



# 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)



# 2016

## Annual Report



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# Company Profile

The Company is a joint stock limited company established in the PRC on 30 April 2003. The Company's H Shares have been listed on the Stock Exchange since 30 October 2003 (stock code: 2357). As at the date of this report, the shareholders of the Company's Domestic Shares are AVIC, AMES, China Hua Rong Asset Management Corporation, China Cinda Asset Management Corporation and China Orient Asset Management Corporation, and one of the substantial shareholders of the Company's H Shares is Airbus Group (空中客車集團).

The Company principally operates through its subsidiaries. The Group is mainly engaged in:

- the development, manufacture, sales and upgrade of aviation products such as helicopters, trainer aircraft, general-purpose aircraft and regional jets for domestic and overseas customers; and
- the co-development and manufacture of aviation products with foreign aviation products manufacturers.

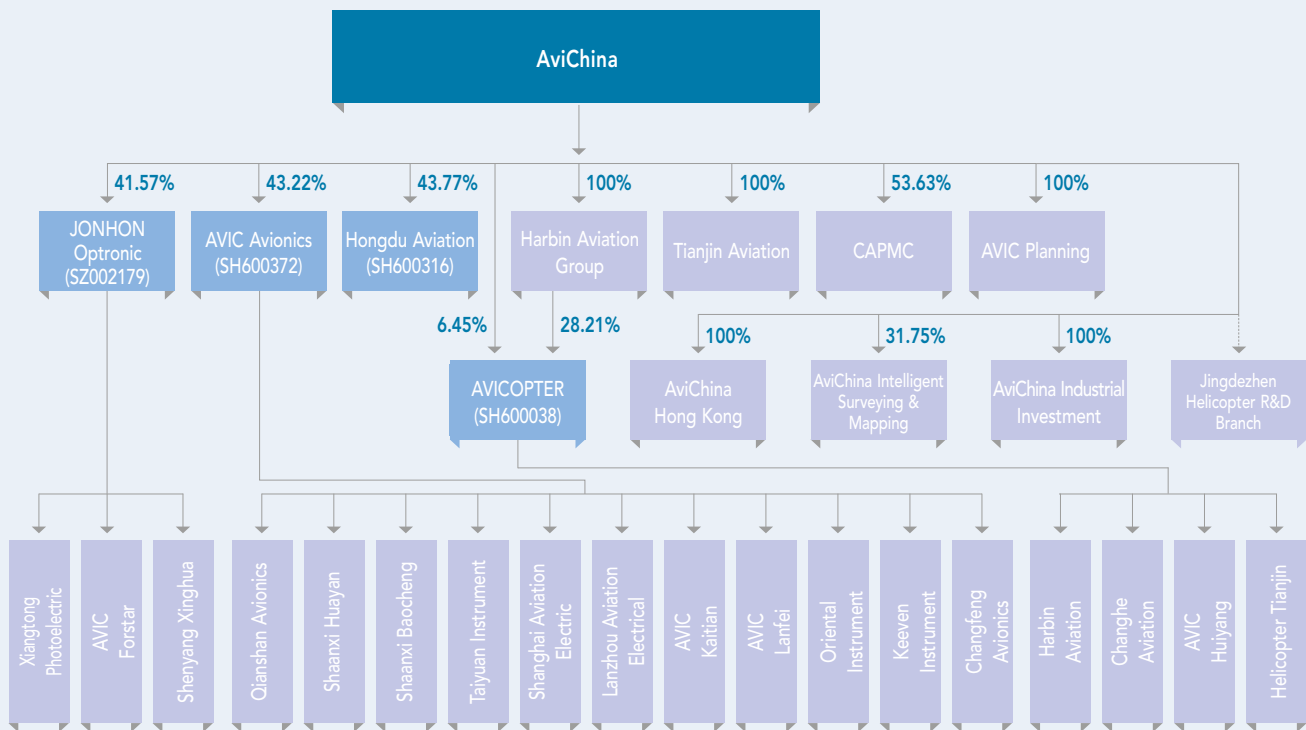
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### PRINCIPAL PRODUCTS OF THE GROUP

The Z-8, Z-9, Z-11 helicopters series (including AC series); L15, K8 and CJ-6 trainers series; Y-12 multi-purpose aeroplanes series and the N-5 agricultural aeroplanes series; EC-120 helicopters jointly produced by the Group and Airbus Helicopters; CA109 helicopters jointly produced by the Group and Agusta; aviation parts and components, avionics products and its accessories; aviation engineering services, such as planning, design and consultation services, etc.

### BUSINESS STRUCTURE OF THE GROUP



# Financial Highlights

## CONSOLIDATED PROFIT AND LOSS

(Prepared under International Financial Reporting Standards)  
(RMB million, other than basic and diluted earnings per share)

For the year ended 31 December

	2016	2015 (restated)	Changes
Revenue	<b>36,628</b>	34,424	6.40%
Profit before income tax	<b>2,605</b>	2,646	-1.55%
Profit attributable to the equity holders of the Company	<b>1,119</b>	1,143	-2.10%
Gross profit margin	<b>19.01%</b>	19.43%	-0.42%
Earnings per share for profit attributable to the equity holders of the Company (RMB)			
– Basic	<b>0.188</b>	0.192	-2.08%
– Diluted	<b>0.188</b>	0.192	-2.08%

## CONSOLIDATED ASSETS AND LIABILITIES

(Prepared under International Financial Reporting Standards)  
(RMB million)

As at 31 December

	2016	2015 (restated)	Changes
Total assets	<b>69,509</b>	67,112	3.57%
Total liabilities	<b>41,172</b>	40,692	1.18%
Non-controlling interests	<b>14,937</b>	13,760	8.55%
Owner's equity (other than non-controlling interests)	<b>13,400</b>	12,660	5.85%

## Financial Highlights

Financial information on the Group's comprehensive business in the recent five years starting from 1 January 2012 is summarized as follows:

(Prepared under International Financial Reporting Standards)  
(RMB million, other than basic and diluted earnings per share)

### As at 31 December/For the year ended 31 December

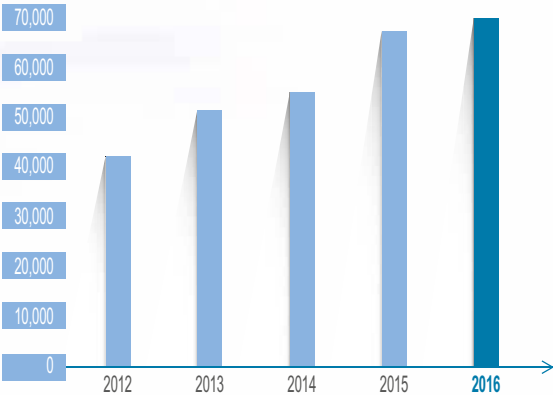
	<b>2016</b>	2015 (restated)	2014	2013	2012 (restated)*
Total assets	<b>69,509</b>	67,112	54,722	50,928	41,665
Total liabilities	<b>41,172</b>	40,692	31,421	29,121	22,457
Non-controlling interests	<b>14,937</b>	13,760	12,486	11,684	9,052
Owner's equity (other than non-controlling interests)	<b>13,400</b>	12,660	10,815	10,123	10,156
Revenue	<b>36,628</b>	34,424	25,710	22,193	18,368
Profit before income tax	<b>2,605</b>	2,646	2,003	1,761	1,540
Profit attributable to the equity holders of the Company	<b>1,119</b>	1,143	781	713	664
Gross profit margin	<b>19.01%</b>	19.43%	19.05%	19.41%	21.36%
Earnings per share for profit attributable to the equity holders of the Company (RMB)					
– Basic	<b>0.188</b>	0.192	0.143	0.131	0.124
– Diluted	<b>0.188</b>	0.192	0.143	0.131	0.124

\* The financial information of 2012 was restated due to the business combinations involving entities under common control during 2013, please refer to 2013 annual report for details.

## Financial Highlights

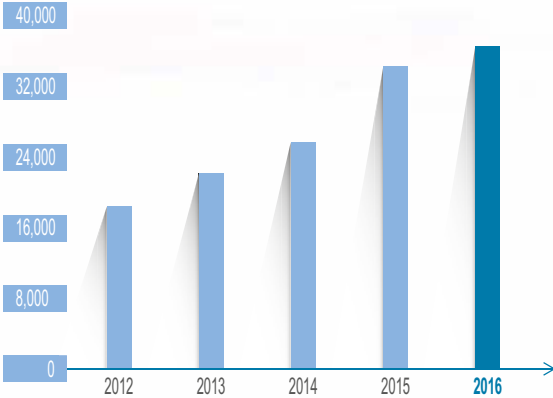
### TOTAL ASSETS

(RMB million)



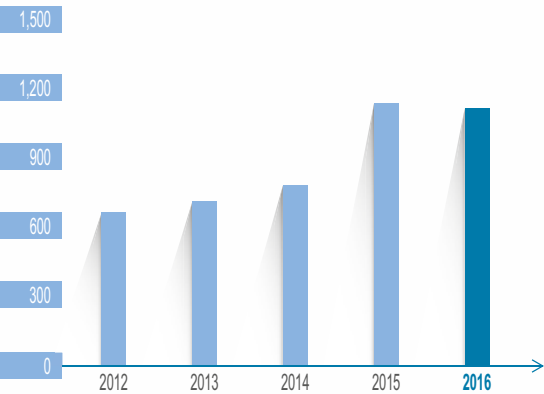
### REVENUE

(RMB million)



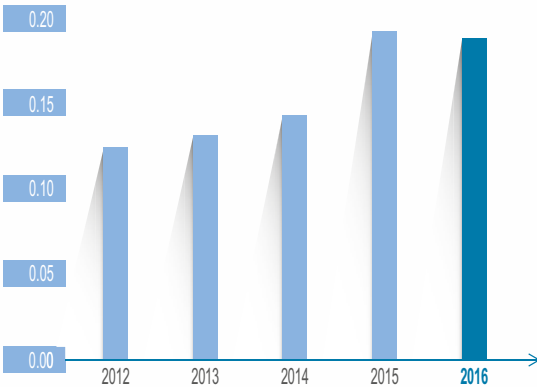
### PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

(RMB million)



### BASIC EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

(RMB)



# Board's Statement

To all shareholders,

The Board is pleased to announce the consolidated annual results of the Group for the year of 2016.

## ANNUAL RESULTS

For the year ended 31 December 2016, the Group recorded a revenue of RMB36,628 million and the profit attributable to equity holders of the Company amounted to RMB1,119 million.

## BUSINESS REVIEW

In 2016, the China economy recorded a slower but stable performance with good momentum for growth, fulfilling a good beginning of the 13th Five-Year Plan for National Economic and Social Development ("13th Five-Year Plan"). AVIC, the controlling shareholder of the Company took "innovation and transformation" as the theme, forcefully pushed forward the deepening of reform, proactively conducted the initiatives of "leaner and healthier", actively explored innovation and development and made full implementation of all tasks. It was listed in the Fortune Global 500 for the eighth consecutive year with ranking rising to the 143th and it was elected by World Brand Lab as China's 500 Most Valuable Brands for the fifth consecutive year, ranking the 25th with a brand value of RMB111.8 billion, representing an increase of RMB10.9 billion as compared to that of last year.

