AviChina

AviChina Industry & Technology Company Limited

中国航空科技工业股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code : 2357)

2018 INTERIM REPORT

CONTENTS

HIGHLIGHTS OF INTERIM RESULTS

The board of directors (the "**Board**") of AviChina Industry & Technology Company Limited (the "**Company**") hereby announces the unaudited interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2018 prepared according to International Accounting Standards.

Revenue	RMB14,450 million
Profit attributable to equity holders of the Company	RMB598 million
Earnings per share attributable to ordinary equity holders of the Company – Basic and diluted	RMB0.1002
Equity attributable to equity holders of the Company	RMB14,996 million

INTERIM DIVIDEND

The Board proposed that no interim dividend would be declared and paid for the six months ended 30 June 2018.

BUSINESS REVIEW

In the first half of 2018, Chinese economy continued its stable growth as a whole. By actively promoting the military - civilian integration development and supply-side structural reform, Aviation Industry Corporation of China, Ltd. ("**AVIC**") further improved its operation quality, launched its key transformation by echelon and enhanced its energy and motivation. In 2018, AVIC has been listed in the Fortune Global 500 for ten consecutive years and ranked the 161st in the list with revenue of USD59,263 million. Further, AVIC ranked the fifth in the space and defense industry list of the Fortune Global 500.

The Company follows the strategic objective of building an aviation power in the new era, by optimising and improving its development strategy, and is dedicated to becoming a flagship company for providing high-tech aviation military-civilian dual use products and services in China to propel the growth of the aviation industry. The Company established and invested in AVIC Rongfu Fund Management (Beijing) Company Limited* (中航融富基金管理(北京)有限公司) which will initiate the establishment of and manage military-civilian integration industry development fund of AVIC as an important platform of the Group for investments in industry development projects of aviation military-civilian integration.

The Company was approved to be a pilot company of the H share full circulation project. In June 2018, all domestic shares of the Company were converted into its tradable H shares. The full circulation further strengthens the bonding between the Company and its shareholders, attracts more attention from the international market and better supports the fast development and internationalized development of the aviation industry.

The Company has also been proactively promoting the brand building and international market exploration. The Group attended the U.K. Farnborough International Airshow with aviation products showing its new achievements in respect to international market expansion and sending out invitations to global aviation industry partners and investors to conduct multiple cooperations, and to create a win-win future together.

In the first half of 2018, the global economy encountered more and more risks and difficulties, the growth for major economic entities slowed down and the financial market witnessed fluctuations. In face of such adverse effect, the Group took initiatives and achieved growth in both revenue and profit. For the six months ended 30 June 2018, the Group recorded a revenue of RMB14,450 million, representing an increase of 3.58% as compared with that of RMB13,950 million (as restated) in the corresponding period of 2017. The profit attributable to equity holders of the Company for the reporting period was RMB598 million, representing an increase of 8.33% as compared with that of RMB552 million (as restated) in the corresponding period of 2017.

In the first half of 2018, the Group continued to improve the qualities and core competitiveness of helicopter products and to vigorously expand market for helicopter, so as to promote the military-civilian integration of helicopter business. The helicopters of the Group participated in the forest fire extinguishment in Inner Mongolia and Greater Khingan Range; successfully completed the water comprehensive rescue rehearsal in Poyang Lake and emergency rescue rehearsal of advance relocation for disaster prevention in Leping, Jingdezhen. All of the above operations fully demonstrated the strength and capabilities in emergency rescue of the helicopter products. The helicopter air tour project in Jiangxi Wuyuan scenic spot smoothly passed the on-site verification test of operation certification of Shanghai Regulatory Authority of Civil Aviation Administration of China.

At the same time, the Group proactively implemented the "Belt and Road" initiative, and constantly improved the impact of the trainer of the Group to the countries along the lines of the "Belt and Road". L15 advanced trainer produced by Jiangxi Hongdu Aviation Industry Co., Ltd.* ("**Hongdu Aviation**"), received high attention in the "KADEX-2018 International Exhibition" and several CJ6 primary trainers of Hongdu Aviation had been delivered to Sri Lanka Air Force and completed the checking and acceptance procedures.

In the first half of 2018, the Group continued to increase the investment in research and development of aviation parts and components business and enhance the cross-domain integration and innovation, and made significant achievement. China Aviation Optical-Electrical Technology Co., Ltd.* ("**JONHON Optronic**") continually researched and developed advanced products to meet the market demands. The charging products of European standard and American standard made by JONHON Optronic were granted the international excellence award for electric vehicle charging connector. The SMA(ZS), N(ZS), TNC(ZS) series radio frequency self-locking connector made by JONHON Optronic passed the assessment and review and satisfied the market demands for high reliability, convenient and efficient usage and thread locking when transmitting radio frequency signal. Meanwhile, JONHON Optronic also equipped the control system of "Chongqing Liangjiang Star", the first commercial rocket produced by private enterprise in China, with a lot of parts and components, and reduced its weight by more than half by applying innovation technology. China Avionics Systems Co., Ltd.* ("**AVIC Avionics**") made use of its own advantages, enhanced cross domain integration and innovation, and expanded into emerging industry. AVIC Virtual Reality Industrial Alliance Applied Research Center* ("**VR Industrial Alliance**") was established in Shanghai Aviation Electric Co., Ltd.* ("**Shanghai Aviation Electric**"). VR Industrial Alliance showed up on the Europe Laval Virtual Reality Exhibition for the first time with the whole series of VR products solutions and Shanghai Aviation Electric exhibited three product solutions such as laser projector screen, displaying the Chinese intelligent manufacturing capabilities and the aviation intelligent manufacturing capabilities.

In the first half of 2018, in the aviation engineering services business, the Group focused on quality improvement, established its brand effect, and built up its position as a market leader. China Aviation Planning and Design Institute Co., Ltd.* ("**AVIC Planning**") was awarded "Annual Best Contribution Award for Airport Construction and Design" by the 8th Annual of Airport Construction and Development International Summit (Shanghai), demonstrating AVIC Planning's leading position in airport design, environmental protection, etc. Capitalizing on its leading technical strength in the areas such as airport terminal, integrated transportation hub, etc., AVIC Planning won the bidding for the further research project for the urban airport terminal of Xiong'an New Area, and seized the opportunity for participating in Xiong'an New Area construction in advance. Meanwhile, AVIC Planning won the bidding for the engineering design and project management of the aid project for constructing the Xai-Xai airport in Mozambique. This signifies a significant breakthrough for AVIC Planning's implementation of the "Belt and Road" initiative and the infrastructure construction for the "Aerial Silk Road". The EPC ("**Engineering Procurement Construction**") engineering project for phase II reconstruction and extension of Yichang Three Gorges airport successfully launched. It is the first project adopting the EPC general subcontracting arrangement in the construction of medium and large domestic airports domestically.

As a major supplier for Commercial Aircraft Corporation of China Ltd.* **("COMAC")**, the Group pays high attention to the research and development and the quality control of products, and maintains good cooperation relationship with COMAC. A number of subsidiaries of the Group received the 2017 Supplier Excellence Award of COMAC. In the first half of 2018, the installation and the integrated adjustment of ARJ21-700 ELT control panel designed and produced by Shanghai Aviation Electric completed. The first LRU ("**Line Replaceable Unit**") level evaluation test for C919 Control Panel Assemblies and Dimming Control System developed and manufactured by Shanghai Aviation Electric and the radio frequency sensitivity test for the dimming control power successfully passed the on-site acceptance by Civil Aviation Administration of China.

BUSINESS OUTLOOK

In the second half of 2018, it is expected that the global economy will continue to face risks such as trade protectionism and fluctuations in the financial markets. In face of new problems and new challenges, China will deepen reforms, expand its opening up and bring new development momentum for the Chinese economy which is in a critical period from quantitative change to qualitative change for the shift in driving forces. Against the complex and changing economic environment, as an aviation high-tech enterprise, the Company will tightly seize the development opportunities brought by the adjustment of economic structure and innovation-driven development strategy, moving forward against the adverse environment. The Company will implement the strategy for forging a strong aviation country, and dedicate itself to be a flagship company for providing high-tech aviation military-civilian dual use products and services with a vision to be the most valuable listed company of the Chinese aviation industry. The Company will deeply carry out the innovation-driven development strategy, concretely improve its high-tech innovation capabilities, and speed up the research and development progress of the innovative products of light helicopter; insist on propelling resource integration, optimizing its development layouts, concentrating on its principal businesses, so as to strengthen the aviation industry; reinforce results appraisal and management to improve its quality and efficiency, and promote equity operation to increase investment income; stick to its development vision of opening and sharing, carry out joint investment, cooperation and international merger & acquisition; as well as act promptly to launch the investment projects for the military-civilian integration industry development fund of AVIC so as to promote the military-civilian integration of the aviation industry. The Company will stick to innovation and hard work and pull together with its shareholders in times of difficulties so as to build a wonderful future.

