



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)

INTERIM REPORT 2013



ANNIVERSARY 週年
2003-2013

Contents

Highlights of Interim Results	2
Management Discussion and Analysis	3
Disclosure of Interests and Other Information	10
Condensed Interim Consolidated Income Statement	14
Condensed Interim Consolidated Statement of Comprehensive Income	15
Condensed Interim Consolidated Balance Sheet	16
Condensed Interim Consolidated Statement of Changes in Equity	18
Condensed Interim Consolidated Cash Flow Statement	20
Notes to the Condensed Consolidated Interim Financial Information	21
Corporate Information	45

Highlights of Interim Results

The board of directors (the “Board”) of AviChina Industry & Technology Company Limited (the “Company”) announces the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2013 prepared according to the International Financial Reporting Standards.

Revenue	RMB8,675 million
Net profit attributable to the equity holders of the Company	RMB348 million
Profit per share, basic and diluted	
– Basic	RMB0.0638
– Diluted	RMB0.0637
Equity attributable to the equity holders of the Company	RMB9,463 million

INTERIM DIVIDEND

The Board proposes that no interim dividend be paid for the six months ended 30 June 2013.

BUSINESS REVIEW

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

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

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

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

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

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

Management Discussion and Analysis

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

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

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

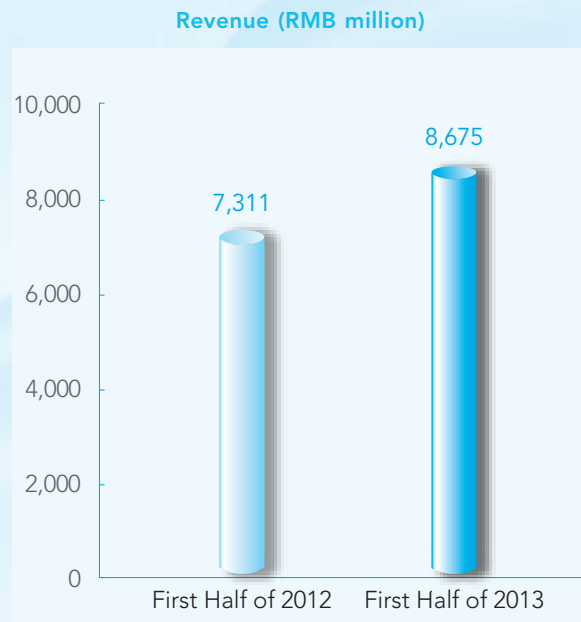
FUTURE OUTLOOK

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

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

FINANCIAL REVIEW

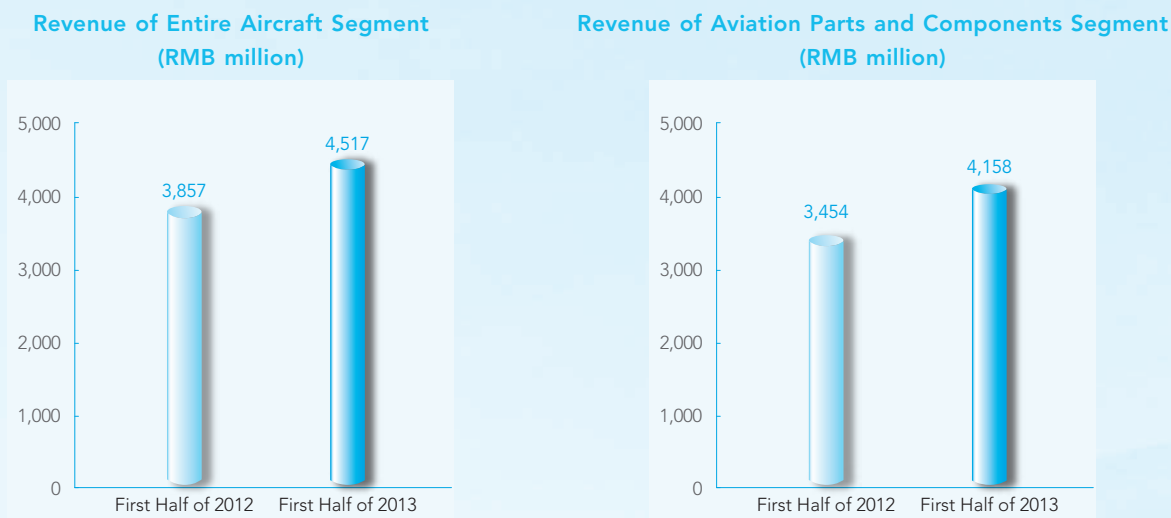
Revenue



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

Management Discussion and Analysis

Segment Information



For the six months ended 30 June 2013, the revenue of the entire aircraft segment of the Group amounted to RMB4,517 million, representing an increase of 17.11% as compared with that of the corresponding period in 2012 and accounting for 52.07% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB4,158 million, representing an increase of 20.38% as compared with that of the corresponding period in 2012 and accounting for 47.93% of the total revenue of the Group.