Following the strategic positioning of building a platform for China's aviation industry and related high-tech industries, the Company proactively coped with challenges and relied on the advantages of AVIC, expanded the business scale of the Company, clearly defined the investment orientation, optimized the layout of industry, explored the mixed ownership reform and carried out the initiatives of "leaner and healthier", making a steady development in all respect of business. Upon completion of acquiring AVIC Planning, the business of the Company expanded to aviation engineering services. The first flight and airworthiness awarding were pushed forward smoothly. Y-12F was granted the model certification from Civil Aviation Administration of China and Federal Aviation Administration of US. General purpose aircraft received new orders. The Company was dedicated to optimizing the governance structure and seeking the management system innovation. The Company participated the 50th Farnborough International Airshow for the first time to explore international civil aviation market. The Company focused on improving investor's relationship and enhancing corporate governance. At the same time, the Company continued to carry out social responsibilities by regulating its operation with dedication and honest, actively participating in the public affairs, creating green economy and pushing the construction of enterprises culture to set up a reliable image of a listed company.

## OUTLOOK

In 2017, China economy will enter into a new stage of transformation and upgrade, the "13th Five-Year Plan" has been issued, and the reformation in China aviation industry is also lift up to a new beginning. "Made in China 2025" made a higher requirement to the innovation and development and improvement on qualities and efficiencies. The hot wave of integration of Informationization and Industrialization and intelligence manufacturing will push the upgrade of aviation manufacturing technologies. The state-owned enterprises transformation is deepened further to constantly optimize the governance system. Under the promulgation of beneficial policies, the general aviation industry is ready to welcome the upcoming spring for their development. The national strategy of "One Belt and One Road" is leading the regional development.





## Board's Statement

In 2017, faced with new stage, new circumstances, new tasks and new beginning, we will pave our way forward while staying true to the mission. AviChina will focus on the principal business, actively fulfill "Made in China 2025", and forcefully push forward works such as integrations and innovation, integration of informationization and industrialization and intelligence manufacturing. The Company will develop general aviation industry by leveraging the advantages of general aviation policy and fasten the international expanding and overseas project investment exploring supported by national strategy of "One Belt and One Road". Emphasising on aviation principal business, the Company will be an active investor to realize value exploring, creation and maintenance by carrying out mixed ownership shareholding structure backed by advantages of parent company. The Company will strengthen the regulated operation of governance structure of subsidiaries and perfect and adjust the structure of management by soundly executing the initiatives of "leaner and healthier". At the same time, we will continue to stick to the performance of social responsibilities by insisting on sustainable development while growing together with the employees. We will insure the products qualities, safe manufacture, try to create green aviation industry chain, take responsibilities by disciplining ourselves, actively participating in public affairs and devoting to the society.

In 2017, the Board and all employees have full confidence for the coming year. We will keep the responsibilities of return to the society and shareholders firmly in heart, persist in confidence in our strategy and capabilities, dedicate ourselves and march forward by diligence working, to build up a listed company with sustainable development capability and investment value.

## ACKNOWLEDGMENT

Finally, the Board would like to extend our gratitude to our investors, customers and partners for their constant trust and support. In addition, the Board would like to take this opportunity to express our appreciation for the hard work and contributions by the Company's management team and staff in the past year.



Board  
Beijing, 15 March 2017

# Management Discussion and Analysis

The following discussion should be read in conjunction with the Group's consolidated financial statements and notes thereto set out in this annual report and other sections therein.

## SUMMARY

During the first half of 2016, the financial results of AVIC Planning as the newly acquired entity by the Group had been consolidated into those of the Group. Pursuant to the relevant regulations and requirements, the corresponding financial data in the corresponding period of last year was restated. Meanwhile, based on the new business portfolio, the business segments of the Group are divided into aviation entire aircraft, aviation parts and components, and aviation engineering services.

Unless otherwise stated, the corresponding financial data in the corresponding period of last year referred in this annual report has been restated.

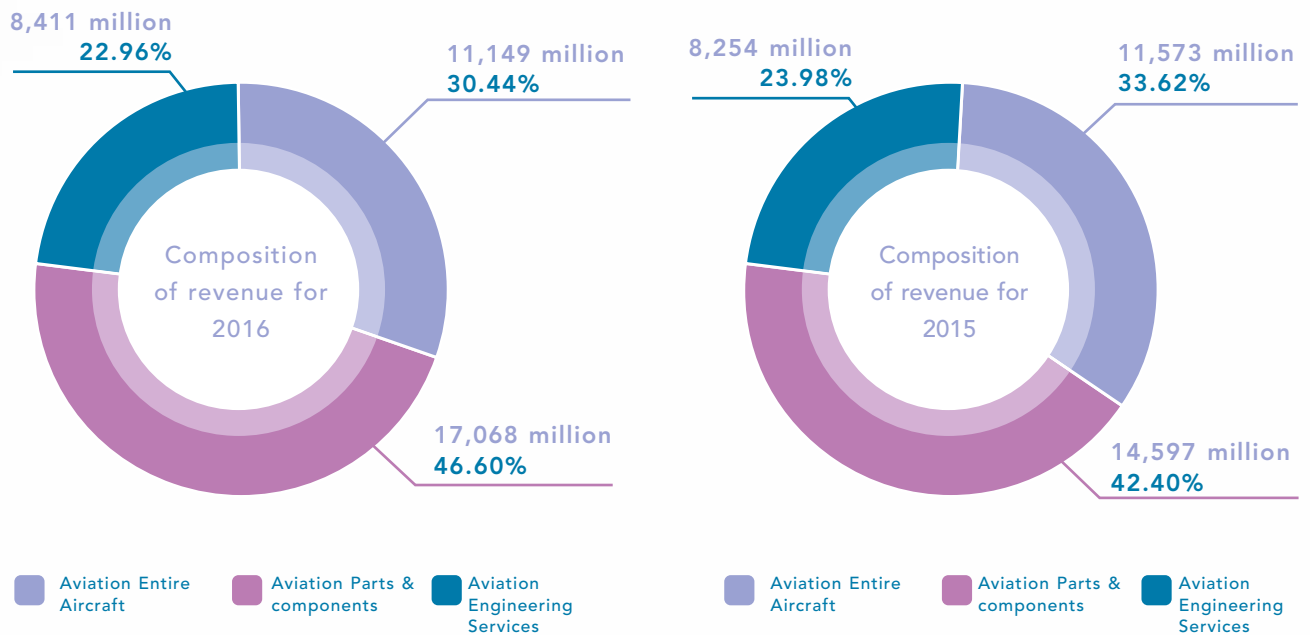
For the year ended 31 December 2016, the Group recorded a revenue of RMB36,628 million, representing an increase of RMB10,220 million or 38.70% as compared with that of RMB26,408 million (before restated) in the corresponding period of the preceding year, and an increase of RMB2,204 million or 6.40% as compared with that of RMB34,424 million (as restated) in the corresponding period of last year. Profit attributable to equity holders of the Company for the year 2016 amounted to RMB1,119 million, representing an increase of RMB256 million or 29.66% as compared with that of RMB863 million (before restated) in the corresponding period of last year, and a decrease of RMB24 million or 2.10% as compared with that of RMB1,143million (as restated) in the corresponding period of last year.

The following shows the comparison between the consolidated operating results of the Group for the year ended 31 December 2016 and those for the year ended 31 December 2015:

## CONSOLIDATED OPERATING RESULTS

### 1 Composition of revenue

The revenue of the Group for 2016 was RMB36,628 million, representing an increase of 6.40% as compared with that of RMB34,424 million in the corresponding period of the preceding year, which was mainly attributable to the growth in the aviation parts and components business of the Group.



The revenue of the Group's aviation entire aircraft business for 2016 amounted to RMB11,149 million, representing a decrease of RMB424 million or 3.66% as compared with that of RMB11,573 million in the corresponding period of the preceding year, which was mainly attributable to the decrease of the sales volume of helicopter. The revenue of aviation entire aircraft business for 2016 accounted for 30.44% of the total revenue of the Group, representing a decrease of 3.18 percentage points as compared with that in the corresponding period of the preceding year.

The revenue of the Group's aviation parts and components business amounted to RMB17,068 million, representing an increase of RMB2,471 million or 16.93% as compared with that of RMB14,597 million in the corresponding period of the preceding year, which was attributable to the rapid increase of revenue contributed by JONHON Optronic. The revenue of aviation parts and components business for 2016 accounted for 46.60% of the total revenue of the Group, representing an increase of 4.20 percentage points as compared with that in the corresponding period of the preceding year.

The revenue of the Group's aviation engineering services business amounted to RMB8,411 million, representing an increase of RMB157 million or 1.90% as compared with that of RMB8,254 million in the corresponding period of the preceding year. The revenue of aviation engineering services business for 2016 accounted for 22.96% of the total revenue of the Group, representing a decrease of 1.02 percentage points as compared with that in the corresponding period of the preceding year.

The Group mainly conducts its business in Mainland China where its revenue is mainly generated from.

### **2 Selling and distribution expenses**

The Group's selling and distribution expenses for 2016 amounted to RMB573 million, representing an increase of RMB22 million or 3.99% as compared with that of RMB551 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase in sales service expenses of JONHON Optronics along with the increase in its revenue. In 2016, the selling and distribution expenses accounted for 1.56% of the revenue of the Group, staying even with that in the corresponding period of the preceding year.

### **3 Administrative expenses**

The Group's administrative expenses for 2016 amounted to RMB3,921 million, representing an increase of RMB205 million or 5.52% as compared with that of RMB3,716 million in the corresponding period of the preceding year. This was mainly attributable to the enhanced investment in research and development by JONHON Optronics. In 2016, the administrative expenses accounted for 10.70% of the revenue of the Group, representing a decrease of 0.09 percentage point as compared with that in the corresponding period of the preceding year.

### **4 Operating profit**

The operating profit of the Group for 2016 amounted to RMB2,731 million, representing a decrease of RMB12 million or 0.44% as compared with that of RMB2,743 million in the corresponding period of the preceding year. Along with the increase in the Group's revenue, the gross profit of the Group increased correspondingly. However, due to a significant decrease in investment gains generated from disposal of available-for-sale investments during this year, other gains recorded a decrease and eventually the Group's operating profit represented a slight drop.

### **5 Finance costs, net**

The Group's net finance costs in 2016 amounted to RMB253 million, representing an increase of RMB7 million or 2.85% as compared with that of RMB246 million in the corresponding period of the preceding year. Please refer to note 7 to the financial statements for details.



## Management Discussion and Analysis

### **6 Income tax expenses**

The Group's income tax expense in 2016 was RMB353 million, representing a decrease of RMB75 million or 17.52% as compared with that of RMB428 million in the corresponding period of the preceding year. Please refer to note 10 to the financial statements for details.

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

The profit attributable to equity holders of the Company amounted to RMB1,119 million in 2016, representing a decrease of RMB24 million or 2.10% as compared with that of RMB1,143 million in the corresponding period of the preceding year. The profit for the year amounted to RMB2,252 million representing an increase of 1.53% as compared with that in the corresponding period of the preceding year, which was mainly contributed by non-wholly-owned subsidiaries. Meanwhile, the profit for the year of certain wholly-owned subsidiaries recorded a decrease, resulting in the decrease of the profit attributable to equity holders of the Company as compared with that in the corresponding period of the preceding year.

