. Chen Guanjun applied for resignation to the Board as the general manager and chief financial officer of the Company, and the deputy general manager of the Company, respectively. At the Board meeting convened following the AGM on the same date, the Board considered and approved the resolution of changes in certain senior management of the Company that: Mr. Chen Yuanxian and Mr. Chen Guanjun ceased to be appointed as the general manager and chief financial officer of the Company, and the deputy general manager of the Company, respectively; Mr. Qu Jingwen and Mr. Yu Feng were appointed as the general manager and chief financial officer of the Company, and the deputy general manager of the Company, respectively.

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 “**Listing Rules**”) on the Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”), 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 2017.

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 2017.

CORPORATE GOVERNANCE

The Company has strictly complied with various applicable laws, rules and regulations as well as its Articles of Association to standardize its operation. After reviewing the corporate governance arrangement adopted by the Company, the Board is of the view that the Company complied with the requirements of the principles and code provisions set out in the Corporate Governance Code under the Listing Rules for the six months ended 30 June 2017, except for the deviation that the chairman of the Board was not able to attend the AGM of the Company held on 18 May 2017 due to health reason. Vice chairman of the Board was authorized to chair the AGM and answer the questions raised at the meeting.

OTHER EVENTS

On 18 January 2017, pursuant to the Restricted Share Incentive Scheme, JONHON Optronic conducted the initial grant a total of 6,001,000 restricted shares to 266 selected scheme participants, representing approximately 0.9960% of the issued share capital of JONHON Optronic, with the grant date as 18 January 2017 and at the grant price of RMB28.19 per restricted share (the “**Initial Grant**”). Upon completion of the Initial Grant, the equity interest in JONHON Optronic held by the Company was diluted from 41.57% to 41.16%. The Initial Grant also involved the grant of 115,000 restricted shares to Mr. Guo Zeyi, the chairman of JONHON Optronic and the grant of 110,000 restricted shares to Mr. Zhao Yong, the general manager of JONHON Optronic. For details, please refer to the announcements of the Company dated 27 October 2016 and 18 January 2017.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

For the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INFORMATION DISCLOSURE ON THE WEBSITE OF HKEX

The electronic version of this announcement will be published on both the websites of Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (www.avichina.com). The interim report of the Company for the six months ended 30 June 2017, which contains all information as required by Appendix 16 to the Hong Kong Listing Rules, will be despatched to the shareholders of the Company and published on the websites of Hong Kong Stock Exchange and the Company in due course.

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

Beijing, 30 August 2017

As at the date of this announcement, the Board comprises executive Directors Mr. Lin Zuoming and non-executive Directors Mr. Tan Ruisong, Mr. Wu Xiandong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac 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*