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

Gross profit

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

Sales and distribution expenses

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

General and administrative expenses

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

Management Discussion and Analysis

Finance income, net

For the six months ended 30 June 2013, the net finance income of the Group amounted to RMB30 million, representing a decrease of RMB2 million as compared with that of RMB32 million in the corresponding period in 2012. This was mainly attributable to the increase in interest expenses resulting from the issuance of corporate bonds by a subsidiary. Please refer to note 9 to the financial information for details.

Net profit attributable to the equity holders of the Company

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

Liquidity and financial resources

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

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

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

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

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

Seasonal influence on the Group's borrowings was insignificant.

CAPITAL STRUCTURE

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

Management Discussion and Analysis

PLEDGE ON ASSETS

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

GEARING RATIO

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

EXCHANGE RATE RISKS

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

CONTINGENT LIABILITIES AND GUARANTEES

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

MATERIAL ACQUISITIONS AND DISPOSALS

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

Management Discussion and Analysis

3. On 26 June 2013, AVIC Avionics entered into the Acquisition Agreement with AVIC Avionics Systems Co., Ltd. ("**AVIC Avionics Systems**"), pursuant to which AVIC Avionics Systems has agreed to sell and AVIC Avionics has agreed to purchase, subject to conditions, the 100% equity interest in each of Keeven Instrument and Changfeng Avionics for an aggregate consideration of RMB1,417,700,361 in cash. Details can be referred to in the announcement and the circular of the Company dated 9 December 2012, 14 June 2013, 26 June 2013 and 19 July 2013, respectively.

USE OF PROCEEDS

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

EMPLOYEES

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

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

Disclosure of Interests and Other Information

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities (the "Hong Kong Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") as its code for securities transactions by its directors and supervisors. The Board has also confirmed that, having made specific enquiries of all directors and supervisors, all the directors and supervisors of the Company had complied with the required standards for securities transactions by directors and supervisors set out in the Model Code for the six months ended 30 June 2013.

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

As at 30 June 2013, the interests and short positions of the directors, supervisors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required: (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO); or (ii) to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange are set out below:

Name of Director	Class of shares	Capacity	Number of Restricted Shares granted	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of shares held
Lin Zuoming	H Share	Beneficial owner	683,273	0.029%	0.012%	Long position
Tan Ruisong	H Share	Beneficial owner	614,579	0.026%	0.011%	Long position
Gu Huizhong	H Share	Beneficial owner	614,579	0.026%	0.011%	Long position
Gao Jianshe	H Share	Beneficial owner	614,579	0.026%	0.011%	Long position

Save as disclosed above, as at 30 June 2013, none of the directors, supervisors or chief executive of the Company had any interests or short positions: (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange; or (ii) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code, required to be notified to the Company and the Hong Kong Stock Exchange.

Disclosure of Interests and Other Information

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2013, pursuant to the register kept under section 336 of the SFO, shareholders holding 5% or more than 5% equity interests in the Company and its associated corporations were as follows:

Name of Shareholders	Class of shares	Capacity	Number of shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of shares held
AVIC (Note)	Domestic Shares	Beneficial owner; interest in controlled corporation	2,989,492,900	95.88%	54.61%	Long position
European Aeronautic Defence and Space Company – EADS N.V.	H Shares	Beneficial owner	274,909,827	11.67%	5.02%	Long position
BlackRock, Inc.	H Shares	Interest of corporation controlled by the substantial shareholder	139,121,426	5.90%	2.54%	Long position
			3,524,000	0.15%	0.06%	Short position
		Derivative interests	248,000	0.01%	0.005%	Long position

Note: Out of 2,989,492,900 domestic shares held by AVIC, 2,806,088,233 domestic shares were held as beneficial owner and 183,404,667 domestic shares were held through AVIC Electromechanical Systems Company Limited, its wholly-owned subsidiary.

Save as disclosed above, as at 30 June 2013, the Company had not been notified of any 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 kept by the Company under section 336 of the SFO.

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE

The Company has strictly complied with various applicable laws, rules and regulations as well as its Articles of Association to standardize its operation. After reviewing the corporate governance practices adopted by the Company, the Board was of the view that the Company complied with the requirements of the principles and code provisions set out in the Corporate Governance Code under the Hong Kong Listing Rules for the six months ended 30 June 2013, except for the deviation that the chairman of the Board was not able to attend the annual general meeting of the Company held on 14 June 2013 due to work arrangement and Mr. Tan Ruisong, vice chairman of the Board was authorized to chair the annual general meeting and answered the questions raised at the meeting.