## **GUARANTEED AND SECURED LOANS**

As at 31 December 2016, the Group's total borrowings amounted to RMB8,711 million, of which RMB249 million was secured by buildings, notes receivable and accounts receivable with a net book value of approximately RMB279 million.

Borrowings placed under guarantees amounted to RMB1,497 million, of which RMB1,243 million represented guarantees amongst the members of the Group and RMB254 million represented guarantees provided by fellow subsidiaries.

## **EXCHANGE RATE RISKS**

The Group mainly operates in the PRC with most of its transactions settled in RMB. The exposure to foreign currencies exchange risks mainly arises from transactions involving assets, liabilities, and operating activities of the Group and are primarily associated with United States Dollar, Euro and Hong Kong Dollar. The Directors consider that the exchange rate risks to the Group will not have any material adverse impact on the Group's financial results.

## CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2016, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

## CASH FLOW AND FINANCIAL RESOURCES

### 1 Liquidity and capital resources

As at 31 December 2016, the Group's cash and cash equivalents amounted to RMB8,773 million which was mainly derived from the following sources:

- cash and bank deposits at the beginning of the year; and
- funds generated from its operations.

The Group's cash flow for each of the years 2016 and 2015 were as follows:

Unit: RMB million (except for percentage)

Main items of cash flow	2016	2015 (restated)	Changes (amount)	Changes (percentage)
Net cash flows (used in)/from operating activities	(858)	1,453	(2,311)	N/A
Net cash flows (used in)/from investing activities	(608)	1,428	(2,036)	N/A
Net cash flows from financing activities	704	9	695	7,722%

### 2 Operating, investing and financing activities

Net cash outflows from operating activities of the Group for the year 2016 amounted to RMB858 million, representing an increase of RMB2,311 million net outflows as compared with the net cash inflows of RMB1,453 million in the corresponding period of the preceding year. This was mainly because certain products delivered during the reporting period have been pre-paid last year.

Net cash outflows from investing activities of the Group for the year 2016 amounted to RMB608 million, representing an increase of RMB2,036 million net outflows as compared with the net cash inflows of RMB1,428 million in the corresponding period of the preceding year. The main reason was that there was a significant decrease in term deposits with an initial term of over three months as a result of the investment funds arrangement during the corresponding period of last year, while during the reporting period, the scale of the term deposits with an initial term of over three months was small and the change in the balances was not much.



## Management Discussion and Analysis

Net cash inflows from financing activities of the Group for the year 2016 amounted to RMB704 million, representing an increase of RMB695 million or 7,722% as compared with that of RMB9 million in the corresponding period of the preceding year, which was mainly attributable to the issuance of medium-term notes by a subsidiary and the capital injections from non-controlling shareholders of certain subsidiaries of the Group.

As at 31 December 2016, the Group's total borrowings amounted to RMB8,711 million, of which the short-term borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB3,429 million, RMB908 million and RMB4,374 million, respectively.

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

Maturity	RMB million
Within one year	908
In the second year	708
In the third to fifth year	3,496
After the fifth year	170
Total	5,282

As at 31 December 2016, the Group's bank borrowings amounted to RMB2,537 million with a weighted average interest rate of 4% per annum, accounting for 29.12% of the total borrowings. Other borrowings amounted to RMB6,174 million with a weighted average interest rate of 5% per annum, accounting for 70.88% of the total borrowings.

As at 31 December 2016, there was no significant balance of borrowings denominated in foreign currencies.

### GEARING RATIO

As at 31 December 2016, the Group's gearing ratio was 12.53% (as at 31 December 2015: 11.77% as restated), which was arrived at by dividing the total borrowings by the total assets as at 31 December 2016.

### SEGMENT INFORMATION

The Group's business can be divided into three segments, namely the aviation entire aircraft business, the aviation parts and components business and the aviation engineering services business.

## THE AVIATION ENTIRE AIRCRAFT BUSINESS

### Revenue

The Group's revenue derived from the aviation entire aircraft business for 2016 was RMB11,149 million, representing a decrease of 3.66% as compared with that in the corresponding period of the preceding year. The above revenue includes: (1) the revenue derived from the helicopter business which represented a slight decrease in the sales volume as compared with last year, amounted to RMB9,927 million representing a decrease of RMB661 million or 6.24% as compared with that in the corresponding period of the preceding year, and accounted for 89.04% of the total revenue of the aviation entire aircraft business; (2) the revenue from the trainer aircraft business which represented an increase in the sales volume, amounted to RMB988 million representing an increase of RMB226 million or 29.66% as compared with that in the corresponding period of the preceding year, and accounted for 8.86% of the total revenue of the aviation entire aircraft business; (3) the revenue derived from the general purpose aircraft amounted to RMB234 million, representing an increase of RMB11 million or 4.93% as compared with that in the corresponding period of the preceding year, and accounting for 2.10% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group in 2016 accounted for 30.44% of the Group's total revenue, representing a decrease of 3.18 percentage points as compared with that in the corresponding period of the preceding year.

### Gross Profit Margin

The gross profit margin of the Group's aviation entire aircraft business for 2016 was 9.51%, representing a decrease of 2.51 percentage points as compared with that in the corresponding period of the preceding year, as certain products were in the course of trial manufacturing with a comparatively low gross profit margin.

## THE AVIATION PARTS AND COMPONENTS BUSINESS

### Revenue

The Group's revenue derived from the aviation parts and components business for 2016 was RMB17,068 million, representing an increase of 16.93% as compared with that in the corresponding period of the preceding year. The above revenue includes the revenue derived from the avionics business during the reporting period, which amounted to RMB11,657 million, representing an increase of RMB1,222 million or 11.71% as compared with that in the corresponding period of the preceding year, and accounted for 68.30% of the total revenue of the aviation parts and components business.

The revenue derived from the aviation parts and components business for 2016 accounted for 46.60% of the Group's total revenue, representing an increase of 4.20 percentage points as compared with that in the corresponding period of the preceding year.





## Management Discussion and Analysis

### Gross Profit Margin

The gross profit margin of the Group's aviation parts and components business for 2016 was 30.37%, representing a decrease of 1.04 percentage points as compared with that in the corresponding period of the preceding year, which was mainly attributable to the variation to the Group's product structure.

## THE AVIATION ENGINEERING SERVICES BUSINESS

### Revenue

The Group's revenue derived from the aviation engineering services business for 2016 was RMB8,411 million, representing an increase of 1.90% as compared with that in the corresponding period of the preceding year. Such revenue accounted for 22.96% of the Group's total revenue, representing a decrease of 1.02 percentage points as compared with that in the corresponding period of the preceding year.

### Gross Profit Margin

The gross profit margin of the Group's aviation engineering services business for 2016 was 8.56%, staying even with that in the corresponding period of the preceding year.

## BUSINESS REVIEW AND OUTLOOK

In 2016, the international environment was complicated and severe, many uncertainties existed in the global economy, and accordingly the downward pressure in the Chinese economy had been growing continuously. Facing difficulties and challenges, AVIC, the controlling shareholder of the Company, persisted in the main principles of focusing on improving quality and efficiency and facilitating the transformation and upgrade, promoted the organization plan of "leaner and healthier", improved the economic returns and efficiency, and accomplished all the tasks.

The Group kept on deepening its understanding of "the New Normal" under economic development to implement the new development concept of innovation, harmonization, green, openness and sharing; continued to optimize strategic deployment and persisted in building up a platform of aviation high-tech industry and related industry in China; proceeded with each business smoothly and steadily and obtained aviation product orders stably; completed the acquisition of the 100% equity interest in AVIC Planning, further extending its business to the front-end engineering services, such as planning, design and consultation services of the aviation manufacturing business.

The Group continued to strengthen the international market exploration, improved its brand awareness internationally, and actively integrated into international industry chain. In the first half of 2016, the Group organized its subsidiaries to attend the 50th Farnborough International Airshow for the first time, to proactively expand the international civil aviation products market, strengthen the co-investment and cooperation with international aviation manufacturers, and build up a platform for further communication with international cooperators.

In 2016, the operation of the helicopter business of the Group kept stable, and the research and development of new models progressed smoothly. AC352 series helicopter successfully completed its maiden flight, filling the gap of lacking 7 ton series civil helicopters in China. AC311 series helicopter completed tasks such as air travel, air patrol, business flight and test flight equipped with medical rescue facilities. AC311A series helicopter, which was researched and developed for plateau area, obtained the type certificate and production certificate issued by Civil Aviation Administration of China (“CAAC”). AC312E, a twin-engine light helicopter, completed its maiden flight and fully came into the flight test stage. AC313 series helicopter accomplished the test flight of emergency floating and air inflation, being the first airworthiness test on water running configuration. Y-12 series aircraft obtained type certificates issued by CAAC and Federal Aviation Administration (“FAA”) successively.

In 2016, the Group continued to manufacture the trainer aircraft and expand the markets steadily. L15 advanced trainer aircraft and K8 trainer aircraft of Hongdu Aviation debut on the 9th Africa Aerospace and Defense Airshow, being the first flight show by L15 advanced trainer aircraft in the continent of Africa. The first batch of L15Z were successfully delivered to overseas customers, and 12 CJ6 were manufactured, tested and delivered to overseas customers. As the sole supplier for the fuselage liner part of C919 large commercial aircraft, Hongdu Aviation won the Silver Award for Excellent Suppliers of Commercial Aircraft Corporation of China Ltd once again.

In 2016, the aviation parts and components business of the Group grew remarkably. JONHON Optronic reinforced the technology innovation driven development strategy and continued to bring up new economic growth point, accomplishing several breakthroughs in core connector technologies and continuous expansion in related diversified businesses. 56Gbps high-speed connector project successfully won the bidding for the Foundation Reinforcing Engineering Project of Chinese Industry, whose product technology standard has reached international advanced level. With dedication in technical study, JONHON Optronic achieved breakthroughs successfully in the intelligent automatic fiber distribution technology and accomplishments in 46 automation projects during this year. JONHON Optronic came into the list of global leading suppliers in the communication industry successfully, made breakthrough in the European market for electrical vehicles, and enhanced its international industry impact. China Avionics Systems Co., Ltd vigorously explored markets in general aviation, helicopters, engines, international sub-contracting, etc.. Meanwhile, it made efforts in pushing forward the transformation application of aviation electronics technology and built up the innovation and venture platform for industrial internet, to promote the development of modern scientific service industry and to form the new growth momentum for the Company’s strategy. Shanghai Aviation Electric explored the laser projector markets including R&D, manufacture and sales by applying its derivative technology in aviation lighting, and the Guohua series laser projectors and several relevant resolutions made stunning debut on the 11th China International Aviation & Aerospace Exhibition in 2016.

In 2016, through acquisition of AVIC Planning, the aviation engineering services business was included in the Group’s business as a new business. AVIC Planning has been actively promoting the transformation from general management contract to Engineering Procurement Construction (“EPC”), exploring for a mode and path for integrated development of industry and capital in its advantageous business, promoting the implementation of new business models such as BOT (“Build-Operate-Transfer”) and PPP (“Public-Private-Partnership”).