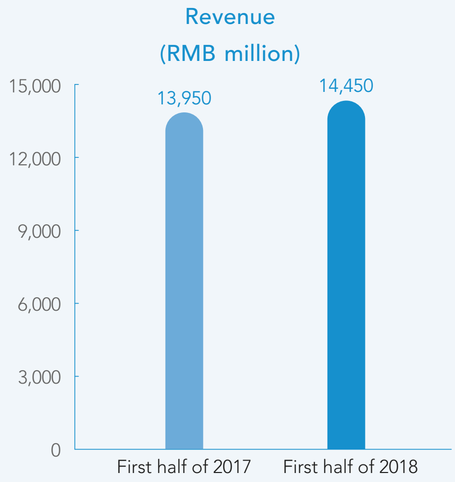
FINANCIAL REVIEW

In the second half of 2017, AVIC Planning, a subsidiary of the Company, acquired AVIC Renewable Energy Investment Co., Ltd.. Pursuant to the relevant requirements, the Group has restated relevant financial data in the corresponding period of the previous year when preparing this 2018 interim report.

Unless otherwise indicated, the financial data in the corresponding period of last year quoted in this report has all been restated.

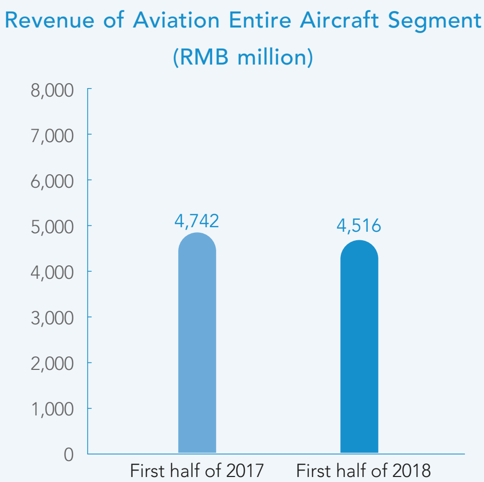
The business segments of the Group are divided into aviation entire aircraft segment, aviation parts and components segment and aviation engineering services segment.

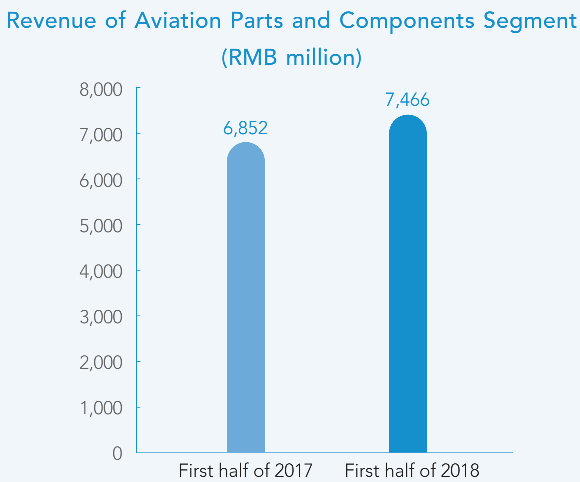
Revenue

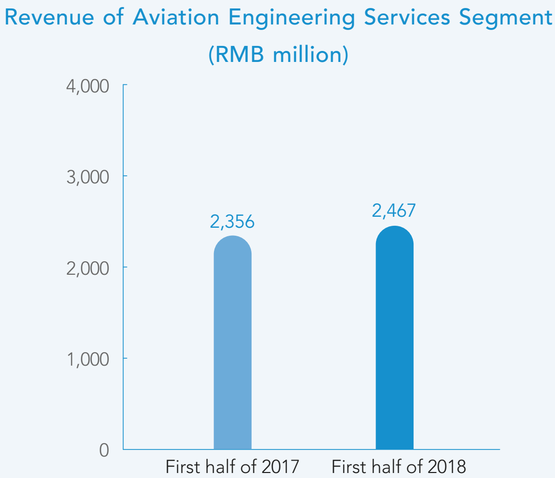


For the six months ended 30 June 2018, the Group recorded a revenue of RMB14,450 million, representing an increase of RMB500 million or 3.58% as compared with that of RMB13,950 million in the corresponding period of last year, which was mainly attributable to the increase in revenue of the aviation parts and components segment.

Segment Information







For the six months ended 30 June 2018, the revenue of the aviation entire aircraft segment of the Group amounted to RMB4,516 million, representing a decrease of 4.77% as compared with that in the corresponding period of last year. The revenue of the aviation entire aircraft segment accounted for 31.26% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB7,466 million, representing an increase of 8.96% as compared with that in the corresponding period of last year which was mainly attributable to the increase in revenue of avionics business and accounting for 51.67% of the total revenue of the Group. The revenue of the aviation engineering services segment of the Group amounted to RMB2,467 million, representing an increase of 4.71% as compared with that in the corresponding period of last year. The revenue of the aviation engineering services segment accounted for 17.07% of the total revenue of the Group.

The segment results of the aviation entire aircraft segment of the Group amounted to RMB177 million, representing an increase of RMB16 million or 9.94% as compared with that of RMB161 million in the corresponding period of last year. The increase was mainly attributable to the increase in gross profit margin of certain helicopter products. The segment results of the aviation parts and components segment of the Group amounted to RMB1,134 million, representing an increase of RMB119 million or 11.72% as compared with that of RMB1,015 million in the corresponding period of last year, which was mainly attributable to the increase in gross profit driven by the increase in revenue of avionics business and the increase of investment income from certain subsidiaries. The segment results of the aviation engineering services segment of the Group amounted to RMB140 million, representing a decrease of RMB46 million or 24.73% as compared with that of RMB186 million in the corresponding period of last year. The decrease was mainly attributable to the decrease in revenue and gross profit of the aviation engineering planning and design consultation businesses which have relatively high gross profit margin resulted from the delay in the contract signing process during the period.

Gross profit

For the six months ended 30 June 2018, the Group recorded a gross profit of RMB3,204 million, representing an increase of RMB240 million or 8.10% as compared with that of RMB2,964 million in the corresponding period of last year, which was mainly attributable to increase in the revenue and the gross profit margin. The comprehensive gross profit margin was 22.17% during the reporting period, representing an increase of 0.92 percentage points as compared with that in the corresponding period of last year.

Selling and distribution expenses

For the six months ended 30 June 2018, the selling and distribution expenses of the Group amounted to RMB272 million, representing an increase of RMB19 million or 7.51% as compared with that of RMB253 million in the corresponding period of last year. The increase was mainly due to the rise in labor costs of the salespersons in light of the increase in the number of salespersons for the purpose of expanding the market by certain subsidiaries. The selling and distribution expenses accounted for 1.88% of the revenue during the reporting period, and remained at the same level as that in the corresponding period of last year.

Administrative expenses

For the six months ended 30 June 2018, the administrative expenses of the Group amounted to RMB1,839 million, representing an increase of RMB269 million or 17.13% as compared with that of RMB1,570 million in the corresponding period of last year, which was mainly attributable to the increase in research and development investments by certain subsidiaries. The administrative expenses accounted for 12.73% of the revenue during the reporting period, representing an increase of 1.48 percentage points as compared with that of 11.25% in the corresponding period of last year.

Finance costs, net

For the six months ended 30 June 2018, the net finance costs of the Group amounted to RMB177 million, representing an increase of RMB22 million or 14.19% as compared with that of RMB155 million in the corresponding period of last year, which was mainly attributable to the increase of financial costs of AVIC Avionics during the reporting period as it issued convertible bonds at the end of last year. Please refer to note 8 to the financial statements for details.

Profit attributable to equity holders of the Company

For the six months ended 30 June 2018, the profit attributable to equity holders of the Company amounted to RMB598 million, representing an increase of RMB46 million or 8.33% as compared with that of RMB552 million in the corresponding period of last year. The increase was due to the increase in gross profit contribution driven by the increase in revenue and gross profit margin, as well as the increase in investment income and subsidies income of certain subsidiaries.

Liquidity and financial resources

As at 30 June 2018, the cash and cash equivalents of the Group amounted to RMB11,032 million, which were mainly derived from cash and bank deposits at the beginning of 2018 and proceeds generated from business operations during the reporting period.

As at 30 June 2018, the Group's total borrowings and convertible bonds amounted to RMB12,503 million, of which short-term borrowings amounted to RMB5,351 million, current portion of long-term borrowings amounted to RMB2,723 million, non-current portion of long-term borrowings amounted to RMB2,445 million, and convertible bonds amounted to RMB1,984 million.

As at 30 June 2018, among the Group's total borrowings, the bank borrowings amounted to RMB3,168 million with an average interest rate of 4% per annum, representing a decrease of RMB202 million as compared with that at the beginning of the reporting period; and other borrowings amounted to RMB7,351 million with an average interest rate of 4% per annum, representing an increase of RMB333 million as compared with that at the beginning of the reporting period.

Seasonal influence on the Group's borrowings demand was relatively insignificant.

CAPITAL STRUCTURE

As at 30 June 2018, the Group's borrowings were mainly settled in Renminbi and cash and cash equivalents were mainly held in Renminbi.

MORTGAGE AND PLEDGE ON ASSETS

As at 30 June 2018, the Group's secured borrowings amounted to RMB533 million, among which the borrowings of RMB193 million were pledged by accounts receivable and notes receivable with a net book value of RMB193 million; borrowings of RMB340 million were pledged by a future collecting right with an amount of not more than RMB512 million.

GEARING RATIO

As at 30 June 2018, the Group's gearing ratio was 15.27% (as at 31 December 2017 was 15.10%), which was derived from dividing the total borrowings and convertible bonds by the total assets as at 30 June 2018.