Disclosure of Interests and Other Information

OTHER SIGNIFICANT EVENTS

1. On 29 January 2013, JONHON Optronics completed the issuance of Renminbi-denominated corporate bonds in the aggregate principal amount of RMB500 million with a maturity term of five years. The Company provided a full, unconditional and irrevocable joint liability guarantee in respect of the issuance of the aforesaid corporate bonds. Details can be referred to in the announcements of the Company dated 23 January 2013 and 29 January 2013, respectively.
2. On 25 March 2013, in order to strengthen the competitiveness and support the development of AVIC Avionics, the Company entered into the Guarantee Agreement with AVIC Avionics, pursuant to which the Company agreed to provide a guarantee of RMB600 million to AVIC Avionics for its issuance of the corporate bonds in the aggregate principal amount of not more than RMB1.5 billion with a maturity term of not more than five years. Details can be referred to in the announcement of the Company dated 25 March 2013.
3. On 25 March 2013, the Company and Aviation Industry Corporation Finance Company Limited (“AVIC Finance”) conditionally entered into the Financial Services Framework Agreement, pursuant to which AVIC Finance has agreed to provide the Group with deposit services, loan services, settlement services, guarantee services and other financial services on a non-exclusive basis for a further term of three years. Details can be referred to in the announcements of the Company dated 25 March 2013 and 14 June 2013, respectively and the circular of the Company dated 13 May 2013.
4. On 25 March 2013, the Board resolved to unlock one-third of the restricted shares granted to the eligible scheme participants under the initial grant on 2 April 2013, as the conditions for unlocking were fulfilled in full by the Company and the scheme participants according to the rules of the restricted share incentive scheme adopted by the Company. Details can be referred to in the announcement of the Company dated 25 March 2013.
5. On 16 April 2013, JONHON Optronics completed the placing of 61,847,988 new A shares at the placing price of RMB13.42 per new A share to six subscribers including the Company. Upon completion of the placing, 192,681,823 A shares of JONHON Optronics are held by the Company, representing approximately 41.57% of the total issued share capital of JONHON Optronics, which remains as a subsidiary of the Company. Details can be referred to in the announcements of the Company dated 17 April 2012, 4 May 2012 and 16 April 2013, respectively.
6. In view of the latest regulatory environment of the PRC and to cater for the development of the Company, the Board proposed certain amendments to be made to the Articles of Association of the Company in relation to the voting requirements for the transfer or conversion and listing of domestic invested shares issued by the Company and traded on overseas stock exchange(s). In the meantime, the Board also adjusted the means of corporate communication to improve the operational efficiency of the Company. The amendments to the Articles of Association of the Company were approved at the extraordinary general meeting and class shareholders meetings convened on 21 August 2013 as special resolutions. Details can be referred to in the announcements dated 14 June 2013, 5 July 2013, 19 July 2013, 24 July 2013 and 21 August 2013, and the circulars of the Company dated 5 July 2013 and 19 July 2013, respectively.

Disclosure of Interests and Other Information

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, there is a sufficient public float of more than 25% of the Company's issued shares as required under the Hong Kong Listing Rules.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

For the six months ended 30 June 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Lin Zuoming
Chairman

Beijing, 21 August 2013

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

Condensed Interim Consolidated Income Statement

For the six months ended 30 June 2013

	Note	For the six months ended 30 June	
		2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Revenue	5	8,674,506	7,311,495
Cost of sales		(7,041,243)	(5,856,492)
Gross profit		1,633,263	1,455,003
Other income	6	31,320	45,260
Other (losses)/gains, net	7	(1,252)	8,257
Selling and distribution expenses		(154,961)	(146,723)
General and administrative expenses		(857,958)	(810,502)
Operating profit		650,412	551,295
Finance income	9	120,852	103,748
Finance costs	9	(91,011)	(71,920)
Finance income, net		29,841	31,828
Share of results of a joint venture		1,515	–
Share of results of associates		53,384	37,066
Profit before income tax		735,152	620,189
Income tax expense	10	(91,446)	(76,781)
Profit for the period		643,706	543,408
Attributable to:			
Equity holders of the Company		347,609	312,513
Non-controlling interests		296,097	230,895
		643,706	543,408
Earnings per share for profit attributable to equity holders of the Company during the period:			
		RMB	RMB
– Basic	12	0.0638	0.0589
– Diluted	12	0.0637	0.0587

The notes on pages 21 to 44 are an integral part of this condensed consolidated interim financial information.

Condensed Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

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

The notes on pages 21 to 44 are an integral part of this condensed consolidated interim financial information.

Condensed Interim Consolidated Balance Sheet

As at 30 June 2013

	Note	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	13	5,251,010	4,856,146
Investment properties	13	26,139	26,529
Land use rights	13	592,486	557,910
Intangible assets	13	48,679	51,042
Interests in a joint venture		35,622	34,107
Interests in associates		1,069,827	1,059,579
Available-for-sale financial assets		1,143,927	1,095,772
Deferred income tax assets		77,398	69,319
Accounts receivable	14	51,342	51,342
Total non-current assets		8,296,430	7,801,746
Current assets			
Accounts receivable	14	6,023,172	5,957,238
Advances to suppliers		949,521	728,945
Other receivables and prepayments	15	1,207,975	1,081,522
Inventories		13,057,681	11,226,205
Financial assets held for trading		557	557
Pledged deposits		843,731	652,598
Term deposits with initial term of over three months		4,964,416	3,227,980
Cash and cash equivalents		2,680,428	5,219,321
Total current assets		29,727,481	28,094,366
Total assets		38,023,911	35,896,112

The notes on pages 21 to 44 are an integral part of this condensed consolidated interim financial information.