## Management Discussion and Analysis

In 2016, the Company participated in the capital contribution to the establishment of AviChina Intelligent Surveying & Mapping, to promote the application of UAVs (unmanned aviation vehicle) and the aviation industry to develop towards intelligentizing direction. The Group completed the capital contribution to the establishment of AVIC Nanjing Servo Control Systems Co., Ltd. and AVIC Nanjing Electromechanical Technology Co., Ltd., extending the civil aviation industrial chain. Hafei Aviation participated in the capital contribution to the establishment of Harbin General Aircraft Industry Co., Ltd. (“**Harbin General Aircraft**”), which is primarily engaged in the manufacturing and sales of general fixed-wing aircraft and relevant businesses including client service and etc., enabling the Company to integrate, coordinate and enhance the development of its general aviation business. During the year, AVIC Hubei Ali-Jiatai Aircraft Equipment Co., Ltd., in which the Company made investment, officially became a supplier for new seats to Boeing 737 aircraft and has obtained the design approval letter for Civil Aircraft Technical Standard Orders issued by FAA in respect of its aircraft seats for Boeing 737 aircraft.

In 2017, the global economy is struggling to recover. Speeding up structural reform, improving manufacturing efficiency and promoting productivity in all aspects will be a new path for growth. The General Office of the State Council issued the Guidance on Promoting the Development of General Aviation Industry, making overall deployment on the whole-chain development of general aviation for the first time. The government attached importance to the general aviation industry, which will be beneficial for the development, transformation and upgrading for the aviation business of the Company. The Group will take this as an opportunity to proactively adapt to national policies. The Company will follow the guidance of deepening reforms in an all-round way, focusing on cultivating core competitiveness, improving the operation quality and efficiency, reinforce management, standardize operation, and make returns for shareholders and society:

1. Basing oneself upon, the Company will focus on its main businesses, improve quality and efficiency, and optimize the governance mode of the Group;
2. The Company will strengthen the technology driven innovation strategy, push forward innovation breakthrough in the frontiers of the new generation aviation industry, and improve the supporting function of the new emerging industry;
3. The Company will proactively adapt to the Guidance on Promoting the Development of General Aviation Industry issued by General Office of the State Council, further specify the development targets of general aviation, and speed up the development of general aviation;
4. The Company will further implement the concept of “Made in China 2025”, set intelligent manufacturing as a long-term strategic task to persist on, and improve the overall competitiveness of the whole aviation industry chain;
5. The Company will make efforts in broadcasting the core value of the Company, improve the culture propaganda work, adhere to the concept for developing green aviation, proactively fulfill social responsibilities, and improve the brand image of the Company.

## USE OF PROCEEDS

Up to 31 December 2016, a total of RMB3,643 million of the proceeds raised by the Company from the fund raising activities had been used in the manufacturing, research and development of advanced trainer aircraft, helicopters and aviation composite materials as well as the acquisition of aviation assets and equity investment. The remaining balance was deposited in banks in the PRC as interest-bearing short term deposits.

## EMPLOYEES

As at 31 December 2016, the Group had 51,119 employees. The Group has provided appropriate emoluments, benefits and training to its employees.

### Employees breakdown (by business segments)

	Number of employees	Percentage to total number of employees (%)
Aviation	51,012	99.79
Entire aircraft business	20,896	40.88
Parts and components business	27,248	53.30
Engineering services business	2,868	5.61
Other businesses	107	0.21
<b>Total</b>	<b>51,119</b>	<b>100</b>

For the year ended 31 December 2016, the total staff costs of the Group amounted to RMB6,224 million, representing an increase of RMB618 million or 11.02% as compared with those of RMB5,606 million in the corresponding period of the preceding year.

## REMUNERATION OF EMPLOYEES

The remuneration of the employees of the Group is determined on the fair and reasonable basis and with reference to comparable market standards. Such remuneration comprises basic salary, contribution to a public housing fund, and contributions to pension schemes. The Group will also, at its discretion, pay year-end bonus to employees according to their respective performance.



## Management Discussion and Analysis

### TRAINING FOR EMPLOYEES

The Group insists that its staff should have a high level of knowledge and skills in respect of the aviation manufacturing industry. Therefore, implementation of comprehensive employee trainings is key to the Group's continuous development. Accordingly, the Group has been continuously reviewing its existing employee training programs in order to provide comprehensive and systematic training programs for its employees.

In accordance with its development strategy in 2016, in order to facilitate the development of its various businesses, the Group actively established a new training environment, systematically organized its trainings, enhanced the specificity and effectiveness of trainings, expanded domestic and foreign training channels, reconstructed training system and mechanism, improved corresponding management systems and resources allocation mechanism. The international talent training results are obvious. During the year, the Company continuously organized trainings in laws and regulations governing listed companies, securities, finance and investment management to related staff of the Company and its subsidiaries. Through trainings, the employees can learn the latest laws, regulations and work skills in time, continuously enriching and improving themselves, which in turn will enhance the Group's competitiveness so as to adapt to the ever-changing market development.

# Directors, Supervisors and Senior Management

## DIRECTORS

### Executive Director



Mr. Lin Zuoming (林左鳴)

*(Chairman of Development and Strategy Committee and Nomination Committee)*

59, chairman of the Board. He is a doctorate degree holder and researcher. Mr. Lin is also the chairman of the board of AVIC. He graduated from Nanjing University of Aeronautics and Astronautics in 1982 majoring in engine design; and received his Ph.D. degree in administrative engineering from Beijing University of Aeronautics and Astronautics in 2006. Mr. Lin commenced his career in aviation industry in July 1982, and used to be a staff and deputy director of Human Resource Division, deputy director of Engineering and Technology Division, deputy director-general of Technical Research Institute, deputy chief engineer, vice general manager, general manager and chairman of the board of Chengdu Engine Co., Ltd.; general manager of Shenyang Liming Aero-Engine (Group) Corporation Ltd. since October 1998; vice general manager of AVIC I and chairman and general manager of Shenyang Liming Aero-Engine (Group) Corporation Ltd. in July 2001; general manager of AVIC I since May 2006 and general manager of AVIC from July 2008 to March 2012. Mr. Lin also serves as vice chairman of the board of Commercial Aircraft Corporation of China, Ltd., chairman of the board of Chinese Aeronautical Establishment, and president of Chinese Society of Aeronautics and Astronautics. Mr. Lin has been appointed as the chairman of the Board and executive director since October 2008, the chairman of the Development and Strategy Committee since December 2008 and the chairman of the Nomination Committee since March 2012.

### Non-executive Directors



Mr. Tan Ruisong (譚瑞松)

*(Member of Development and Strategy Committee)*

55, vice chairman of the Board and general manager of the Company, a doctorate degree holder and a researcher level senior engineer. Mr. Tan is also the general manager of AVIC. He graduated from Beijing University of Aeronautics and Astronautics in 1983 with a bachelor degree majoring in manufacture and design of engines, and received his master degree in shipping and ocean engineering and Ph.D. degree in management science and engineering from Harbin Engineering University in 2002 and 2006, respectively. Mr. Tan commenced his career in aviation industry in July 1983, and used to be deputy chief engineer and deputy general manager of Harbin Dongan Engine Manufacturing Company, the general manager of Harbin Dongan Auto Engine Co., Ltd., member and vice chairman of the board and the general manager of Harbin Dongan Engine (Group) Co., Ltd., the chairman of the board of Harbin Aviation Industry (Group) Co., Ltd, and vice general manager of AVIC. Mr. Tan is also vice chairman of the board of Chinese Aeronautical Establishment. Mr. Tan has been appointed as a Director of the Company since June 2005, the vice chairman of the Board and executive Director since June 2006 and the vice chairman of the Board, executive Director and general manager of the Company since October 2008. Mr. Tan resigned as the general manager of the Company on August 2016, and became a non-executive Director of the Company.

## Directors, Supervisors and Senior Management



**Mr. Gu Huizhong (顧惠忠)**

*(Member of Audit Committee and Development and Strategy Committee)*

60, a master degree holder and researcher level senior accountant. He graduated from Zhengzhou Aviation Industry Management Institute in 1981 majoring in financial management, and received his master degree from Beijing University of Aeronautics and Astronautics in 2000 majoring in international finance. Mr. Gu commenced his career in aviation industry in July 1981, and used to be a staff, deputy director and director of Financial Departments of The Third Mechanical and Industrial Department, Aviation Industry Ministry and Aviation and Space Industry Ministry; director of International Affairs Financial Division of Financial Department of Former AVIC since June 1993; general manager of Zhongzhen Accounting Consultative Corporation since August 1994; vice manager of Financial Department of Former AVIC since November 1995; deputy director-general of Financial Department of State Commission of Science, Technology and Industry for National Defence since July 1998; vice general manager of AVIC I since June 1999; and hold a concurrent post as chief accountant of AVIC I since February 2005. Mr. Gu served as a vice general manager and chief accountant of AVIC from November, 2008 to November 2016. He also served as the chairman of the board of AVIC Investment and AVIC International Holding Corporation. Co., Ltd. from December 2008 to March 2013. Mr. Gu is also a director of Chinese Aeronautical Establishment. Mr. Gu has been appointed as a non-executive Director of the Company since October 2008.



**Mr. Gao Jianshe (高建設)**

*(Member of Remuneration Committee and Nomination Committee)*

53, a doctorate degree holder and class one senior economist. Mr. Gao is also a vice general manager of AVIC. He graduated from Xiamen University with a bachelor degree in 1985 majoring in philosophy, and completed courses for master degree majoring in educational economy and administration conducted by Beijing University of Aeronautics and Astronautics in 2001. He received his Ph.D. degree in management science and engineering from Nanjing University of Aeronautics and Astronautics in 2008. Mr. Gao commenced his career in aviation industry in 1985, and used to be a staff, senior staff, deputy director, director of Human Resource and Labor Division of Aviation Industry Ministry, Aviation and Space Industry Ministry and Former AVIC; deputy director-general and director-general of Human Resource Department of AVIC I since July 1999 and vice chairman and vice general manager of Chengdu Aircraft Company concurrently during this period; and vice general manager of AVIC I since August 2006. Mr. Gao is also a director of Chinese Aeronautical Establishment. Mr. Gao has been appointed as a Supervisor of the Company since August 2008 and was appointed as a non-executive Director of the Company in June 2009.



## Directors, Supervisors and Senior Management



**Mr. Kiran Rao**

*(Member of Development and Strategy Committee)*

54, graduated from City University of London with a bachelor degree in aeronautical engineering in 1985 and a Ph.D in transonic aerodynamics in 1988. Mr. Kiran Rao began his professional career in the Aerodynamics Department of British Aerospace from 1988 to 1989, working on flight-control systems. Mr. Kiran Rao then joined British Aerospace's Marketing Group, working on sales campaigns in India, the Middle East and Southeast Asia. He joined Airbus in December 1992 as Airline Marketing Manager. In August 1994, he was promoted as Director of Airline Marketing for Airbus Industrie of North America; Mr. Kiran Rao was appointed as President of Airbus Industry India in April 1996; then promoted as Vice President of Sales for South Asia and Africa in September 2000. He was the Senior Vice President Marketing & Pricing Policies from October 2004, and the Executive Vice President ("EVP") Marketing and Contracts from January 2006. Since 1 November 2012, Mr. Kiran Rao has been appointed as EVP Strategy and Future Programmes of Airbus, and maintained his current role of EVP Sales and Marketing. Mr. Kiran Rao has been appointed as a non-executive Director of the Company since June 2016.