EXCHANGE RATE RISKS

The Group mainly operates in the PRC and most of its transactions are settled in Renminbi. The directors 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 positions.

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2018, 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 1 February 2018, the Company entered into a joint venture agreement with AVIC Manufacturing Technology Institute* (中國航空製造技術研究院), AVIC Aviation High-Technology Co., Ltd.* (中航航空高科技股份有限公司) and Beijing Hangyi Zhongchi Science and Technology Centre (Limited Partnership)* (北京航藝眾持科技中心(有限合夥)) in relation to the proposed establishment of Beijing Hangwei High-Technology Connection Technology Co., Ltd.* (北京航為高科連接技術有限公司) ("**Hangwei High-Technology**"). Pursuant to the agreement, the Company agreed to make a capital contribution of RMB95 million in cash, representing 38% of the total capital contribution of Hangwei High-Technology. For details, please refer to the announcement of the Company dated 1 February 2018.

2. On 26 February 2018, the Company, as the principal initiator, entered into a joint venture agreement with AVIC and AVIC Capital Co., Ltd.* (中航資本控股股份有限公司) ("**AVIC Capital**") in relation to the formation of Beijing Rongfu AVIC Fund Management Company* (北京融富航空工業基金管理有限公司) ("**Fund Management Company**"), pursuant to which, the Company agreed to make a capital contribution of RMB70 million in cash, representing 50% of the total capital contribution of Fund Management Company. Fund Management Company is a subsidiary of the Company and its financial results will be consolidated into those of the Company. On 24 April 2018, the Fund Management Company had completed the industrial and commercial registration and obtained the certificate of business upon related approvals. Its final registered name is AVIC Rongfu Fund Management (Beijing) Limited Company* (中航融富基金管理(北京)有限公司). Fund Management Company will propose to establish and manage an AVIC military-civilian integration fund as a general partner, which shall be dedicated to the investment in military-civilian integration development projects of aviation industry. For details, please refer to the announcements of the Company dated 26 February 2018 and 25 April 2018.

3. On 15 March 2018, to promote the industrialisation for the aviation high-tech achievements of aviation research institutes, the Company entered into a joint venture agreement with Chinese Aeronautical Radio Electronics Research Institute* (中國航空無線電電子研究所), AVIC Avionics Systems Co., Ltd.* (中航航空電子系統有限責任公司), Aviclub Holding Co., Ltd.* (愛飛客控股有限責任公司), Shanghai Advanced Avionics Company Ltd.* (上海埃威航空電子有限公司) and Shanghai Hanggong Enterprise Management Centre (Limited Partnership)* (上海航恭企業管理中心(有限合夥)) in relation to the proposed establishment of AVIC Air Traffic Management System Equipment Co., Ltd.* (中航工業空管系統裝備有限責任公司) ("**AVIC ATM System**"). Pursuant to the agreement, the Company agreed to make a capital contribution of RMB198 million in cash, representing 33% of the total capital contribution of AVIC ATM System. For details, please refer to the announcement of the Company dated 15 March 2018.

USE OF PROCEEDS

As at 30 June 2018, a total of RMB4,240 million out of the proceeds raised by the Company had been utilised in the manufacturing and research and development of advanced trainers, helicopters and aviation composite materials as well as the acquisition of assets in aviation business and equity investments. The remaining balance was deposited in banks in the PRC as interest-bearing short-term deposits.

EMPLOYEES

As at 30 June 2018, the Group had 50,257 employees. The Group's staff costs amounted to RMB3,073 million for the six months ended 30 June 2018, representing an increase of RMB395 million or 14.75% as compared with that of RMB2,678 million in the corresponding period of last year.

The remuneration policies and employee training programs of the Company remained the same as those set out in the 2017 annual report of the Company.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At the annual general meeting convened on 29 June 2018 (the "**AGM**"), certain members of the fifth session of the Board of the Company, namely Mr. Tan Ruisong (non-executive director), Mr. Li Yao (non-executive director), Mr. He Zhiping (non-executive director), Mr. Patrick de Castelbajac (non-executive director) and Mr. Liu Renhuai (independent non-executive director) participated in the re-election of directors of the sixth session of the Board and were re-elected as the directors. Other members of the fifth session of the Board, namely Mr. Lin Zuoming (executive director), Mr. Wu Xiandong (non-executive director), Mr. Lau Chung Man, Louis (independent non-executive director) and Mr. Yeung Chi Wai (independent non-executive director) confirmed that they would not participate in the re-election of the directors of the sixth session of the Board upon expiry of their terms of office. Meanwhile, Mr. Chen Yuanxian, Mr. Wang Xuejun, Mr. Liu Weiwu and Mr. Wang Jianxin were elected as the executive director, non-executive director, independent non-executive director and independent non-executive director of the sixth session of the Board of the Company, respectively.

After the conclusion of the AGM, the sixth session of the Board consists of the following members: Mr. Tan Ruisong (executive director), Mr. Chen Yuanxian (executive director), Mr. Li Yao (non-executive director), Mr. Wang Xuejun (non-executive director), Mr. He Zhiping (non-executive director), Mr. Patrick de Castelbajac (non-executive director), Mr. Liu Renhuai (independent non-executive director), Mr. Liu Weiwu (independent non-executive director) and Mr. Wang Jianxin (independent non-executive director).

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

At the AGM, Mr. Zheng Qiang, a member of the fifth session of the Supervisory Committee of the Company, participated in the re-election as shareholder representative supervisor of the sixth session of the Supervisory Committee and was re-elected as the supervisor. Other members of the fifth session of the Supervisory Committee, namely Mr. Liu Fumin and Ms. Li Jing confirmed that they would not participate in the re-election of the supervisors of the sixth session of the Supervisory Committee upon expiry of their terms of office. Meanwhile, Mr. Guo Guangxin and Mr. Shi Shiming were elected as the shareholder representative supervisor and employee representative supervisor respectively. After the conclusion of the AGM, the sixth session of the Supervisory Committee of the Company consists of the following members: Mr. Zheng Qiang (shareholder representative supervisor), Mr. Guo Guangxin (shareholder representative supervisor) and Mr. Shi Shiming (employee representative supervisor).

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

During the reporting period, due to other work commitments, Mr. Qu Jingwen, Mr. Yu Feng and Mr. Tang Jun tendered their resignation to the Board to resign from their positions of the general manager & chief financial officer, the deputy general manager and the deputy general manager of the Company, respectively. The Board appointed Mr. Chen Yuanxian as the general manager of the Company, Mr. Yan Lingxi as the standing deputy general manager of the Company and Mr. Tao Guofei as the deputy general manager & chief financial officer of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities (the "**Hong Kong Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"), and the Shares Trading Management Rules of the Company as its own guidelines for securities transactions by the Directors, supervisors and relevant employees of the Company. The Board has also confirmed that, having made specific enquiries of all the Directors and supervisors, all the Directors and supervisors of the Company had complied with the required standards for securities transactions by Directors and supervisors set out in the Model Code for the six months ended 30 June 2018.

INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2018, save as disclosed below, none of the Directors, supervisors or chief executive of the Company had interests or held short positions in the shares ("**Shares**"), underlying Shares and/or debentures of the Company and/or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO.

Name	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to share capital in issue (Note 1)	Nature of Shares held
Tan Ruisong	H Share	Beneficial owner	563,811	0.009%	Long position
Chen Yuanxian	H Share	Beneficial owner	255,687	0.004%	Long position
Li Yao (Note 2)	H Share	Beneficial owner	174,910	0.003%	Long position
Shi Shiming	H Share	Beneficial owner	35,984	0.0006%	Long position

Notes:

1. On 15 June 2018, all domestic shares of the Company were converted into its tradable H shares. Therefore, the share capital in issue refers to all H shares of the Company in issue. For details, please refer to the announcements in relation to participation in the H share full circulation pilot project by the Company dated 9 May, 30 May, 1 June, 11 June and 15 June 2018, respectively.

2. Based on the relevant disclosure of interests filed on the website of the Hong Kong Stock Exchange, as at 30 June 2018, Mr. Li Yao held 10,000 A shares in AVIC Capital (listed on Shanghai Stock Exchange with the stock code: 600705), representing approximately 0.0001% of the total issued share capital of AVIC Capital. AVIC Capital is a subsidiary of AVIC, and therefore it is an associated corporation (within the meaning of Part XV of the SFO) of the Company.

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDER

As at 30 June 2018, pursuant to the register of members kept under section 336 of the SFO, the shareholder holding 5% or more than 5% equity interests in the Company was as follows:

Name of Shareholder	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to share capital in issue (Note 1)	Nature of Shares held
AVIC (Note 2)	H Share	Beneficial owner, interest in controlled corporation	3,499,531,569	58.66%	Long position

Notes:

1. On 15 June 2018, all domestic shares of the Company were converted into its tradable H shares. Therefore, the share capital in issue refers to all H shares of the Company in issue. For details, please refer to the announcements in relation to participation in the H share full circulation pilot project by the Company dated 9 May, 30 May, 1 June, 11 June and 15 June 2018, respectively.

2. Among the 3,499,531,569 H Shares held by AVIC, 3,297,780,902 H Shares were directly held by it as beneficial owner, 183,404,667 H Shares were held through AVIC Electromechanical Systems Company Limited, its wholly-owned subsidiary, and 18,346,000 H Shares were held through China Aviation Industry (Hong Kong) Company Limited*, its wholly-owned subsidiary.