Condensed Interim Consolidated Balance Sheet

As at 30 June 2013

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

The notes on pages 21 to 44 are an integral part of this condensed consolidated interim financial information.

Condensed Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to equity holders of the Company								Non-	Total
	Share capital	Shares held for restricted share scheme	Capital reserve	Share-based compensation reserve	Available-for-sale financial assets reserve	Other reserve	Accumulated losses	Subtotal	controlling	
									interests	
RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	
For the six months ended 30 June 2013										
Balance at 1 January 2013	5,474,429	(139,994)	4,206,420	47,578	151,543	90,936	(704,426)	9,126,486	7,367,102	16,493,588
Total comprehensive income for the period	-	-	-	-	17,577	-	347,609	365,186	319,451	684,637
<i>Transactions with owners</i>										
Share issuance by a subsidiary (Note 1(a))										
- dilution gain to the Company	-	-	57,585	-	-	-	-	57,585	(57,585)	-
- contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	577,332	577,332
Acquisition of additional interests in a subsidiary (Note 1(b))	-	-	(2,309)	-	-	-	-	(2,309)	(9,986)	(12,295)
Shares vested under share scheme										
- funded by the Company (Note 20)	-	26,776	-	(26,776)	-	-	-	-	-	-
- funded by scheme participants	-	24,717	-	-	-	-	-	24,717	-	24,717
Value of employee services under share scheme (Note 20)	-	-	-	10,351	-	-	-	10,351	-	10,351
2012 final dividend	-	-	-	-	-	-	(109,489)	(109,489)	-	(109,489)
Contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	106,176	106,176
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(70,028)	(70,028)
Appropriation	-	-	-	-	-	14,128	(14,128)	-	-	-
Others	-	-	(9,992)	-	-	-	-	(9,992)	5,222	(4,770)
	-	51,493	45,284	(16,425)	-	14,128	(123,617)	(29,137)	551,131	521,994
Balance at 30 June 2013	5,474,429	(88,501)	4,251,704	31,153	169,120	105,064	(480,434)	9,462,535	8,237,684	17,700,219

The notes on pages 21 to 44 are an integral part of this condensed consolidated interim financial information.

Condensed Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	Attributable to equity holders of the Company							Non-controlling interests	Total	
	Share capital	Shares held for restricted share scheme	Capital reserve	Share-based compensation reserve	Available-for-sale financial assets reserve	Other reserve	Accumulated losses			
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	
Balance at 1 January 2012	4,949,025	(139,994)	3,697,382	20,390	177,731	43,048	(1,202,188)	7,545,394	6,572,866	14,118,260
Total comprehensive income for the period	-	-	-	-	(5,699)	-	312,513	306,814	222,980	529,794
<i>Transactions with owners</i>										
Issuance of new shares	525,404	-	625,643	-	-	-	-	1,151,047	-	1,151,047
Deemed distribution to holding company	-	-	(376,591)	-	-	-	-	(376,591)	-	(376,591)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(45,064)	(45,064)
Value of employee services under share scheme (Note 20)	-	-	-	13,594	-	-	-	13,594	-	13,594
2011 final dividend	-	-	-	-	-	-	(54,744)	(54,744)	-	(54,744)
Contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	400	400
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(25,388)	(25,388)
	525,404	-	249,052	13,594	-	-	(54,744)	733,306	(70,052)	663,254
Balance at 30 June 2012	5,474,429	(139,994)	3,946,434	33,984	172,032	43,048	(944,419)	8,585,514	6,725,794	15,311,308

The notes on pages 21 to 44 are an integral part of this condensed consolidated interim financial information.

Condensed Interim Consolidated Cash Flow Statement

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Net cash used in operating activities	(958,253)	(2,801,970)
Net cash used in investing activities	(2,437,092)	(1,403,269)
Net cash generated from financing activities	856,452	1,011,316
Net decrease in cash and cash equivalents	(2,538,893)	(3,193,923)
Cash and cash equivalents at 1 January	5,219,321	6,303,412
Cash and cash equivalents at 30 June	2,680,428	3,109,489

The notes on pages 21 to 44 are an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

1 ORGANISATION AND PRINCIPAL ACTIVITIES

AviChina Industry & Technology Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on 30 April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation of China Aviation Industry Corporation II (“AVIC II”). AVIC II merged with China Aviation Industry Corporation I (“AVIC I”) to form Aviation Industry Corporation of China (“AVIC”) on 6 November 2008. The Company’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) on 30 October 2003. The address of its registered office is 8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing, the PRC.