**Mr. He Zhiping (何志平)**

52, studied at the China Textile University (currently known as Donghua University) in Mechanical Engineering in 1979 and graduated with a master degree in engineering in 1986. Since 1987, Mr. He served as the assistant to the general manager of the United Rail Ltd, Shenzhen Branch of China Nonferrous Metals Company\* (中國有色金屬深圳聯合公司科力鐵有限公司), the assistant to the general manager and vice general Manager of Hainan Sanya Huaya Enterprise Group Corporation\* (海南三亞華亞企業集團公司), a director of China Great Wall Securities, LLC\* (長城證券有限責任公司). He is currently the Chairman of the Board of China Wall King Holding Co., Ltd\* (中國華建投資控股有限公司) and the actual controller of Qinhuangdao Tianye Communications Heavy Industry Co., Ltd\* (秦皇島天業通聯重工股份有限公司) (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, stock code: 002459). Mr. He also serves social functions such as the vice president of the Revolutionary Area Development Association of Jiangxi Province, Executive Vice President of Gan General Chamber of Commerce and the Council of Donghua University. Mr. He has been appointed as a non-executive Director of the Company since August 2016.



## Directors, Supervisors and Senior Management

### Independent Non-executive Directors



**Mr. Lau Chung Man, Louis (劉仲文)**

*(Chairman of Audit Committee, Member of Remuneration Committee and Nomination Committee)*

58, executive director and CFO of Sing Tao News Corporation ("**Sing Tao**", a company listed on the main board of the Stock Exchange). Mr. Lau joined Sing Tao on 23 May 2005. Mr. Lau is a Chartered Accountant and has been granted the Bachelor of Business and Administration in Victoria University of Wellington, New Zealand. Mr. Lau is also a member of New Zealand Institute of Chartered Accountants (NZICA) and an associate member of Hong Kong Institute of Certified Public Accountants (HKICPA). He has experience in corporate management, accounting and finance. He had been an executive director of China Everbright Ltd. (a company listed on the main board of the Stock Exchange) before he joined Sing Tao in May 2005. Mr. Lau has been appointed as an independent non-executive Director of the Company since August 2006, and as Chairman of Audit Committee since March 2014.



**Mr. Liu Renhuai (劉人懷)**

*(Member of Audit Committee, Remuneration Committee and Nomination Committee)*

76, an academician of the Chinese Academy of Engineering, graduated from Lanzhou University in 1963. He was elected as academician of the division of mechanical and vehicle technology of Chinese Academy of Engineering in 1999 and one of the first academicians of the division of engineering management of Chinese Academy of Engineering in 2000. He used to work as the president of Jinan University, director of the guiding committee on education of mechanics for colleges and universities of the Ministry of Education, director of the management department of the Science & Technology Commission of Ministry of Education, vice chairman of Chinese Mechanics Society and chairman of Chinese Vibration Engineering Society from 1995 to 2013. He is currently a professor and a board member of Jinan University, director of the institute of applied mechanics, and director of the research center of strategic management of Jinan University. Mr. Liu was appointed as a non-executive director of Sino-Tech International Holdings Limited (whose shares are listed on the Hong Kong Stock Exchange) from August 2010 to January 2012. He is currently an independent director of Guangdong Hongda Blasting Co., Ltd. (whose A shares are listed on the Shenzhen Stock Exchange). Mr. Liu Renhuai has been appointed as an independent non-executive Director of the Company since June 2014.

## Directors, Supervisors and Senior Management



**Mr. Yeung Chi Wai (楊志威)**

*(Chairman of Remuneration Committee, Member of Audit Committee and Nomination Committee)*

62, a Master degree holder. Mr. Yeung was educated at the University of Hong Kong where he obtained a Bachelor degree in Social Sciences. He later graduated from the College of Law, United Kingdom. He also holds a Bachelor degree in Law and a Master degree in Business Administration from the University of Western Ontario, Canada. Mr. Yeung is the Group Chief of Compliance and Risk Management Officer of Fung Holdings (1937) Limited and its publicly listed companies in Hong Kong. He has extensive experience in bank management and handling of legal, compliance and regulatory matters. Mr. Yeung joined BOC Hong Kong (Holdings) Limited (Stock Code: 2388) in 2001 as Board Secretary and later held position as Deputy Chief Executive (Personal Banking) to oversee the overall performance of personal banking businesses. From 2005 to 2008, he also concurrently acted as Board Secretary of Bank of China Limited (Stock Code: 3988). Prior to that, Mr. Yeung was the General Counsel and Director of China Everbright Limited (Stock Code: 0165), and also a Partner of Woo, Kwan, Lee & Lo. Since June 2015, Mr. Yeung has been appointed as an independent non-executive Director of the Company, and the Chairman of Remuneration Committee.

## SUPERVISORS



**Mr. Zheng Qiang (鄭強)**

53, a master degree holder and a researcher. He graduated from Northwestern Polytechnical University with a master degree majoring in aircraft design in 1988. Mr. Zheng commenced his career in aviation industry from 1988, and served as an engineer, deputy director and director of Civil Aircraft Division of China Aviation System Engineering Research Institute ("CASERI"); deputy chief engineer and director of Aircraft System Engineering Research Division of CASERI since March 1996; deputy director-general and director-general of CASERI since October 1996; deputy head and head of Civil Aircraft Department of AVIC I since August 2001; and assistant to the general manager of AVIC I since September 2004. Mr. Zheng also served as director at AVIC Helicopter Limited from August 2014 to March 2015. Mr. Zheng was appointed as vice general manager of the Company from June 2009 to June 2015. Mr. Zheng has been appointed as director of the management innovation office of AVIC since June 2015. Mr. Zheng has been appointed as a Supervisor of the Company, and the Chairman of the Supervisory Committee since October 2016.

## Directors, Supervisors and Senior Management



**Mr. Liu Fumin (劉富敏)**

52, a bachelor degree holder and a senior economist. Mr. Liu graduated from Harbin Finance University in 1985, majoring in finance; and graduated from Harbin Normal University in 1994, majoring in economic management. Mr. Liu commenced his career in banking in Heilongjiang Province since 1988, and was the officer, associate chief officer and chief officer of the financial research institute, the business credit department and the liquidity credit department of the Heilongjiang Branch of Industrial & Commercial Bank of China. Mr. Liu acted as the project manager, senior manager, assistant to the president and vice president of the equity management department, the assets management department and the business development department of the Harbin Branch of China Hua Rong Asset Management Corporation since February 2000. He was appointed as the deputy manager of the business review department of China Huarong Asset Management Co., Ltd. (previously named as China Huarong Asset Management Corporation) in January 2010, and the vice general manager, general manager of the Heilongjiang Branch of China Huarong Asset Management Co., Ltd.. Since January 2015. Mr. Liu has been appointed as a Supervisor of the Company since June 2015.



**Ms. Li Jing (李竟)**

38, a master degree holder and a certified medium translator. She graduated from the Southwest Agriculture University with a bachelor degree in 2002 and graduated from University of International Business and Economics with a MBA degree in 2013. She worked in the Investment Promotion Bureau of Mianyang Scientific-Industrial Zone and the International Cooperation Division of International Cooperation and Trading Department under AVIC II. Ms. Li joined the Company since 2004, and has been appointed as a Supervisor of the Company since May 2012.

## SENIOR MANAGEMENT



Mr. Chen Yuanxian (陳元先)

56, a doctorate degree holder and researcher. Mr. Chen graduated from Nanjing University of Aeronautics and Astronautics with a bachelor degree majoring in man-machine engineering in 1982 and graduated from Beijing University of Aeronautics and Astronautics with a master degree and a doctorate degree majoring in man-machine engineering in 1988 and 1998, respectively. He commenced his career in the aviation industry since 1982 and used to be a technician, vice department director, deputy chief engineer and chief engineer of China Research Institute of Aero-Accessories. He had been the director of China Research Institute of Aero-Accessories since February 2000; director-general of Airborne Equipment Department of AVIC I since February 2003; deputy chief engineer of AVIC I since June 2007; deputy chief economist of AVIC, director of Strategic Planning Department in September 2008. In March 2013, he was appointed as a director and chief economist of AVIC. Mr. Chen was a non-executive Director of the Company from June 2009 to May 2012. On March 2014, Mr. Chen was appointed as the vice general manager and Chief Financial Officer of the Company. Mr. Chen was appointed as the general manager of the Company in August 2016.



Mr. Tang Jun (唐軍)

56, a doctor degree holder and a researcher level senior engineer. Mr. Tang graduated from Nanchang Hangkong University with a bachelor's degree, majoring in corrosion and corrosion prevention of aviation material, got a master's degree from Beijing University of Aeronautics and Astronautics majoring in industry foreign trade and got a doctor's degree from Northwestern Polytechnical University majoring in management. Mr. Tang commenced his career in aviation industry in 1983, successively being the process technician, deputy director of the mechanical processing plant in charge of technology, deputy director of the manufacturing and engineering department & director of the Materials Technology Institute, director of the Quality Assurance Department, and vice general manager of AVIC Xi'an Aircraft Industry (Group) Co., Ltd. the chairman of the board and general manager of AVIC Xi'an Aircraft Industry (Group) Co., Ltd. from August 2011 to March 2013; the general manager of AVIC Aircraft Co., Ltd from March 2013 to December 2015. He has been the director of the Quality Assurance Department of AVIC since December 2015. Mr. Tang was appointed as the vice general manager of the Company in August 2016.

## Directors, Supervisors and Senior Management



**Mr. Chen Guanjun (陳灌軍)**

55, a master degree holder and a researcher. Mr. Chen obtained his bachelor degree from Nanjing University of Aeronautics and Astronautics in 1984, majoring in High Altitude Equipment; and received his master degree in business administration from Paris University of Engineering Management. He commenced his career in the aviation industry in 1984, and used to be the deputy director and director of the research & development department, director of science & technology division, and vice president of the China Aviation Technology Intelligent Institute; deputy director of the Aviation Development and Research Institute since August 2001; deputy director of the mechanical equipment department of AVIC I since July 2002; and the director of market and international cooperation department of AVIC I since September 2006; Mr. Chen has been the director of the international affairs department of AVIC from September 2008 to March 2015; and Mr. Chen has been the deputy director of Aviation Industry Development Research Center of China since August 2011. Mr. Chen has been appointed as the Chairman of the Supervisory Committee from June 2015 to October 2016. Mr. Chen was appointed as the vice general manager of the Company in October 2016.

## BOARD SECRETARY



**Mr. Gan Liwei (甘立偉)**

52, a master degree holder and a researcher. He graduated from Beijing University of Aeronautics and Astronautics in 1987 with a bachelor's degree, majoring in system engineering and management engineering; and got a master's degree in 1998 majoring in industrial foreign trade management. Mr. Gan commenced his career in aviation industry in 1987, successively being the engineer and senior engineer of AVIC China Aero-Polytechnology Establishment, deputy division chief, division chief, assistant chief engineer and deputy director of AVIC Economics & Technology Research Establishment, deputy director of the Development and Research Department of AVIC II. He was the director of the Administrative Department of AviChina from April 2003. He has been the vice general manager of AviChina Hong Kong Co., Ltd since March 2015. Mr. Gan was appointed as the Board Secretary of the Company in August 2016.