Save as disclosed above, as at 30 June 2018, the Company had not been notified of any other interests and short positions in 5% or more than 5% of the Shares and underlying Shares of the Company which had been recorded in the register of members kept under section 336 of the SFO.

As at 30 June 2018, Airbus Group, the strategic partner of the Company, held 274,909,827 H shares of the Company.

AUDIT COMMITTEE

The Board has established the audit committee and formulated the Terms of Reference of the Audit Committee in accordance with the 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 2018.

CORPORATE GOVERNANCE

The Company has strictly complied with various applicable laws, rules and regulations as well as its Articles of Association to standardize its operation. After reviewing the corporate governance arrangement adopted by the Company, the Board is of the view that the Company has complied with the requirements of the principles and code provisions set out in the Corporate Governance Code under the Hong Kong Listing Rules for the six months ended 30 June 2018.

OTHER EVENT

On 9 May 2018, China Securities Regulatory Commission approved the application of the Company in respect of participation in the H share full circulation pilot project. On 15 June 2018, 3,609,687,934 domestic shares of the Company were converted into H shares, and were listed on the Hong Kong Stock Exchange from 9:00 a.m. on 19 June 2018. For details, please refer to the announcements in relation to participation in the H share full circulation pilot project by the Company dated 9 May, 30 May, 1 June, 11 June and 15 June 2018, respectively.

MAJOR SUBSEQUENT EVENT

On 21 August 2018, the Company entered into an equity transfer agreement with AVIC, pursuant to which, the Company agreed to sell and AVIC agreed to acquire, 53.635% of the equity interest in China Aviation Publishing & Media Co., Ltd. ("**CAPMC**"). Immediately upon completion of the transaction, the Company will no longer hold any equity interest in CAPMC, and CAPMC will cease to be a subsidiary of the Company. Accordingly, the financial results of CAPMC will cease to be consolidated into the consolidated financial statements of the Company. It is estimated that the transaction will generate a book loss of approximately RMB2.16 million, being the difference between RMB46.73 million, the book value of 53.635% of the equity interest in CAPMC in the account of the long-term equity investment as at 30 June 2018 and the consideration of the transaction. The final amount is subject to calculation based on relevant data on the actual completion date. The Company intends to use the proceeds for supplementing the general working capital of the Group. For details, please refer to the announcement of the Company dated 21 August 2018.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

For the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

* *For identification purpose only*

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	NOTES	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited) (Restated)
Revenue	3	14,449,765	13,949,849
Cost of sales		(11,246,168)	(10,985,592)
Gross profit		3,203,597	2,964,257
Other income and gains	5	249,582	139,485
Other expenses		(3,330)	(11,639)
Other income and gains, net		246,252	127,846
Selling and distribution expenses		(272,273)	(253,169)
Administrative expenses		(1,838,887)	(1,569,640)
Operating profit		1,338,689	1,269,294
Finance income		96,693	74,265
Finance costs		(273,509)	(228,833)
Finance costs, net	6	(176,816)	(154,568)
Share of profits of joint ventures		10,767	5,400
Share of profits of associates		84,073	72,261
Profit before tax	7	1,256,713	1,192,387
Income tax expenses	8	(159,968)	(178,524)
Profit for the period		1,096,745	1,013,863
Attributable to:			
Equity holders of the Company		597,533	552,383
Non-controlling interests		499,212	461,480
		1,096,745	1,013,863
Earnings per share attributable to ordinary equity holders of the Company			
Basic and diluted			
– For profit for the period	10	RMB0.1002	RMB0.0926

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

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Profit for the period	1,096,745	1,013,863
Other comprehensive income (loss)		
Items that may be reclassified to profit or loss in subsequent periods (net of tax):		
Net loss on changes in fair value of available-for-sale investments, net of tax	–	(87,112)
Exchange differences on translation of foreign operations	1,620	(5,668)
Items that will not be reclassified to profit or loss in subsequent periods (net of tax):		
Changes in fair value of equity instruments at fair value through other comprehensive income	(73,021)	–
Other comprehensive loss for the period, net of tax	(71,401)	(92,780)
Total comprehensive income for the period	1,025,344	921,083
Attributable to:		
Equity holders of the Company	561,101	498,800
Non-controlling interests	464,243	422,283
	1,025,344	921,083

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	NOTES	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	14,474,791	14,527,086
Investment properties	11	277,907	281,545
Land use rights	11	1,668,805	1,689,809
Goodwill		69,122	69,188
Other intangible assets	11	595,956	619,438
Investments in joint ventures		126,716	122,433
Investments in associates		914,897	928,027
Available-for-sale investments		–	1,290,426
Equity instruments at fair value through other comprehensive income		1,179,049	–
Deferred tax assets		317,286	288,221
Prepayments, deposits and other receivables	13	813,661	810,567
Contract assets	14	672,143	–
Total non-current assets		21,110,333	20,626,740
Current assets			
Inventories		22,905,354	23,220,449
Accounts and notes receivables	12	19,165,889	17,541,036
Prepayments, deposits and other receivables	13	2,911,791	3,647,643
Contract assets	14	3,179,396	–
Financial assets at fair value through profit or loss		120,470	23,660
Pledged deposits		710,898	1,502,878
Term deposits with initial terms of over three months		630,300	1,307,509
Cash and cash equivalents		11,032,137	11,063,187
		60,656,235	58,306,362
Assets classified as held for sale	15	129,889	–
Total current assets		60,786,124	58,306,362
Total assets		81,896,457	78,933,102

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	NOTES	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Current liabilities			
Accounts and notes payables	16	25,005,856	24,084,796
Other payables and accruals		7,321,747	9,374,200
Interest-bearing bank and other borrowings	17	8,073,651	5,345,625
Obligations under finance leases		54,357	45,305
Contract liabilities		1,299,065	–
Tax payable		195,887	264,078
		41,950,563	39,114,004
Liabilities associated with assets classified as held for sale	15	40,722	–
Total current liabilities		41,991,285	39,114,004
Net current assets		18,794,839	19,192,358
Total assets less current liabilities		39,905,172	39,819,098
Non-current liabilities			
Interest-bearing bank and other borrowings	17	2,445,082	5,042,527
Deferred income from government grants		802,722	816,095
Deferred tax liabilities		66,273	82,441
Convertible bonds		1,984,352	1,531,945
Obligations under finance leases		351,269	373,802
Contract liabilities		1,225,528	–
Other payables and accruals		1,030,676	812,554
Total non-current liabilities		7,905,902	8,659,364
Total liabilities		49,897,187	47,773,368
Net assets		31,999,270	31,159,734
Equity			
Share capital	18	5,966,122	5,966,122
Reserves		9,030,070	8,743,139
Equity attributable to equity holders of the Company		14,996,192	14,709,261
Non-controlling interests		17,003,078	16,450,473
Total equity		31,999,270	31,159,734

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to equity holders of the Company								Non-controlling interests	Total
	Share capital	Capital reserve	Convertible bonds equity reserve	Fair value reserve	Currency translation reserve	Other reserves	Retained earnings	Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017 (Audited)	5,966,122	3,840,969	352,610	(162,317)	2,920	241,248	4,467,709	14,709,261	16,450,473	31,159,734
Change in accounting policy	–	–	–	(97,957)	–	–	97,957	–	–	–
As at 1 January 2018 (as restated)	5,966,122	3,840,969	352,610	(260,274)	2,920	241,248	4,565,666	14,709,261	16,450,473	31,159,734
Profit for the period	–	–	–	–	–	–	597,533	597,533	499,212	1,096,745
Other comprehensive (loss) income for the period, net of tax	–	–	–	(38,021)	1,589	–	–	(36,432)	(34,969)	(71,401)
Total comprehensive (loss) income for the period	–	–	–	(38,021)	1,589	–	597,533	561,101	464,243	1,025,344
Disposal of interests in subsidiaries	–	–	–	–	–	–	–	–	(3,168)	(3,168)
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	53,543	53,543
2017 final dividend	–	–	–	–	–	–	(178,984)	(178,984)	–	(178,984)
Contribution from non-controlling shareholders of subsidiaries (Note a)	–	–	–	–	–	–	–	–	71,193	71,193
Recognition of equity-settled share-based payment expenses of a subsidiary	–	4,698	–	–	–	–	–	4,698	6,714	11,412
Recognition of equity component of convertible bonds of a subsidiary	–	14	(99,714)	–	–	–	–	(99,700)	192,520	92,820
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(233,872)	(233,872)
Appropriation	–	–	–	–	–	16,116	(16,116)	–	–	–
Others	–	(184)	–	–	–	–	–	(184)	1,432	1,248
As at 30 June 2018 (Unaudited)	5,966,122	3,845,497	252,896	(298,295)	4,509	257,364	4,968,099	14,996,192	17,003,078	31,999,270