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

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

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

This Condensed Financial Information has not been audited.

Major changes of Group structure

- (a) On 3 April 2013, China Aviation Optical-Electrical Technology Co., Ltd. (“JONHON Optronic”, a subsidiary of the Company) issued approximately 62 million new shares (equivalent to approximately RMB807 million) to six subscription targets including the Company.

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

- (b) On 17 June 2013, the Company acquired an additional 1.56% equity interests in Chengdu CAIC Electronics Co., Ltd. (“AVIC Kaitian”, a subsidiary of the Company) at a cash consideration of approximately RMB12 million.

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

Notes to the Condensed Consolidated Interim Financial Information

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Information

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

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

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

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

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

3 ESTIMATES

The preparation of Condensed Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Condensed Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012.

Notes to the Condensed Consolidated Interim Financial Information

4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk.

The Condensed Financial Information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

There have been no changes in any risk management policies since the year end.

(b) Fair value estimation

The Group's financial instruments carried at fair value at 30 June 2013 include available-for-sale financial assets and financial assets held for trading, which are measured by level 1 valuation method. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3)

There were no transfers between levels of the fair value hierarchy during the period.

The carrying amounts of the Group's current financial assets and liabilities, including cash and cash equivalents, deposits, accounts and other receivables, accounts and other payables and current borrowings approximate their fair values. The fair values of non-current portion of borrowings are disclosed in Note 18(f) to this financial information.

5 SEGMENT INFORMATION

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

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

- Aviation – manufacturing, assembly, sales and servicing of helicopters, trainers and other aircrafts (“**entire aircrafts**”)
- Aviation – manufacturing and sales of aviation parts and components (“**aviation parts & components**”)

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

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

Notes to the Condensed Consolidated Interim Financial Information

5 SEGMENT INFORMATION (Continued)

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

Notes to the Condensed Consolidated Interim Financial Information

5 SEGMENT INFORMATION (Continued)

Reconciliation of segment results to profit for the period:

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

6 OTHER INCOME

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

Notes to the Condensed Consolidated Interim Financial Information

7 OTHER (LOSSES)/GAINS, NET

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

Notes to the Condensed Consolidated Interim Financial Information

8 EXPENSES BY NATURE

	For the six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Advertising costs	5,047	5,306
Amortisation on:		
– Land use rights	6,554	5,474
– Intangible assets	3,127	2,081
Auditors' remuneration	3,885	6,086
Changes in inventories of finished goods and work-in-progress	(984,411)	(976,213)
Contract costs incurred	4,030,056	3,394,575
Depreciation on:		
– Investment properties	390	480
– Property, plant and equipment	218,712	215,834
Less: amortisation of deferred income from government grant	(8,710)	(9,361)
	210,392	206,953
Fuel	154,629	146,597
Insurance	8,980	7,099
Operating lease rentals	94,046	46,760
Provision for impairment:		
– Inventories	188	934
– Receivables	31,523	45,774
Raw materials and consumables used	2,040,011	1,841,291
Repairs and maintenance expense	72,321	63,756
Research expenditures and development costs	230,134	194,098
Staff costs	1,404,551	1,267,542
Sub-contracting charges	269,109	150,788
Sundries	388,326	322,536
Transportation expenses	34,645	33,903
Travelling	51,049	48,377
Total cost of sales, selling and distribution expenses, and general and administrative expenses	8,054,162	6,813,717

Notes to the Condensed Consolidated Interim Financial Information

9 FINANCE INCOME, NET

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

Notes to the Condensed Consolidated Interim Financial Information

10 INCOME TAX EXPENSE

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

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

11 DIVIDENDS

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

Notes to the Condensed Consolidated Interim Financial Information

12 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period excluding shares held for the restricted share incentive scheme (Note 20).

Diluted

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

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

Notes to the Condensed Consolidated Interim Financial Information

13 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LAND USE RIGHTS AND INTANGIBLE ASSETS

	Property, plant and equipment RMB'000	Investment properties RMB'000	Land use rights RMB'000	Intangible assets (note) RMB'000	Total RMB'000
Cost					
As at 1 January 2013 (audited)	8,040,131	34,676	625,455	68,766	8,769,028
Additions	618,908	–	41,130	764	660,802
Disposals	(33,849)	–	–	–	(33,849)
As at 30 June 2013 (unaudited)	8,625,190	34,676	666,585	69,530	9,395,981
Accumulated depreciation/amortisation and impairment					
As at 1 January 2013 (audited)	3,183,985	8,147	67,545	17,724	3,277,401
Depreciation/amortisation	218,712	390	6,554	3,127	228,783
Disposals	(28,517)	–	–	–	(28,517)
As at 30 June 2013 (unaudited)	3,374,180	8,537	74,099	20,851	3,477,667
Net book value					
As at 30 June 2013 (unaudited)	5,251,010	26,139	592,486	48,679	5,918,314