# Report of the Board

The Board of Directors of AviChina hereby presents its Report of the Board together with the audited financial statements of the Group for the year ended 31 December 2016.

## BUSINESS OF THE GROUP

The Group is principally engaged in the research, development, manufacture and sale of civil aviation products and relevant engineering services.

For details of the business and future business development of the Group, please refer to the section headed “Management Discussion and Analysis” from page 16 to page 18 of this annual report.

## ENVIRONMENTAL POLICIES

The Company has made and implemented the following environmental policies, aiming to continuously improve the level of its environmental management: (i) the Company fully complies with the PRC laws and regulations in relation to environmental protection; (ii) the Company actively raises environmental protection awareness of its employees, and encourages its employees’ participation in environmental protection work; and (iii) the Company also supervises the performance of its subsidiaries in environmental protection to build up the harmonious environment together.

During this reporting period, the Company continuously strengthened the management of environmental protection, actively participated in energy saving and emission reduction, and pursued green development. For details, please refer to the section headed “Environmental, Social and Governance Report” on page 65 to page 84 of this annual report.

## RESULTS AND DIVIDEND

The results of the Group for 2016 are set out in the Consolidated Statement of Profit or Loss on page 90 of this annual report.

The Board recommended the payment of a final dividend for the year 2016 in an aggregate amount of RMB119,322,436.72, representing a dividend of RMB0.02 per share (2015: RMB0.02 per share), calculated based on the existing number of total issued shares of 5,966,121,836 shares as at the date of this report, subject to adjustment (if any) based on the number of total issued Shares as at the Record Date (as defined below).

The final dividend will be paid to those shareholders whose names appear on the Company’s register of members at the close of business on Monday, 29 May 2017 (the “**Record Date**”). To determine the identity of the shareholders entitled to receive the final dividend, the Company’s register of members will be closed from Wednesday, 24 May 2017 to Monday, 29 May 2017 (both days inclusive), during which period no transfer of H shares of the Company will be registered. In order to be entitled to receive the final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company’s H shares registrar, by not later than 4:30 p.m. on Tuesday, 23 May 2017.





## Report of the Board

In accordance with Article 151 of the Articles of Association, the dividend will be declared in RMB to the shareholders. The dividend payable to shareholders of the domestic shares will be paid in RMB within three months after the dividend declaration date. The dividend payable to H shareholders is calculated and declared in RMB and will be paid in Hong Kong Dollars within three months after the dividend declaration date. The amount to be paid in Hong Kong Dollars will be converted based on the average closing exchange rate between RMB and Hong Kong Dollars issued by the People's Bank of China for the five working days prior to the declaration of dividends at the annual general meeting of the Company to be held on Thursday, 18 May 2017 (the "AGM"). Subject to the approval of the Company's shareholders at the AGM, the aforementioned dividend is expected to be paid by the Company on Friday, 18 August 2017.

The AGM will hold on Thursday, 18 May 2017. The H share register of members of the Company will be closed from Friday, 28 April 2017 to Thursday, 18 May 2017 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of the Company's H shares and domestic shares whose names appear on the Company's register of members at the opening of business on Thursday, 18 May 2017 are entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, holders of the Company's H shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, not later than 4:30 pm on Thursday, 27 April 2017.

### INFORMATION ON TAX DEDUCTION

H shareholders shall be taxed for the dividends distributed by the Company in accordance with the Enterprise Income Tax Law of the PRC, the Individual Income Tax Law of the PRC and other relevant laws, regulations and rules. However, H shareholders may enjoy tax relief in accordance with the provisions of applicable tax treaties entered into by the countries/regions where they belong to by virtue of residential identification and the PRC. For details, please refer to the announcement of the Company dated 24 June 2016.

In addition, pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui [2014] No. 81) and the Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Program (Cai Shui [2016] No. 127), for domestic individual shareholders who invest in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the dividends. For domestic shareholders whose securities investment funds investing in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the dividends. As to the withholding tax having been paid abroad, an individual shareholder may file an application for tax credit with the competent tax authority which exercises jurisdiction over China Securities Depository and Clearing Corporation Limited with an effective tax credit document. For domestic enterprise shareholders who invest in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the Company will not withhold or pay enterprise income tax on their behalf in the distribution of the dividends, and the domestic enterprise shareholders shall report and pay the relevant taxes payable by themselves. Any dividend received in respect of H Shares of the Company which have been continuously held by a domestic resident enterprise shareholder for 12 months shall be exempted from enterprise income tax.

## SHARE CAPITAL

The Company's capital structure as at 31 December 2016 was as follows:

Class of Shares	Number of Shares as at 31 December 2016	Percentage of total number of Shares in issue as at 31 December 2016 (%)
Domestic Shares	3,609,687,934	60.5
Overseas listed foreign invested shares (H Shares)	2,356,433,902	39.5
<b>Total</b>	<b>5,966,121,836</b>	<b>100</b>

## FIVE-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the recent five financial years is set out on pages 5 to 6 of this annual report.

## SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, pursuant to the register kept under Section 336 of the Securities and Futures Ordinance (the "SFO"), shareholders holding 5% or more than 5% equity interests in the shares and underlying shares Company 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 to share capital in issue	Nature of Shares held
AVIC (Note 1)	Domestic Shares	Beneficial owner, Interest in controlled corporation	3,481,185,569	96.44%	58.35%	Long position
	H Shares	Interest in controlled corporation	13,076,000	0.55%	0.22%	Long position
European Aeronautic Defence and Space Company – EADS N.V. (Note 2)	H Shares	Beneficial owner	274,909,827	11.67%	4.61%	Long position





## Report of the Board

### Notes:

1. Out of the 3,481,185,569 Domestic Shares held by AVIC, 3,297,780,902 Domestic Shares are held as beneficial owner and 183,404,667 Domestic Shares are held through AMES, its wholly-owned subsidiary. The 13,676,000 H Shares are held by AVIC through China Aviation Industry (Hong Kong) Company Limited, its wholly-owned subsidiary.
2. European Aeronautic Defence and Space Company – EADS N.V. officially changed its name to Airbus Group on 1 January 2014.

Save as disclosed above, as at 31 December 2016, the Company had not been notified of any interests and short positions in 5% or more of the shares and underlying shares of the Company which had been recorded in the register kept under Section 336 of the SFO.

## PURCHASE, SALE AND REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities for the year ended 31 December 2016.

## PRE-EMPTIVE RIGHTS

There are no provisions in respect of pre-emptive rights under the Articles of Association and the laws of the PRC.

## DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2016, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

## FIXED ASSETS

Details of fixed assets of the Group are set out in Note 13 to the financial statements.

## RESERVES

Details of movement in reserves of the Group for the year ended 31 December 2016 are set out in the Consolidated Statement of Changes in Equity and Note 33 to the financial statements.

## DISTRIBUTABLE RETAINED EARNINGS

As at 31 December 2016, the Company had distributable retained earnings of RMB313,787,000.

## MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's total purchases from the five largest suppliers for the aviation business accounted for 13.04% of the Group's total purchases, of which, purchases from the largest supplier accounted for 3.71% of the Group's total purchases. The Group's sales to the five largest customers accounted for 43.59% of the Group's total sales, of which, sales to the largest customer accounted for 20.44% of the Group's total sales.

Purchases from the five largest suppliers in the aviation entire aircraft segment accounted for 26.46% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 7.82% of the total purchases in that segment. Sales to the five largest customers in the aviation entire aircraft segment accounted for 82.89% of the total sales in that segment, of which, sales to the largest customer accounted for 48.33% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation parts and components segment accounted for 11.43% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 3.07% of the total purchase in that segment. Sales to the five largest customers in the aviation parts and components segment accounted for 19.52% of the total sales in that segment, of which, sales to the largest customer accounted for 7.65% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation engineering services segment accounted for 23.90% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 8.11% of the total purchase in that segment. Sales to the five largest customers in the aviation engineering services segment accounted for 44.34% of the total sales in that segment, of which, sales to the largest customer accounted for 15.46% of the total sales in that segment.

During the reporting period, save for the connected transactions with AVIC as disclosed in the section headed "Connected Transactions" in this annual report, none of the Directors or their close associates or any shareholder holding more than 5% has any interest in the above major suppliers and customers.

## SUBSIDIARIES

Details of subsidiaries are set out in note 1 to the financial statements.

## DIRECTORS

Details of the Directors as at 31 December 2016 are set out from pages 21 to 25 of this annual report. Details of changes of the Directors during the year 2016 are set out from pages 42 to 43 of this annual report.



## Report of the Board

### MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES DURING THE REPORTING YEAR

1. On 30 September 2015, the Company entered into the Equity Acquisition and Share Issuance Agreement with AVIC, pursuant to which the Company had conditionally agreed to acquire and AVIC had conditionally agreed to sell 100% equity interest held by AVIC in AVIC Planning (“**Target Equity**”). After filing with and confirmed by the state-owned assets supervision and administration authorities, the valuation of the Target Equity was adjusted to RMB2,173 million (i.e. RMB2,173,281,600). Taking into account the adjusted valuation of the Target Equity and other factors, on 10 March 2016, the Company entered into the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement with AVIC, pursuant to which, the consideration for the acquisition of 100% equity interest in AVIC Planning was confirmed as RMB2,173 million (i.e. RMB2,173,281,600) and the number of consideration shares to be issued by the Company to AVIC was adjusted to 491,692,669 shares at the issue price of RMB4.42 per consideration share. On 28 June 2016, all conditions precedent to the acquisition of AVIC Planning, as set out in the Equity Acquisition and Share Issuance Agreement, had been satisfied, and the Company issued 491,692,669 new domestic shares to AVIC as the consideration for the acquisition of AVIC Planning. Upon completion of the issuance, the total number of issued shares of the Company increased from 5,474,429,167 shares to 5,966,121,836 shares, among which, the total number of domestic shares had increased from 3,117,995,265 shares to 3,609,687,934 shares, and the total number of H shares held by the H shareholders remained unchanged. On 8 August 2016, the Company announced that the acquisition of AVIC Planning was completed and the entire equity interest in AVIC Planning was transferred to the Company.

Please refer to the announcements of the Company dated 30 September 2015, 19 October 2015, 10 March 2016, 28 June 2016 and 8 August 2016, and the circular dated 10 May 2016 for details.

2. On 13 June 2016, Hafei Aviation, a non-wholly owned subsidiary of the Company, entered into the Joint Venture Contract with China Aviation Industry General Aircraft Co., Ltd. (“**CAIGA**”), a subsidiary of AVIC, and Heilongjiang Dazheng Investment Group Co., Ltd. (“**Dazheng Investment**”), pursuant to which Hafei Aviation agreed to contribute RMB200 million in kind in the establishment of Harbin General Aircraft, which shall primarily be engaged in the manufacturing and sales of general fixed-wing aircraft and relevant businesses including client service and etc.. Upon establishment of Harbin General Aircraft, Hafei Aviation, CAIGA and Dazheng Investment held 40%, 40% and 20% of the equity interest in Harbin General Aircraft, respectively. As at the agreement date, CAIGA was a subsidiary of AVIC, the controlling shareholder of the Company. The signing of the Joint Venture Agreement constituted a connected transaction under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 13 June 2016.