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to equity holders of the Company							Non-controlling interests	Total
	Share capital RMB'000	Capital reserve RMB'000	Fair value reserve RMB'000	Currency translation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000	RMB'000	RMB'000
As at 31 December 2016 (as previously reported)	5,966,122	3,808,534	(36,006)	15,434	187,277	3,458,420	13,399,781	14,936,874	28,336,655
Business combinations involving entities under common control (Note b)	–	441,515	–	–	–	(39,698)	401,817	224,373	626,190
As at 1 January 2017 (as restated)	5,966,122	4,250,049	(36,006)	15,434	187,277	3,418,722	13,801,598	15,161,247	28,962,845
Profit for the period	–	–	–	–	–	552,383	552,383	461,480	1,013,863
Other comprehensive loss for the period, net of tax	–	–	(47,937)	(5,646)	–	–	(53,583)	(39,197)	(92,780)
Total comprehensive (loss) income for the period	–	–	(47,937)	(5,646)	–	552,383	498,800	422,283	921,083
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	249,341	249,341
2016 final dividend	–	–	–	–	–	(119,322)	(119,322)	–	(119,322)
Contribution from non-controlling shareholders of subsidiaries (Note a)	–	–	–	–	–	–	–	50,250	50,250
Recognition of equity-settled share-based payment expenses of a subsidiary	–	2,424	–	–	–	–	2,424	1,330	3,754
Dividends paid to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	(200,051)	(200,051)
Appropriation	–	–	–	–	16,430	(16,430)	–	–	–
Transactions with non-controlling interests	–	–	–	–	(276)	–	(276)	276	–
As at 30 June 2017 (as restated)	5,966,122	4,252,473	(83,943)	9,788	203,431	3,835,353	14,183,224	15,684,676	29,867,900

Notes:

(a) Contribution from non-controlling interests of subsidiaries mainly represented the state-owned interests in infrastructure projects upon completion.

(b) On 29 December 2017, the Company obtained the control over AVIC Renewable Energy Investment Co.,Ltd ("AVIC Renewable Energy") through business combinations involving entities under common control.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited) (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from (used in) operations	84,132	(483,756)
Interest received	94,197	74,265
Interest paid	(276,212)	(226,014)
Income tax paid	(267,654)	(254,269)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(365,537)	(889,774)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(395,032)	(615,445)
Purchase of land use rights	–	(4,294)
Purchase of other intangible assets	(14)	(59)
Additions to available-for-sale investments	–	(31,710)
Purchase of financial assets at fair value through profit or loss	(70,067)	–
Disposal of financial assets at fair value through profit or loss	24,799	6,789
Redemption of term deposits with initial term of over three months	1,307,509	717,656
Addition of term deposits with initial term of over three months	(630,300)	(2,187,066)
Government grant for purchase of property, plant and equipment	41,321	22,363
Proceeds from disposal of property, plant and equipment	17,804	38,075
Addition to investments in associates	(1,600)	(81,350)
Acquisition of subsidiaries	(618,807)	–
Disposal of investments in associates	54,633	9,996
Proceeds from disposal of equity instruments at fair value through other comprehensive income	5,636	–
Dividends received from joint ventures	6,484	9,689
Dividends received from equity investments	1,887	5,206
Dividends received from associates	5,020	74,412
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(250,727)	(2,035,738)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	3,312,848	4,324,604
Repayments of borrowings	(3,182,267)	(2,983,434)
Proceeds from convertible bonds	521,540	–
Repayment of obligations under finance leases	(13,481)	(15,419)
Capital injection by non-controlling shareholders of subsidiaries	43,918	234,757
Advance from non-controlling interests of subsidiaries	–	167,933
Payment of repurchase of shares of a subsidiary	(786)	–
Dividends paid to non-controlling shareholders of subsidiaries	(73,431)	(52,870)
NET CASH FLOWS FROM FINANCING ACTIVITIES	608,341	1,675,571
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,923)	(1,249,941)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	11,063,187	8,879,976
Effect of foreign exchange rate changes, net	896	(2,972)
CASH AND CASH EQUIVALENTS AT 30 JUNE	11,056,160	7,627,063
Analysis of Balances of Cash and Cash Equivalents:		
Cash and cash equivalents	11,032,137	7,627,063
Cash and cash equivalents included in assets classified as held for sale	24,023	–
	11,056,160	7,627,063

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 (name changed to Aviation Industry Corporation of China, Ltd, hereafter as "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 24 August 2018.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on Hong Kong Stock Exchange (the "Listing Rules") and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standard Board ("IASB").

Restatement of prior year's consolidated financial statements due to business combinations involving entities under common control

On 25 December 2017, a subsidiary of the Company entered into an Equity Transfer Agreement (the "Agreement") with a subsidiary of its ultimate holding company, AVIC, to acquire 69.3% equity interest of AVIC Renewable Energy, a subsidiary of AVIC, at the consideration of RMB413,571,300 by cash. The acquisition had been completed on 29 December 2017.

Given that AVIC Renewable Energy is under common control of AVIC before and after the business combination, and that control is not temporary, the acquisition of AVIC Renewable Energy is considered as business combination involving entities under common control. Accordingly, the Company applied the principles of merger accounting to account for the acquisition of AVIC Renewable Energy in preparing these interim condensed consolidated financial statements.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

Restatement of prior year's consolidated financial statements due to business combinations involving entities under common control (Continued)

By applying the principles of merger accounting, these interim condensed consolidated financial statements also included results and cash flows of AVIC Renewable Energy as if it had been combined with the Group throughout the year ended 31 December 2017, and from the earliest date presented. Comparative figures for the six months ended 30 June 2017 have been restated as a result of such. All intra-group transactions and balances have been eliminated on consolidation.

The quantitative impact on the interim condensed consolidated financial statements is summarised below:

(i) The interim condensed consolidated statement of profit or loss for the six months ended 30 June 2017

	As previously reported RMB'000	Merger of AVIC Renewable Energy RMB'000	Elimination of inter-company transactions RMB'000	As restated RMB'000
Revenue	13,842,176	107,673	–	13,949,849
Profit for the period	1,011,213	2,650	–	1,013,863

(ii) The interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2017

	As previously reported RMB'000	Merger of AVIC Renewable Energy RMB'000	Elimination of inter-company transactions RMB'000	As restated RMB'000
Total comprehensive income for the period	918,433	2,650	–	921,083

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

Restatement of prior year's consolidated financial statements due to business combinations involving entities under common control (Continued)

(iii) The interim condensed consolidated statement of cash flows for the six months ended 30 June 2017

	As previously reported RMB'000	Merger of AVIC Renewable Energy RMB'000	As restated RMB'000
Cash and cash equivalents at beginning of the period	8,772,885	107,091	8,879,976
Net cash flows (used in) from operating activities	(918,305)	28,531	(889,774)
Net cash flows (used in) investing activities	(2,018,075)	(17,663)	(2,035,738)
Net cash flows from (used in) financing activities	1,693,161	(17,590)	1,675,571
Effect of foreign exchange rate changes, net	(2,972)	–	(2,972)
Cash and cash equivalents at end of the period	7,526,694	100,369	7,627,063

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

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies used in the interim condensed consolidated financial statements for the six months ended 30 June 2018 are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current period, the Group has applied, for the first time, the following new standards, amendments and interpretation ("new and revised IFRSs") issued by the IASB which are effective for the Group's financial year beginning on 1 January 2018.

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRSs	*Annual Improvements to IFRSs 2014-2016 Cycle*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC Int-22	*Foreign Currency Transactions and Advance Consideration*

Except as described below, the application of other new and revised IFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods/years and/or on the disclosures set out in these condensed consolidated financial statements.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in below.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

IFRS 9 Financial Instruments (Continued)

Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including accounts and notes receivables, prepayments, deposits and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

IFRS 9 Financial Instruments (Continued)

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 1 year past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 5 years past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

At 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in below.

Classification and measurement of financial liabilities

With regard to the measurement of financial liabilities designated as at fair value through profit or loss ("FVTPL"), IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL was presented in profit or loss.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

IFRS 9 Financial Instruments (Continued)

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale investments RMB'000	Equity instruments at FVTOCI RMB'000	Financial assets at FVTPL RMB'000	Fair value reserve RMB'000	Retained earnings RMB'000
Closing balance at 31 December 2017 – IAS 39	1,290,426	–	23,660	(162,317)	4,467,709
Effect arising from initial application of IFRS 9	–	–	–	(97,957)	97,957
Reclassification from available-for-sale investments (a)	(1,290,426)	1,265,054	25,372	–	–
Opening balance at 1 January 2018	–	1,265,054	49,032	(260,274)	4,565,666

(a) Available-for-sale investments

From available-for-sale investments to equity instruments at FVOCI

At the date of initial application of IFRS 9, the Group's equity investments of RMB1,265,054,000 were reclassified from available-for sale investments to equity instruments at FVTOCI, of which RMB650,818,000 related to unquoted equity investments previously measured at cost less impairment under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application, the carrying amounts of those unquoted equity investments previously carried at cost less impairment are approximate to their fair value. No fair value gains or losses were adjusted to equity instruments at FVTOCI and FVTOCI reserve as at 1 January 2018. The accumulated fair value gain of RMB167,152,000 relating to those investments previously carried at fair value continued to accumulate in FVTOCI reserve as at 1 January 2018. In addition, impairment losses previously recognised of RMB97,957,000 were transferred from retained earnings to FVTOCI reserve as at 1 Janunary 2018.