Notes to the Condensed Consolidated Interim Financial Information

13 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LAND USE RIGHTS AND INTANGIBLE ASSETS (Continued)

	Property, plant and equipment RMB'000	Investment properties RMB'000	Land use rights RMB'000	Intangible assets (note) RMB'000	Total RMB'000
Cost					
As at 1 January 2012 (audited)	7,337,252	36,132	665,331	66,110	8,104,825
Additions	340,530	674	10,518	4,975	356,697
Disposals	(161,921)	–	(50,270)	–	(212,191)
As at 30 June 2012 (unaudited)	7,515,861	36,806	625,579	71,085	8,249,331
Accumulated depreciation/amortisation and impairment					
As at 1 January 2012 (audited)	2,853,794	8,086	74,902	13,416	2,950,198
Depreciation/amortisation	215,834	480	5,474	2,081	223,869
Disposals	(55,868)	–	(19,602)	–	(75,470)
As at 30 June 2012 (unaudited)	3,013,760	8,566	60,774	15,497	3,098,597
Net book value					
As at 30 June 2012 (unaudited)	4,502,101	28,240	564,805	55,588	5,150,734

Note:

Intangible assets principally represent development costs capitalised in accordance with the Group's accounting policies.

Notes to the Condensed Consolidated Interim Financial Information

14 ACCOUNTS RECEIVABLE

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Trade receivables, gross (note (a))		
– Fellow subsidiaries (note (b))	3,142,671	2,677,206
– Others	2,490,223	2,093,295
	<u>5,632,894</u>	<u>4,770,501</u>
Less: Provision for impairment of receivables	(262,470)	(216,158)
	<u>5,370,424</u>	<u>4,554,343</u>
Notes receivable (note (c))		
– Fellow subsidiaries (Note 22(b))	462,444	964,938
– Others	241,646	489,299
	<u>704,090</u>	<u>1,454,237</u>
	<u>6,074,514</u>	<u>6,008,580</u>
Less: non-current portion	(51,342)	(51,342)
Current portion	<u>6,023,172</u>	<u>5,957,238</u>

Notes:

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

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

- (b) Trade receivables from fellow subsidiaries are unsecured, non-interest bearing and are repayable in accordance with the relevant trading terms. Details of these balances are disclosed in Note 22(b).
- (c) Substantially all of the notes receivable are bank acceptance notes with average maturity period of within six months.
- (d) Substantially all of the accounts receivable are denominated in RMB.
- (e) Certain trade receivables were pledged as security for bank loans (Note 18(g)).

Notes to the Condensed Consolidated Interim Financial Information

15 OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Amounts due from customers for contract work	154,766	66,658
Dividends receivable from associates	82,917	8,165
Other advances to (note)		
– ultimate holding company	6,366	2,665
– fellow subsidiaries	120,310	122,470
Other receivables	502,814	615,790
Prepayments and deposits	47,451	66,060
Other current assets	293,351	199,714
	1,207,975	1,081,522

Note:

Other advances mainly represent current account balances with the respective related companies which are unsecured, non-interest bearing and are repayable on demand. Details of these balances are disclosed in Note 22(b).

16 ACCOUNTS PAYABLE

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Trade payables (note (a))		
– Fellow subsidiaries (note (b))	2,070,498	1,826,662
– Others	7,346,494	5,583,154
	9,416,992	7,409,816
Notes payable (note (c))		
– Fellow subsidiaries (Note 22(b))	1,112,207	1,411,954
– Others	782,048	1,220,796
	1,894,255	2,632,750
	11,311,247	10,042,566

Notes to the Condensed Consolidated Interim Financial Information

16 ACCOUNTS PAYABLE (Continued)

Notes:

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

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

- (b) Trade payables to fellow subsidiaries are unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms. Details of these balances are disclosed in Note 22(b).
- (c) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months being secured by pledged deposits to the extent of RMB843,731,000 (31 December 2012: RMB652,598,000).

17 OTHER PAYABLES AND ACCRUALS

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Payable for property, plant and equipment		
– Fellow subsidiaries (note (a))	78,749	109,855
– Others	37,583	62,946
Wages, salaries, bonuses and other employee benefits	816,391	929,161
Accrued expenses	477,426	515,756
Deferred income from government grants	17,497	19,969
Consumption tax, business tax and other taxes payable	35,031	67,265
Other advances from (note (b))		
– Ultimate holding company	9,080	8,860
– Fellow subsidiaries	235,679	143,670
Dividend payable to the Company's shareholders	109,489	–
Dividend payable to non-controlling shareholders of subsidiaries	175,048	144,564
Advances from participants of restricted share scheme (note 20)	41,695	64,707
Other current liabilities	144,750	109,116
	2,178,418	2,175,869

Notes to the Condensed Consolidated Interim Financial Information

17 OTHER PAYABLES AND ACCRUALS (Continued)

Notes:

- (a) Payable for property, plant and equipment is unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms.
- (b) Other advances mainly represent current account balances with the respective related companies which are unsecured, non-interest bearing and are repayable on demand.