- On 6 September 2016, the Company entered into the Capital Contribution Agreement with AVIC Guizhou Aviation Aircraft Co., Ltd. ("**AVIC Guizhou Aircraft**"), Shenzhen Dazhong Flight Entrepreneurship Investment LLP ("**Dazhong Flight**"), Shanghai Aviation Electronics Company ("**Shanghai Aviation Electronics**"), Tianjin Aviation, AVIC International Aero-development Corporation ("**AVIC International Aero-Development**") and AVIC Jincheng Nanjing Mechanics-electronics-hydraulics Research Center ("**AVIC Jincheng**"), pursuant to which, the Company and its wholly-owned subsidiary Tianjin Aviation agreed to contribute RMB70 million and RMB9 million in cash in the establishment of AviChina Intelligent Surveying & Mapping. Upon establishment of AviChina Intelligent Surveying & Mapping, the Company, AVIC Guizhou Aircraft, Dazhong Flight, Shanghai Aviation Electronics, Tianjin Aviation, AVIC International Aero-Development and AVIC Jincheng directly held 31.75%, 27.22%, 20.85%, 9.07%, 4.08%, 3.63% and 3.40% of the equity interest in AviChina Intelligent Surveying & Mapping, respectively. As such, the Group held 35.83% of the equity interest in AviChina Intelligent Surveying & Mapping in total, which became a subsidiary of the Company. As at the agreement date, AVIC was the controlling shareholder of the Company, AVIC Guizhou Aircraft, Shanghai Aviation Electronics, AVIC International Aero-Development and AVIC Jincheng were subsidiaries of AVIC. Therefore, AVIC Guizhou Aircraft, Shanghai Aviation Electronics, AVIC International Aero-Development and AVIC Jincheng were all connected persons of the Company, and the entering into of the Capital Contribution Agreement among the Company and Tianjin Aviation and with the above connected persons constituted a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcements of the Company dated 6 September 2016.

## CONNECTED TRANSACTIONS

### Continuing Connected Transactions

For the year ended 31 December 2016, the Group engaged in continuing connected transactions with AVIC Group, AVIC Avionics and its subsidiaries ("**AVIC Avionics Group**"), AVICOPTER and its subsidiaries ("**AVICOPTER Group**"). AVIC is the controlling shareholder of the Company and therefore is a connected person of the Company. AVIC has direct and indirect equity interest of 34.16% in AVIC Avionics, which is a subsidiary of the Company held as to 43.22% by the Company and is consolidated in the audited accounts of the Company. AVIC Avionics is therefore a connected subsidiary of the Company under the Hong Kong Listing Rules. Similarly, AVIC has indirect equity interest of 26.93% in AVICOPTER, which is a subsidiary of the Company held as to 34.66% by the Company and is consolidated in the audited accounts of the Company. AVICOPTER is therefore a connected subsidiary of the Company under the Hong Kong Listing Rules. The Group also entered into continuing connected transactions with AVIC Finance, which is a subsidiary of AVIC and therefore a connected person of the Company.

### AVIC

During the year 2016, the Group carried out following continuing connected transactions with AVIC Group pursuant to the four continuing connected transaction agreements entered into between the Company and AVIC Group:



## Report of the Board

- 1 On 26 August 2014, the Company entered into the mutual supply of products agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group agreed to provide aviation related materials, components and products and their related sale and ancillary services to the Group for a term of three years ending 31 December 2017. The Group also agreed to provide aviation related materials, components and products and their related sale and ancillary services to AVIC Group for a term of three years ending 31 December 2017.
- 2 On 26 August 2014, the Company entered into the mutual provision of services agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group agreed to provide certain services relating to the production and business operations of the Group for a term of three years ending 31 December 2017 and the Group also agreed to provide certain services relating to the production and business operations of AVIC Group for a term of three years ending 31 December 2017.

On 8 August 2016, AviChina completed the acquisition of 100% equity interest in AVIC Planning by issuance of domestic shares, and AVIC Planning became a wholly-owned subsidiary of the Company, thus the transactions continuously carried out between AVIC Planning and its subsidiaries and AVIC Group became the new continuous connected transactions of the Company. On 19 October 2015, the Company entered into the supplementary agreement to the mutual provision of services agreement with AVIC to include the new continuing connected transactions into the revised existing mutual provision of services agreement for unified management, and revised the annual caps of the relevant revenue transactions for the two financial years ending 31 December 2017. The above revision has been approved by independent shareholders on the extraordinary general meeting of the Company convened on 13 June 2016.

- 3 On 26 August 2014, the Company entered into the trademarks and technology cooperation framework agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group agreed to provide, among others, certain licences of trademarks and technology cooperation services to the Group for a term of three years ending 31 December 2017 and the Group also agreed to provide certain licenses of trademarks and technology cooperation services to the AVIC Group for a term of three years ending 31 December 2017.
- 4 On 26 August 2014, the Company entered into the supplemental agreement to the land use rights and properties leasing agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group leased 17 pieces of land with an aggregate area of approximately 1.185 million square meters to the Group at an annual rental of approximately RMB26.01 million. The Group leased a piece of land with an aggregate area of approximately 16,000 square meters to AVIC Group at an annual rental of approximately RMB442,000. AVIC Group leased certain properties with an aggregate gross floor area of approximately 66,000 square meters to the Group at an annual rental of approximately RMB35,144,000. The Group leased certain properties with an aggregate gross floor area of approximately 23,000 square meters to AVIC Group at an annual rental of approximately RMB6,685,000.

On 8 August 2016, AviChina completed the acquisition of 100% equity interest in AVIC Planning by issuance of domestic shares, and AVIC Planning became a wholly-owned subsidiary of the Company, thus the properties rented by AVIC Planning and its subsidiaries from AVIC Group became the newly rented properties, with an aggregate floor area of approximately 9,297 square meters at an annual rental of approximately RMB10.54 million. Pursuant to the existing land use rights and properties leasing agreement, the Group includes the new rented properties into the existing land use rights and properties leasing agreement and relevant annual caps, through a new leasing plan for the year 2016, in order to be monitored in accordance with the items of the agreement. The newly increased land use rights and the amount of properties leases do not affect the existing caps, therefore, the relevant annual caps for the existing land use rights and properties leasing agreement shall not be revised.

### *AVIC Avionics and AVICOPTER*

- 5 On 26 August 2014, the Company entered into products and services mutual supply and guarantee agreement with AVIC Avionics and AVICOPTER, pursuant to which, the Group agreed to provide aviation parts and components, raw materials, production and labour services to AVIC Avionics Group and AVICOPTER Group, as well as providing continuing guarantee(s) to AVIC Avionics Group and AVICOPTER Group for a term of three years ending 31 December 2017; and AVIC Avionics Group and AVICOPTER Group agreed to provide aviation parts and components and related ancillary services to the Group for a term of three years ending 31 December 2017.

On 8 August 2016, AviChina completed the acquisition of 100% equity interest in AVIC Planning by issuance of domestic shares, and AVIC Planning became a wholly-owned subsidiary of the Company, thus the transactions continuously carried out between AVIC Planning and its subsidiaries and AVIC Avionics and AVICOPTER became the new continuous connected transactions of the Company. On 19 October 2015, the Company entered into the supplementary agreements to the mutual provision of services agreements with AVIC Avionics and AVICOPTER respectively to include the new continuing connected transactions into the revised existing mutual provision of services agreements for unified management, and revised the annual caps of the relevant revenue transactions for the two financial years ending 31 December 2017. The above revisions have been approved on the extraordinary general meeting of the Company convened on 13 June 2016.

### *AVIC Finance*

- 6 On 26 August 2014, the Group entered into the financial services framework agreement with AVIC Finance, pursuant to which, AVIC Finance agreed to provide the Group with non-exclusive deposit services, loan services, settlement services, guarantee services and other financial services subject to the terms and conditions provided therein with a term of three years.

For details of the aforementioned continuing connected transactions, please refer to the announcement of the Company dated 26 August 2014, the announcement and circular dated 26 September 2014, and announcement dated 19 October 2015, and the circular dated 10 May 2016, and announcements dated 13 June 2016 and 8 August 2016.



The Board (including independent non-executive Directors) has reviewed the above continuing connected transactions and confirmed that the aforementioned transactions had been entered into in accordance with the following conditions:

- (a) the transactions were entered into in the ordinary and usual course of business of the Group;
- (b) the transactions were either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties;
- (c) the transactions were entered into in accordance with the terms under relevant agreements, and the terms hereunder were fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (d) the aggregate amounts of the transactions have not exceeded the respective caps as set out above.

The Company's auditors have reviewed the relevant transactions, and have confirmed in a letter to the Directors stating that:

- (a) the transactions were approved by the Board;
- (b) for transactions involving the provision of goods or services by the Group, prices for such transactions were determined in accordance with the pricing policies of the Group;
- (c) the transactions were entered into in accordance with the relevant agreements governing the transactions; and
- (d) the amounts of the transactions did not exceed the respective annual caps as set out above.

According to the Hong Kong Listing Rules, part of the related party transactions mentioned in note 37 to the financial statements also constituted continuing connected transactions as defined under Chapter 14A of the Hong Kong Listing Rules. Such transactions were in compliance with the disclosure requirements of Chapter 14A of the Hong Kong Listing Rules.

### **One-Off Connected Transactions**

- 1 On 29 March 2016, each of Keeven Instrument and Baocheng Instrument, being the Company's non-wholly-owned subsidiaries, entered into the loan agreement with AVIC respectively, pursuant to which, AVIC agreed to grant a loan of RMB120 million to Keeven Instrument with a term of not less than 10 years at an interest rate of 1.08% per annum, and a loan of RMB20 million to Baocheng Instrument with a term of 15 years at an interest rate of 1.20% per annum. On the same date, AVIC Avionics, the Company's non-wholly-owned subsidiaries, entered into the guarantee agreements with AVIC to provide guarantees in favour of Keeven Instrument and Baocheng Instrument for the loans granted by AVIC under the loan agreements. The grant of the loans from AVIC to Keeven Instrument and Baocheng Instrument under the loan agreements as guaranteed by AVIC Avionics constitutes connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 29 March 2016.