From available-for-sale investments to financial assets at FVTPL

At the date of initial application of IFRS 9, the Group's equity investments of RMB25,372,000 were reclassified from available-for-sale investments to financial assets at FVTPL. The carrying amounts of those equity investments previously carried at cost less impairment were approximate to their fair value. No available-for-sale reserve has been transferred to retained earnings upon reclassification.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

IFRS 9 Financial Instruments (Continued)

(b) Impairment under ECL model

Loss allowances for other financial assets at amortised cost mainly comprise of accounts and notes receivables, prepayments, deposits and other receivables, pledged deposits, term deposits with initial terms of over three months and cash and cash equivalents, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company concluded that the impairment under ECL was approximate to the impairment under IAS 39. No additional credit loss allowance has been recognised against retained earnings and the respective asset.

IFRS 15 Revenue from contracts with customers

In the current period, the Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect if initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and a service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (Continued)

IFRS 15 Revenue from contracts with customers (Continued)

Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

– the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

– the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

– the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange of goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The major sources of revenue of the Group are sales of goods, provision of services and construction contracts. The directors of the Company have assessed each type of the performance obligations and considered that the performance obligations are similar to the identification of separate revenue components under IAS 18 Revenue in prior years. The directors of the Company also considered that the adoption of IFRS 15 has had no material impact on the timing and amounts of revenue recognised based on the existing business model of the Group.

In respect of construction contracts, the directors of the Company have considered the input and output method used to measure the progress towards complete satisfaction of these performance obligations appropriately depicts the performance under the contracts and continues to be applicable under IFRS 15. Apart from the additional disclosure in note 14, the directors of the Company considered that the adoption of IFRS 15 has had no material impact on the Group's condensed consolidated financial statements.

3. 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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Sales of goods	12,429,704	11,813,077
Rendering of services	2,020,061	2,136,772
	14,449,765	13,949,849

Timing of revenue recognition

For the six months ended 30 June 2018 (Unaudited)

	Total
	RMB'000
A point in time	7,606,356
Over time	6,843,409
	14,449,765

An analysis of the Group's revenue by segments is set out in Note 4 which is also the disaggregation of the Group's revenue from contracts with customers.

4. 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.

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 2018 and 2017 respectively:

For the six months ended 30 June 2018

	Aviation entire aircraft RMB'000 (Unaudited)	Aviation parts and components RMB'000 (Unaudited)	Aviation engineering services RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment Revenue:				
External sales	4,516,347	7,466,296	2,467,122	14,449,765
Inter-segment sales				454,275
Segment revenue				14,904,040
Eliminations				(454,275)
Group revenue				14,449,765
Segment results	176,965	1,134,487	140,191	1,451,643
Interest income				96,693
Unallocated corporate expenses				(18,114)
Finance costs				(273,509)
Profit before tax				1,256,713

4. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the six months ended 30 June 2017 (Restated)

	Aviation entire aircraft RMB'000 (Unaudited)	Aviation parts and components RMB'000 (Unaudited)	Aviation engineering services RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment Revenue:				
External sales	4,741,717	6,851,801	2,356,331	13,949,849
Inter-segment sales				405,244
Segment revenue				14,355,093
Eliminations				(405,244)
Group revenue				13,949,849
Segment results	161,082	1,015,135	186,410	1,362,627
Interest income				74,265
Unallocated corporate expenses				(15,672)
Finance costs				(228,833)
Profit before tax				1,192,387

Segment results are defined based on profit before tax excluding interest income, finance cost, corporate and other unallocated expenses. 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.

Revenue from the aviation entire aircraft and aviation parts and components are recognised over time and at a point in time respectively while revenue from aviation engineering services are recognised over time or at a point in time based on the respective contract terms.

4. 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 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Segment assets		
Aviation entire aircraft	28,699,089	28,152,099
Aviation parts and components	40,748,106	38,619,604
Aviation engineering services	13,661,277	13,688,167
Total segment assets	83,108,472	80,459,870
Elimination of inter-segment receivables	(1,212,015)	(1,526,768)
Consolidated assets	81,896,457	78,933,102
Segment liabilities		
Aviation entire aircraft	18,397,598	18,046,681
Aviation parts and components	22,580,807	21,246,266
Aviation engineering services	10,130,797	10,007,189
Total segment liabilities	51,109,202	49,300,136
Elimination of inter-segment payables	(1,212,015)	(1,526,768)
Consolidated liabilities	49,897,187	47,773,368

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.

4. SEGMENT INFORMATION (Continued)

Other segment information

For the six months ended 30 June 2018

	Aviation entire aircraft RMB'000 (Unaudited)	Aviation parts and components RMB'000 (Unaudited)	Aviation engineering services RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure (Note)	157,123	315,766	34,631	507,520
Depreciation and amortisation	182,539	299,129	96,237	577,905
Impairment losses recognised in the statement of profit or loss	5,765	74,805	23,812	104,382
Other non-cash expenses	77,647	11,412	–	89,059
Share of profits of joint ventures	59	10,708	–	10,767
Share of profits (loss) of associates	871	84,214	(1,012)	84,073
Investments in associates	348,835	524,760	41,302	914,897
Investments in joint ventures	24,036	102,680	–	126,716
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:				
Interest income	(23,094)	(63,687)	(9,912)	(96,693)
Finance costs	27,412	204,371	41,726	273,509
Income tax expenses	30,453	124,864	4,651	159,968

4. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the six months ended 30 June 2017 (Restated)

	Aviation entire aircraft RMB'000 (Unaudited)	Aviation parts and components RMB'000 (Unaudited)	Aviation engineering services RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Amounts included in the measure of segment profit or loss or segment assets:				
Capital expenditure (Note)	317,198	495,822	159,805	972,825
Depreciation and amortisation	189,465	274,811	78,421	542,697
Impairment losses recognised in the statement of profit or loss	(20,574)	70,738	8,208	58,372
Other non-cash expenses	6,917	6,283	–	13,200
Share of profits of joint ventures	–	5,400	–	5,400
Share of profits 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:				
Interest income	(22,690)	(26,456)	(25,119)	(74,265)
Finance costs	44,214	152,993	31,626	228,833
Income tax expenses	39,370	120,218	18,936	178,524

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

5. OTHER INCOME AND GAINS

	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited) (Restated)
Other income		
Income from sale of materials	235,996	144,516
Cost from sale of materials	(207,355)	(134,292)
Profit from sale of materials	28,641	10,224
Income from rendering of maintenance and other services	49,228	56,161
Dividend income	1,887	6,096
Net rental income	12,000	7,679
	91,756	80,160
Gains		
Fair value gains on financial assets at FVTPL, net	25,041	2,456
Net foreign exchange gains	10,178	–
Confiscatory related income	8,211	7,175
(Loss) gain on disposal of an associate	(933)	5,403
Gain on disposal of subsidiaries	7,276	210
Gain on disposal of financial assets at FVTPL	21,151	–
Gain on disposal of property, plant and equipment	2,826	–
Others	84,076	44,081
	157,826	59,325
Other income and gains	249,582	139,485

6. FINANCE COSTS, NET

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Finance income		
Bank interest income	91,262	68,609
Other interest income	5,431	5,656
	96,693	74,265
Finance costs		
Interest on bank borrowings and other borrowings	268,742	214,461
Interest on finance leases	9,752	2,596
Total interest expense	278,494	217,057
Less: Interest capitalised	(12,526)	(7,129)
Other financial costs	7,541	18,905
	273,509	228,833
Finance costs, net	(176,816)	(154,568)

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Cost of inventories sold	9,467,510	9,124,451
Cost of services provided	1,778,658	1,861,141
Depreciation of investment properties	4,063	3,800
Depreciation of property, plant and equipment	529,342	493,037
Less: Amortisation of deferred income from government grants	(25,758)	(30,861)
Total depreciation	507,647	465,976
Research and development costs	816,479	674,641
Less: Government grants released	(200,079)	(141,141)
Total research and development costs	616,400	533,500
Wages, salaries, housing benefits and other allowances (including directors', supervisors' and chief executive's emoluments)	2,659,715	2,325,945
Share-based payment expense (including directors', supervisors' and chief executive's emoluments)	11,412	6,283
Pension scheme contributions (including directors', supervisors' and chief executive's emoluments)	402,292	346,134
Total staff costs	3,073,419	2,678,362
Auditors' remuneration	3,578	2,495
Amortisation of land use rights	21,004	21,464
Amortisation of other intangible assets	23,496	24,396
Net foreign exchange (gains)/losses	(10,178)	7,008
Impairment loss on accounts and notes receivable and prepayments, deposits and other receivables	98,419	49,910
Write-down of inventories to net realisable value	5,963	8,462

8. INCOME TAX EXPENSES

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Current income tax	199,010	182,171
Deferred income tax	(39,042)	(3,647)
	159,968	178,524

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 2018 and 2017, certain subsidiaries of the Group were entitled a preferential tax rate of 15%.

9. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends recognised as distribution of 2017 final dividend – RMB0.03 (2017: 2016 final dividend – RMB0.02) per share	178,984	119,322

The Board of Directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

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

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Earnings		
Profit for the period attributable to ordinary equity holders of the Company for the purpose of basic and diluted earnings per share	597,533	552,383
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	5,966,122	5,966,122

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.

11. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LAND USE RIGHTS AND OTHER INTANGIBLE ASSETS

	Property, plant and equipment RMB'000	Investment properties RMB'000	Land use rights RMB'000	Other intangible assets RMB'000	Total RMB'000
COST					
At 1 January 2018 (Audited)	22,368,638	309,065	1,976,301	901,465	25,555,469
Additions	506,140	–	–	14	506,154
Disposals/write-off	(48,701)	–	–	–	(48,701)
Disposal of subsidiaries	(511)	–	–	–	(511)
Transfer to assets classified as held for sale	(24,674)	–	–	–	(24,674)
Exchange realignment	–	470	–	–	470
At 30 June 2018 (Unaudited)	22,800,892	309,535	1,976,301	901,479	25,988,207
DEPRECIATION AND IMPAIRMENT					
At 1 January 2018 (Audited)	7,841,552	27,520	286,492	282,027	8,437,591
Charge for the period	529,342	4,063	21,004	23,496	577,905
Eliminated on disposals	(33,723)	–	–	–	(33,723)
Disposal of subsidiaries	(303)	–	–	–	(303)
Transfer to assets classified as held for sale	(10,767)	–	–	–	(10,767)
Exchange realignment	–	45	–	–	45
At 30 June 2018 (Unaudited)	8,326,101	31,628	307,496	305,523	8,970,748
CARRYING VALUES					
At 30 June 2018 (Unaudited)	14,474,791	277,907	1,668,805	595,956	17,017,459

11. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LAND USE RIGHTS AND OTHER INTANGIBLE ASSETS (Continued)

	Property, plant and equipment RMB'000	Investment properties RMB'000	Land use rights RMB'000	Other intangible assets RMB'000	Total RMB'000
COST					
At 1 January 2017 (Restated)	20,756,456	337,439	1,957,705	890,705	23,942,305
Additions	658,215	–	4,294	14,688	677,197
Transfer from investment properties	17,159	(17,159)	–	–	–
Disposals/write-off	(71,552)	–	–	–	(71,552)
Exchange realignment	(1,176)	(1,737)	–	–	(2,913)
At 30 June 2017 (Restated)	21,359,102	318,543	1,961,999	905,393	24,545,037
DEPRECIATION AND IMPAIRMENT					
At 1 January 2017 (Restated)	7,207,607	35,562	249,459	200,839	7,693,467
Transfer from investment properties	3,729	(3,729)	–	–	–
Charge for the period	493,037	3,800	21,464	24,396	542,697
Eliminated on disposals	(33,217)	–	–	–	(33,217)
Exchange realignment	(89)	(128)	–	–	(217)
Impairment loss recognised in profit or loss	(2)	–	–	–	(2)
At 30 June 2017 (Restated)	7,671,065	35,505	270,923	225,235	8,202,728
CARRYING VALUES					
At 30 June 2017 (Restated)	13,688,037	283,038	1,691,076	680,158	16,342,309

Other intangible assets principally represent service concession arrangement, technology know-how, development costs capitalised in accordance with the Group's accounting policies, trademarks, licenses and contractual customer relationships.

12. ACCOUNTS AND NOTES RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Accounts receivable		
– Ultimate holding company	5,147	4,013
– Fellow subsidiaries	8,082,424	5,708,610
– Joint ventures	964	74
– Associates	76,625	95,780
– Others	8,680,241	8,390,254
	16,845,401	14,198,731
Less: impairment loss recognised	(927,876)	(825,306)
	15,917,525	13,373,425
Notes receivable		
– Fellow subsidiaries	1,658,988	1,706,446
– A joint venture	218	1,051
– Others	1,589,158	2,460,114
	3,248,364	4,167,611
	19,165,889	17,541,036

Certain accounts and notes receivables were pledged as security for bank borrowings (Note 17).

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 approximates to the respective revenue recognition date.

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 1 year	13,182,753	10,870,624
1 to 2 years	1,918,257	1,663,082
2 to 3 years	660,111	670,970
Over 3 years	156,404	168,749
	15,917,525	13,373,425

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Advances to suppliers		
– Ultimate holding company	–	3
– Fellow subsidiaries	237,853	339,175
– A joint venture	103	–
– Associates	9,803	10
– Others	753,042	584,693
Amounts due from customers for contract work	–	969,316
Dividend receivable		
– Fellow subsidiaries	1,055	–
– Associates	25	25
Prepayments and deposits		
– Fellow subsidiaries	38,813	–
– Others	932,778	923,682
Other advances to		
– Ultimate holding company	24,777	24,777
– Fellow subsidiaries	142,088	44,584
Other current assets		
– Fellow subsidiaries	61,755	55,159
– Others	989,124	882,419
Other receivables		
– Associates	90	53
– Others	534,146	634,314
	3,725,452	4,458,210
Less: Non-current portion	(813,661)	(810,567)
	2,911,791	3,647,643

14. CONTRACT ASSETS

	30 June 2018 RMB'000 (Unaudited)
Aviation entire aircraft	589,402
Aviation engineering services	3,262,137
	3,851,539
Current	3,179,396
Non-current	672,143
	3,851,539

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified performance obligations at the end of the reporting period on aviation entire aircraft and aviation engineering services. The contract assets are transferred to trade receivables when the rights become unconditional.

15. ASSETS CLASSIFIED AS HELD FOR SALE

On 29 June 2018, the directors of the Company resolved to dispose of one of the Group's subsidiaries, China Aviation Publishing & Media Co., Ltd (中航出版傳媒有限責任公司) ("CAPMC"). On 21 August 2018, the Company entered into the Equity Transfer Agreement with AVIC to dispose of 53.635% equity interest in CAPMC with a consideration of RMB44,570,400. The assets and liabilities attributable to the subsidiary, which are expected to be sold within twelve months, have been classified as held for sale and are presented separately in the condensed consolidated statement of financial position (see below).

The major classes of assets and liabilities of the subsidiary as at the end of the current interim period, which have been presented separately in the condensed consolidated statement of financial position, are as follows:

	30 June 2018 RMB'000 (Unaudited)
Property, plant and equipment	13,907
Deferred tax assets	3,275
Inventories	49,938
Accounts and notes receivables	33,637
Prepayments, deposits and other receivables	5,109
Cash and cash equivalents	24,023
Total assets classified as held for sale	129,889
Accounts and notes payables	16,551
Other payables and accruals	19,134
Tax payable	37
Deferred income from government grants	5,000
Total liabilities associated with assets classified as held for sale	40,722

16. ACCOUNTS AND NOTES PAYABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Accounts payable		
– Ultimate holding company	23	11,058
– Fellow subsidiaries	4,289,266	2,915,776
– Joint ventures	14,585	6,689
– Associates	8,874	57,649
– Others	15,395,040	14,976,684
	19,707,788	17,967,856
Notes payable		
– Fellow subsidiaries	1,213,557	2,011,324
– A joint venture	45,492	34,263
– An associate	750	15,349
– Others	4,038,269	4,056,004
	5,298,068	6,116,940
	25,005,856	24,084,796

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 1 year	15,169,777	11,903,022
1 to 2 years	2,950,835	3,794,203
2 to 3 years	1,090,479	1,267,904
Over 3 years	496,697	1,002,727
	19,707,788	17,967,856

The notes payable are with an average maturity period of less than six months. As at 30 June 2018, notes payable of approximately RMB1,121,613,000 (31 December 2017: RMB3,942,943,000) were secured by pledged deposits to the extent of approximately RMB578,620,000 (31 December 2017: RMB1,394,524,000).

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

Borrowings comprise:

	30 June 2018			31 December 2017		
	Effective interest rate	Maturity (Unaudited)	RMB'000	Effective interest rate	Maturity (Audited)	RMB'000
Current						
Bank borrowings						
– unsecured	3%-5%	2018-2019	1,423,616	3%-5%	2018	1,573,110
Other borrowings						
– unsecured	4%-6%	2018-2019	3,634,000	4%-5%	2018	2,614,000
Other borrowings						
– secured	4%-7%	2018-2019	293,000	4%-7%	2018	443,800
Current portion of long term						
Bank borrowings						
– unsecured	3%-5%	2018-2019	206,900	3%-5%	2018	163,800
Bank borrowings						
– secured	3%-6%	2018-2019	461,713	4%-5%	2018	37,915
Other borrowings						
– unsecured	3%-4%	2019	2,046,422	–	–	–
Other borrowings						
– secured	4%-5%	2018	8,000	4%-5%	2018	513,000
			8,073,651			5,345,625
Non-current						
Bank borrowings						
– unsecured	3%-5%	2019-2020	19,306	1%-5%	2019-2031	257,358
Bank borrowings						
– secured	1%-6%	2019-2031	1,056,184	1%-5%	2019-2031	1,337,567
Other borrowings						
– unsecured	3%-5%	2019-2021	1,355,000	3%-5%	2019-2021	3,443,510
Other borrowings						
– secured	5%	2021	14,592	5%	2019-2021	4,092
			2,445,082			5,042,527
Total borrowings			10,518,733			10,388,152

17. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Bank borrowings:		
– Within one year	2,092,229	1,774,825
– After one year but within two years	137,772	563,706
– After two years but within five years	243,823	87,098
– After five years	693,895	944,121
	3,167,719	3,369,750
Other borrowings:		
– Within one year	5,981,422	3,570,800
– After one year but within two years	1,280,000	3,267,602
– After two years but within five years	89,592	140,000
– After five years	–	40,000
	7,351,014	7,018,402
	10,518,733	10,388,152

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Carrying amount repayable within one year and shown under current liabilities	8,073,651	5,345,625
Amounts shown under non-current liabilities	2,445,082	5,042,527
	10,518,733	10,388,152

17. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Note:

As at 30 June 2018, other borrowings represented:

- corporate bonds issued by AVIC Jonhon Optronic Technology Co., Ltd. in an aggregate principal amount of nil (31 December 2017: RMB500,000,000) bearing interest at 5.08% per annum and guaranteed by the Company.