Details of these balances are disclosed in Note 22(b).

18 BORROWINGS

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Short-term borrowings		
Bank borrowings		
– Secured (note (g))	173,736	325,510
– Unsecured	852,040	878,500
	1,025,776	1,204,010
Other borrowings (note (c))		
– Secured (note (g))	110,000	95,000
– Unsecured	715,000	695,000
	825,000	790,000
	1,850,776	1,994,010
Current portion of long-term borrowings	605,080	658,000
	2,455,856	2,652,010

Notes to the Condensed Consolidated Interim Financial Information

18 BORROWINGS (Continued)

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Long-term borrowings		
Bank borrowings		
– Secured (note (g))	605,080	693,080
Other borrowings (note (c))		
– Secured (note (g))	518,334	–
– Unsecured	661,000	661,000
	<u>1,784,414</u>	<u>1,354,080</u>
Less: Current portion of long-term borrowings	<u>(605,080)</u>	<u>(658,000)</u>
	<u>1,179,334</u>	<u>696,080</u>
Total borrowings	3,635,190	3,348,090

Notes:

(a) The long-term borrowings are analysed as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Wholly repayable within five years		
– Bank borrowings	605,080	693,080
– Other borrowings	679,584	161,250
	<u>1,284,664</u>	<u>854,330</u>
Not wholly repayable within five years		
– Other borrowings	499,750	499,750
	<u>1,784,414</u>	<u>1,354,080</u>

Notes to the Condensed Consolidated Interim Financial Information

18 BORROWINGS (Continued)

Notes: (Continued)

(b) The long-term borrowings are repayable as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Bank borrowings:		
– Within one year	605,080	638,000
– In the second year	–	55,080
	<u>605,080</u>	<u>693,080</u>
Other borrowings:		
– Within one year	–	20,000
– In the second year	58,000	13,000
– In the third to fifth year	621,584	128,250
– After the fifth year	499,750	499,750
	<u>1,179,334</u>	<u>661,000</u>
	<u>1,784,414</u>	<u>1,354,080</u>

(c) As at 30 June 2013, other borrowings represent:

– corporate bonds in an aggregate principal amount of RMB500,000,000 (31 December 2012: Nil) which bear interests at 5.08% per annum and guaranteed by the Company.

– loans granted by a fellow subsidiary of the Group amounting to RMB1,506,000,000 (31 December 2012: RMB1,451,000,000) which bear interests at 4% to 7% per annum (31 December 2012: 5% to 7%).

(d) The annual effective interest rates of long-term and short-term borrowings at balance sheet date were as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Weighted average effective interest rates		
– Bank borrowings	5%	6%
– Other borrowings	5%	5%

(e) All borrowings are denominated in Renminbi.

Notes to the Condensed Consolidated Interim Financial Information

18 BORROWINGS (Continued)

Notes: (Continued)

(f) The carrying amount and fair value of non-current portion of long-term borrowings are as follows:

	Carrying amount		Fair value	
	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Bank borrowings	–	55,080	–	53,777
Other borrowings	1,179,334	641,000	1,019,070	574,206
	1,179,334	696,080	1,019,070	627,983

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics as at the balance sheet dates. Such discount rates ranged from 6.15% to 6.55% as at 30 June 2013 (31 December 2012: 6.15% to 6.55%), depending on the type of the debt.

(g) The Group's long-term and short-term borrowings are secured as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Securities over the Group's assets, at carrying value:		
– Accounts receivable (Note 14(e))	303,736	420,510
Guarantees provided by:		
– Ultimate holding company (Note 22(c))	5,080	13,080
– Entities within the Group (cross guarantees)	1,098,334	680,000
	1,103,414	693,080

19 SHARE CAPITAL

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Registered, issued and fully paid:		
3,117,995,265 (2012: 3,117,995,265) Domestic Shares of RMB1 each	3,117,995	3,117,995
2,356,433,902 (2012: 2,356,433,902) H Shares of RMB1 each	2,356,434	2,356,434
	5,474,429	5,474,429

Notes to the Condensed Consolidated Interim Financial Information

20 SHARE-BASED COMPENSATION

On 29 March 2011, the Company adopted a restricted share incentive scheme (the "Scheme") with a duration of 10 years.

Upon the grant of restricted shares to Scheme participants, 50% of the grant price was funded by the Scheme participants amounting to approximately RMB64,707,000. These restricted shares would vest gradually after the Scheme participants complete a period of service of 2 to 4 years from the date of grant.

During 2011, 37,013,900 of the Company's shares were acquired from the market. The total amount paid to acquire the shares was approximately RMB139,994,000 and deducted from reserves within equity. The shares have been held as restricted shares by a trustee before they are vested.

On 2 April 2013, one-third of the restricted shares with the value of employee services of approximately RMB26,776,000 were unlocked and transferred to Scheme participants.

Movements in the number of restricted shares granted are as follows:

	2013		2012	
	Fair value (per share) HK\$	Number of restricted shares granted (Thousands)	Fair value (per share) HK\$	Number of restricted shares granted (Thousands)
At 1 January	4.15	37,014	4.15	37,014
Vested	4.15	(13,164)	–	–
Lapsed	4.15	(450)	–	–
At 30 June	4.15	23,400	4.15	37,014

The fair value of restricted shares charged to the condensed interim consolidated income statement was RMB10,351,000 during the six months ended 30 June 2013 (six months ended 30 June 2012: RMB13,594,000).

Notes to the Condensed Consolidated Interim Financial Information

21 COMMITMENTS

(a) Capital commitments

The Group has the following capital commitments as at 30 June 2013:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Acquisition of property, plant and equipment		
– Authorised but not contracted for	107,348	30,880
– Contracted but not provided for	32,110	20,351
	139,458	51,231
Construction commitments		
– Authorised but not contracted for	1,314,942	507,475
– Contracted but not provided for	462,569	191,218
	1,777,511	698,693
Investments in subsidiaries		
– Contracted but not provided for	1,447,700	30,000
	3,364,669	779,924

(b) Operating lease commitments

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases as at 30 June 2013:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Land and buildings		
– Not later than one year	93,367	130,367

Generally, the Group's operating leases are for terms of 1 to 20 years.

Notes to the Condensed Consolidated Interim Financial Information

22 SIGNIFICANT RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions in addition to those shown elsewhere in this Condensed Financial Information. Management of the Group are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

(a) Significant transactions with related parties:

	For the six months ended 30 June	
	2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Income:		
Sale of goods and materials		
– Fellow subsidiaries	5,992,567	5,289,474
Rendering of services		
– Fellow subsidiaries	6,570	1,778
Expenses:		
Purchase of goods and raw materials		
– Fellow subsidiaries	3,831,534	2,817,653
Service fees		
– Fellow subsidiaries	86,712	6,162
Rental expenses		
– Fellow subsidiaries	86,762	18,120
Key management compensations		
– Salaries, bonuses and other welfares	2,047	3,319
– Employee share scheme for value of services provided	2,325	3,022

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 were determined based on mutually agreed terms.

Notes to the Condensed Consolidated Interim Financial Information

22 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Significant balances with related parties:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Assets:		
Trade receivables		
– Fellow subsidiaries	3,142,671	2,677,206
Notes receivable		
– Fellow subsidiaries	462,444	964,938
Advance to suppliers		
– Fellow subsidiaries	430,295	222,726
Other receivables and prepayments		
– Ultimate holding company	6,366	2,665
– Fellow subsidiaries	120,310	122,470
– Associates	82,917	8,165
Deposits		
– Fellow subsidiary	916,513	1,095,276
Liabilities:		
Trade payables		
– Fellow subsidiaries	2,070,498	1,826,662
Notes payable		
– Fellow subsidiaries	1,112,207	1,411,954
Advance from customers		
– Fellow subsidiaries	794,278	1,703,098
Other payables and accruals		
– Ultimate holding company	9,080	8,860
– Fellow subsidiaries	314,428	253,525

(c) Other items:

- (i) During the six months ended 30 June 2013, Jiangxi Hongdu Aviation Industry Co., Ltd (a subsidiary of the Company) received construction and design services amounted to approximately RMB261,995,000 from a fellow subsidiary of the Group. As at 30 June 2013, these balances are mainly included in construction-in-progress of the Group's property, plant and equipment.
- (ii) In addition, certain of the Group's property, plant and equipment with carrying value of approximately RMB299,373,000 at 30 June 2013 (31 December 2012: RMB303,313,000) were situated on leasehold land in the PRC which are granted by AVIC for the Group's use at no cost or have been leased from certain fellow subsidiaries under long-term leases (Note 22(a): Rental expenses).

BOARD OF DIRECTORS

Executive Director (Chairman)	Lin Zuoming
Executive Director (Vice Chairman)	Tan Ruisong
Non-Executive Director	Gu Huizhong
Non-Executive Director	Gao Jianshe
Non-Executive Director	Sheng Mingchuan
Non-Executive Director	Maurice Savart
Independent Non-Executive Director	Guo Chongqing
Independent Non-Executive Director	Li Xianzong
Independent Non-Executive Director	Lau Chung Man, Louis

SUPERVISORY COMMITTEE

Chairman	Bai Ping
Supervisor	Yu Guanghai
Supervisor	Li Jing

SENIOR MANAGEMENT

President	Tan Ruisong
Vice Presidents	Wang Jun Ni Xianping Zheng Qiang Zhang Kunhui
Company Secretary	Yan Lingxi

THE LEGAL 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:	Lin Zuoming

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Stock code: 2357

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