- medium-term notes issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB1,000,000,000 (31 December 2017: RMB1,000,000,000) bearing interest at 3.52% per annum.

- medium-term notes issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB900,000,000 (31 December 2017: RMB900,000,000) bearing interest at 3.20% per annum.

- borrowings granted by a fellow subsidiary of AVIC amounting to approximately RMB5,454,880,000 (31 December 2017: RMB4,493,677,000) bearing interest at 3% to 7% per annum.

At 30 June 2018, the Group's long term secured bank borrowings in aggregate amount of RMB340,400,000 (31 December 2017: RMB340,600,000) were secured by a future collecting right. The Group's other long term and short term bank borrowings and other borrowings were secured as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Securities over the Group's assets, at carrying value		
– Notes receivable	13,000	73,800
– Accounts receivable	180,000	278,098
	193,000	351,898
Guarantees provided by		
– Fellow subsidiaries	243,738	375,115
– Entities within the Group	1,056,351	1,276,859
	1,300,089	1,651,974
	1,493,089	2,003,872

18. SHARE CAPITAL

	Number of shares		Share capital	
	30 June 2018 '000 (Unaudited)	31 December 2017 '000 (Audited)	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Domestic shares of RMB1 each as at 30 June 2018 (31 December 2017: RMB1 each)				
Registered, issued and fully paid:				
At beginning of the period/year	3,609,688	3,609,688	3,609,688	3,609,688
Transferred to H shares	(3,609,688)	–	(3,609,688)	–
At end of the period/year	–	3,609,688	–	3,609,688
H shares of RMB1 each as at 30 June 2018 (31 December 2017: RMB1 each)				
Registered, issued and fully paid:				
At beginning of the period/year	2,356,434	2,356,434	2,356,434	2,356,434
Transferred from Domestic shares	3,609,688	–	3,609,688	–
At end of the period/year	5,966,122	2,356,434	5,966,122	2,356,434
	5,966,122	5,966,122	5,966,122	5,966,122

The conversion of 3,609,687,934 domestic shares into H shares was approved by China Securities Regulatory Commission on 9 May 2018 and completed on 15 June 2018. All original domestic shares were listed on Main Board of the Hong Kong Stock Exchange on 19 June 2018.

19. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Land and buildings		
– Within one year	32,993	36,038
– In the second to fifth year inclusive	86,248	92,439
– Over five years	47,423	12,394
	166,664	140,871

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for terms ranged from one to five (31 December 2017: one to five) years with fixed rentals.

20. CAPITAL COMMITMENTS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Commitments contracted but not provided for in respect of:		
– Acquisition of plant and equipment	44,345	48,786
– Construction	336,317	197,850
	380,662	246,636

21. RELATED PARTY TRANSACTIONS

(a) During the period, the Group entered into the following transactions with related parties:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Associates:		
– Sales of products	1,147	2,245
– Purchases of products	69	–
– Rental expense	–	143
Joint ventures:		
– Sales of products	1,180	1,298
– Purchases of products	66,949	52,705
Ultimate holding company:		
– Sales of products	–	10,537
– Rendering of service	102	–
– Guarantee	2,400,000	–
Fellow subsidiaries:		
– Sales of products	8,130,630	7,769,903
– Purchases of products	2,930,027	3,480,000
– Rendering of service	918,608	1,246,918
– Service fee payable	107,367	218,233
– Rental expense	21,301	47,279
– Rental income	4,820	7,000
– Guarantee	243,738	478,493

In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of the Group's business and determined based on mutually agreed terms.

21. RELATED PARTY TRANSACTIONS (Continued)

(b) The following balances were outstanding at the end of the reporting period:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Accounts receivable		
– Ultimate holding company	5,147	4,013
– Fellow subsidiaries	8,082,424	5,708,610
– Joint ventures	964	74
– Associates	76,625	95,780
Notes receivable		
– Fellow subsidiaries	1,658,988	1,706,446
– A joint venture	218	1,051
Advance to suppliers		
– Ultimate holding company	–	3
– Fellow subsidiaries	237,853	339,175
– A joint venture	103	–
– Associates	9,803	10
Other receivables and prepayments		
– Ultimate holding company	24,777	24,777
– Fellow subsidiaries	243,711	99,743
– Associates	115	78
Contract assets		
– Fellow subsidiaries	2,688,680	–
Deposits		
– A fellow subsidiary	4,686,583	6,213,600
Accounts payable		
– Ultimate holding company	23	11,058
– Fellow subsidiaries	4,289,266	2,915,776
– Joint ventures	14,585	6,689
– Associates	8,874	57,649

21. RELATED PARTY TRANSACTIONS (Continued)

(b) The following balances were outstanding at the end of the reporting period: (Continued)

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Notes payable		
– Fellow subsidiaries	1,213,557	2,011,324
– A joint venture	45,492	34,263
– An associate	750	15,349
Advances from customers		
– Ultimate holding company	32,287	32,419
– Fellow subsidiaries	2,903,360	4,612,188
– Associates	–	8,681
Other payables and accruals		
– Ultimate holding company	374,206	268,827
– Fellow subsidiaries	525,837	688,446
– Associates	17,665	17,665
Contract liabilities		
– Fellow subsidiaries	2,233,207	–
Borrowings		
– Fellow subsidiaries	5,454,880	4,493,677

Except for borrowings from a fellow subsidiary as stated in Note 17, other balances with related parties above were unsecured, non-interest bearing, and repayable or settled in accordance with the relevant trading terms.

21. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel

The remuneration of key management during the period were as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	1,601	1,369

The remuneration of key management, which includes directors (executive and non-executive), supervisors, and senior management, are determined by the remuneration committee having regard to the performance of individuals and market trends.

22. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	30 June	31 December
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Financial assets		
Borrowings and receivables (including cash and cash equivalents)	32,034,169	33,819,790
Financial assets at FVTPL	120,470	23,660
Equity instruments at FVTOCI	1,179,049	–
Available-for-sale investments	–	1,290,426
Financial liabilities		
At amortised cost	39,844,802	38,714,883

22. FINANCIAL INSTRUMENTS (Continued)

(b) Fair value measurements recognised in the interim condensed consolidated statement of financial position

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level I – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

	As at 30 June 2018			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL				
Listed equity securities	95,098	–	–	95,098
Unlisted equity securities	–	–	25,372	25,372
	95,098	–	25,372	120,470
Equity instruments at FVTOCI				
Listed equity securities	370,270	158,059	–	528,329
Unlisted equity securities	–	–	650,720	650,720
	370,270	158,059	650,720	1,179,049
	465,368	158,059	676,092	1,299,519

22. FINANCIAL INSTRUMENTS (Continued)

(b) Fair value measurements recognised in the interim condensed consolidated statement of financial position (Continued)

	As at 31 December 2017		
	Level 1	Level 2	Total
	RMB'000	RMB'000	RMB'000
Financial assets at FVTPL			
Listed equity securities	23,660	–	23,660
Available-for-sale investments			
Listed equity securities	427,425	186,811	614,236
	451,085	186,811	637,896

The Group did not have any financial liabilities measured at fair value as at 30 June 2018 and 31 December 2017.

During the period, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

23. COMPARATIVE AMOUNTS

As stated in note 2, the Company obtained the control over AVIC Renewable Energy through business combinations involving entities under common control on 29 December 2017, and hence the comparative information of the interim condensed consolidated financial statements is restated to include, financial performance and cash flows of AVIC Renewable Energy. Accordingly, certain comparative information is restated to conform with current period's presentation and accounting.

BOARD OF DIRECTORS

Executive Director (Chairman)	Tan Ruisong
Executive Director	Chen Yuanxian
Non-executive Director	Li Yao
Non-executive Director	Wang Xuejun
Non-executive Director	He Zhiping
Non-executive Director	Patrick de Castelbajac
Independent Non-executive Director	Liu Renhuai
Independent Non-executive Director	Liu Weiwu
Independent Non-executive Director	Wang Jianxin

SUPERVISORY COMMITTEE

Chairman	Zheng Qiang
Supervisor	Guo Guangxin
Supervisor	Shi Shiming

SENIOR MANAGEMENT

General Manager	Chen Yuanxian
Standing Deputy General Manager	Yan Lingxi
Deputy General Manager & Chief Financial Officer	Tao Guofei
Board Secretary	Gan Liwei

COMPANY SECRETARY

Xu Bin

THE NAME OF THE COMPANY

中國航空科技工業股份有限公司
AviChina Industry & Technology Company Limited

Abbreviation name in Chinese:	中航科工
Abbreviation name in English:	AVICHINA
Legal representative:	Tan Ruisong

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AUTHORISED REPRESENTATIVES

Tan Ruisong
Xu Bin

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PLACE OF LISTING, STOCK NAME AND STOCK CODE

Main Board of The Stock Exchange of Hong Kong Limited (H Share)
Stock name: AVICHINA
Stock code: 2357

REGISTERED ADDRESS

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