## Report of the Board

- 2 On 20 June 2016, AVIC Huiyang, a subsidiary of the Company, entered into two loan agreements with AVIC Finance, a subsidiary of AVIC, pursuant to which, AVIC Finance agreed to grant a loan of RMB10 million and a loan of RMB30 million to AVIC Huiyang respectively, with an aggregate amount of RMB40 million, and both of them with a term of 1 year at an interest rate of 4.35% per annum. On the same date, AVICOPTER, a subsidiary of the Company, entered into two Guarantee Agreements with AVIC Finance to provide guarantees with an aggregate amount of RMB40 million for the loans granted by AVIC Finance in favour of AVIC Huiyang. The grants of loans by AVIC Finance to AVIC Huiyang under the loan agreements as guaranteed by AVICOPTER constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 20 June 2016.
- 3 On 22 June 2016, AVIC Huiyang, a subsidiary of the Company, entered into two loan agreements with AVIC Finance, a subsidiary of AVIC, pursuant to which, AVIC Finance agreed to grant to AVIC Huiyang (i) a loan of RMB29 million with a term of five (5) years at an interest rate of 4.75% per annum; and (ii) a loan of RMB60 million with a term of 1 year at an interest rate of 4.35% per annum, respectively. The aggregate amount of loans granted under the loan agreements shall be RMB89 million. On the same date, AVICOPTER, a subsidiary of the Company, entered into two Guarantee Agreements with AVIC Finance to provide guarantees with an aggregate amount of RMB89 million for the loans granted by AVIC Finance in favour of AVIC Huiyang. The grants of loans by AVIC Finance to AVIC Huiyang under the loan agreements as guaranteed by AVICOPTER constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 22 June 2016.
- 4 On 19 September 2016, the Company and the Beijing Dongdan branch of the Bank of Communications Limited ("**the Bank of Communications Company Limited**") entered into the entrusted loan agreement with AVIC Kaitian, pursuant to which the Company entrusted the Bank to grant the entrusted loan to AVIC Kaitian, with a term of three years to support the operation and development of AVIC Kaitian. The interest rate is 4.0375% per annum, which is determined with reference to the benchmark interest rate promulgated by the People's Bank of China for three-year term loans granted by financial institutions. The accrued interest shall be settled by AVIC Kaitian quarterly during the term of the Entrusted Loan. As AVIC holds more than 10% indirect interest in AVIC Kaitian, AVIC Kaitian is a connected subsidiary of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the grant of the Entrusted Loan to AVIC Kaitian by the Company constitutes a connected transaction of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 19 September 2016.

- 5 On 21 December 2016, the Company, AVIC Avionics and the Bank of Communications Company Limited entered into the Entrusted loan agreement, pursuant to which the Company agreed to entrust the Bank to grant the entrusted loan of RMB300 million to AVIC Avionics for a term of one year. The interest rate per annum is 3.7375%, which is determined with reference to the benchmark interest rate promulgated by the People's Bank of China for one-year term loans granted by financial institutions. The accrued interest shall be settled by AVIC Avionics quarterly during the term of the Entrusted Loan. As AVIC holds more than 10% indirect interest in AVIC Avionics and AVIC Avionics is a subsidiary of the Company, AVIC Avionics is a connected subsidiary of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the grant of the Entrusted Loan to AVIC Avionics by the Company constitutes a connected transaction of the Company. For details, please refer to the announcement of the Company dated 21 December 2016.

For the other one-off connected transactions of the Group, please refer to paragraphs 1, 2 and 3 under the subsection headed "Material Acquisitions and Disposal of Subsidiaries and Associated Companies During the Reporting Period" of this session on page 34 to page 35.

## SIGNIFICANT EVENTS DURING THE REPORTING YEAR

- 1 On 3 February 2016, AVIC Forstar, a subsidiary of JONHON Optronic, was formally quoted on the National Equities Exchange and Quotations system. The stock name of AVIC Forstar is "Forstar" and the stock code is "835640". For details, please refer to the announcements of the Company dated 26 August 2015, 13 January 2016 and 3 February 2016.
- 2 On 3 July 2016, as there had been considerable changes in relevant policies, after comprehensive consideration of factors in all aspects and after prudent discussion and analysis, the parties to the agreement, after negotiation, had reached a consensus to terminate the Framework Agreement on Capital Increases in AVIC Shenyang Aircraft Industrial (Group) Co., Ltd. and AVIC Chengdu Aircraft Industrial (Group) Co., Ltd. entered into on 18 August 2015 by the Company, AVIC Capital, AVIC Avionics, AVIC Aircraft Co., Ltd. and AVIC Electromechanical Systems Co., Ltd., as the capital increase participants, and AVIC Shenyang Aircraft Industrial (Group) Co., Ltd. and AVIC Chengdu Aircraft Industrial (Group) Co., Ltd. as the capital increase targets. For details, please refer to the announcement of the Company dated 3 July 2016.
- 3 On 27 October 2016, JONHON Optronic, a subsidiary of the Company, proposed to adopt a restricted share incentive scheme (the "Restricted Share Incentive Scheme") and to grant the first batch of the restricted shares thereunder to certain participants (the "Proposed Initial Grant"). The Board approved the proposed adoption of the Restricted Share Incentive Scheme and the Proposed Initial Grant. On 18 January 2017, pursuant to the Restricted Share Incentive Scheme, JONHON Optronic launched the initial grant, and granted a total of 6,001,000 restricted shares to 266 selected participants, representing approximately 0.9960% of the issued share capital of JONHON Optronic as at the date of the initial grant. The grant price under the initial grant was RMB28.19 per restricted share. Upon implementation of the initial grant, the equity interest in JONHON Optronic held by the Company was diluted from 41.57% to 41.16%. For details, please refer to the announcements of the Company dated 27 October 2016 and 18 January 2017.



## Report of the Board

### CORPORATE GOVERNANCE

Details of corporate governance practices adopted by the Company are set out in the section of “Corporate Governance Report” of this annual report.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Board, throughout the year ended 31 December 2016 and up to the date of this report, the Company maintained a sufficient public float of more than 25% of the Company’s issued shares as required under the Hong Kong Listing Rules.

### AUDITORS

On 12 May 2015, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were no longer to be as the international and PRC auditors of the Company respectively and Ernst & Young and Ernst & Young Hua Ming LLP were appointed as the international and PRC auditors of the Company. Saved as above disclosure, there is no change of the auditor of the Company in the past three years.

The financial statements for the year have been audited by Ernst & Young.

### CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Maurice Savart applied for resignation to the Board as a non-executive Director due to other work commitment, and Mr. Kiran Rao was nominated as the candidate for the new non-executive Director. At the annual general meeting of the Company convened on 13 June 2016, Mr. Kiran Rao was appointed as the new non-executive Director of the Company and a member of the Development and Strategy Committee of the Board, and Mr. Maurice Savart ceased to be a non-executive Director and a member of the Development and Strategy Committee of the Board.

Mr. Guo Chongqing applied for resignation to the Board as a non-executive Director due to his age, and Mr. He Zhiping was nominated as the candidate for the new non-executive Director. At the extraordinary general meeting of the Company convened on 25 August 2016, Mr. He Zhiping was appointed as the new non-executive Director of the Company, and Mr. Guo Chongqing ceased to be a non-executive Director.

Due to other business commitment and allocation of more time to new positions, (i) Mr. Chen Guanjun applied to resign as a supervisor and other related positions of the Company with effect from the appointment of his replacement as approved at the extraordinary general meeting of the Company convened on 27 October 2016; (ii) Mr. Tan Ruisong resigned as the general manager of the Company with effect from 25 August 2016; (iii) Mr. Zhang Kunhui and Mr. Lv Jie resigned as the vice-general managers with effect from 25 August 2016; (iv) Mr. Yan Lingxi resigned as the secretary of the Board, company secretary and authorized representative of the Company with effect from 25 August 2016.

Meanwhile, on 25 August 2016, the Board announced that (i) Mr. Zheng Qiang was nominated as the supervisor candidate of the Company by AVIC; (ii) Mr. Chen Yuanxian was appointed as the general manager with a term of office commencing from 25 August 2016 until the expiry of the term of the 5th Session of the Board or his dismissal by the Board; (iii) Mr. Tang Jun was appointed as the vice general manager with a term of office commencing from 25 August 2016 until the expiry of the term of the 5th Session of the Board or his dismissal by the Board; (iv) Mr. Gan Liwei was appointed as the secretary of the Board with a term of office commencing from 25 August 2016 until the expiry of the term of the 5th session of the Board or his dismissal by the Board; and (v) Mr. Xu Bin was appointed as the company secretary and authorized representative of the Company with effect from 25 August 2016.

At the extraordinary general meeting of the Company convened on 27 October 2016, Mr. Zheng Qiang was appointed as the Supervisor of the Company. At the Supervisory Committee meeting following the extraordinary general meeting, Mr. Zheng Qiang was appointed as the chairman of the 5th session of the Supervisory Committee. After the conclusion of the extraordinary general meeting and the Supervisory Committee meeting, the 5th session of the Supervisory Committee comprises the following members: Mr. Zheng Qiang (chairman of the Supervisory Committee and Shareholder representative Supervisor), Mr. Liu Fumin (Shareholder representative Supervisor) and Ms. Li Jing (employee representative Supervisor).

### **CHANGES OF COMPANY SECRETARY AND AUTHORIZED REPRESENTATIVE**

As been approved by the Board, Mr. Xu Bin has been appointed as the company secretary and authorized representative of the Company, with effect from 25 August 2016.

### **SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS**

Each of the Directors (except the independent non-executive Directors) and Supervisors has entered into a service contract with the Company. None of the Directors or Supervisors has entered into service contracts which are not terminable by the Company within one year without payment of compensation (other than statutory compensation).

### **DIRECTORS' AND SUPERVISORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE**

Save as disclosed in this annual report, during or at the end of the reporting year, none of the Directors or Supervisors or an entity connected with them had any material interest, directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group, in which the Company, subsidiaries of the Company, its holding company or subsidiary of the Group was a party.



## Report of the Board

### THE INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, save as disclosed below, none of the Directors, Supervisors or Chief Executive of the Company had interests or held short positions in the shares, underlying shares and/or debentures of the Company and/or its associated corporations (within the meaning of Part XV of 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 Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO.

Name of Director	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
Lin Zuoming (Note)	H Share	Beneficial owner	462,005	0.020%	0.008%	Long position
	Interests in shares of associated corporation	Beneficial owner	2,000	0.000%	0.000%	Long position
	Interests in shares of associated corporation	Beneficial owner	5,000	0.000%	0.000%	Long position
Tan Ruisong	H Share	Beneficial owner	563,811	0.024%	0.010%	Long position
Gu Huizhong	H Share	Beneficial owner	239,811	0.010%	0.004%	Long position
Gao Jianshe	H Share	Beneficial owner	231,811	0.010%	0.004%	Long position
Yeung Chi Wai	H Share	Beneficial owner	248,000	0.011%	0.005%	Long position
Zheng Qiang	H Share	Beneficial owner	322,653	0.014%	0.009%	Long position
Chen Yuanxian	H Share	Beneficial owner	255,687	0.011%	0.005%	Long position

Note: Based on the relevant disclosure of interests filed on the website of the Stock Exchange, as at 31 December 2016, Mr. Lin Zuoming held 2,000 A shares in AVICOPTER (listed on Shanghai Stock Exchange with the stock code: 600038) and 5,000 A shares in AVIC Avionics (listed on Shanghai Stock Exchange with the stock code: 600372), representing approximately 0.0003% and 0.0003% of the total issued share capital of AVICOPTER and AVIC Avionics respectively. AVICOPTER and AVIC Avionics were subsidiaries of the Company, and therefore they were associated corporations (within the meaning of Part XV of the SFO) of the Company.

### REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of remuneration of the existing Directors, Supervisors and senior management during the reporting period are set out in Corporate Governance Report and note 8 to the financial statements.

### RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2016, none of the Directors or Supervisors was entitled to acquiring shares or debentures of the Company or its associated corporations (within the meaning of the SFO).

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existing during the year of 2016.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group shall comply with relevant laws and regulations in the jurisdictions where the Group operates. As the Group mainly operates through its subsidiaries in the PRC, accordingly, the operations of the Group shall comply with relevant laws and regulations in the PRC. During the year ended 31 December 2016 and up to the date of this report, the Group does not have any violation of relevant laws and regulations in the PRC which gives rise to significant impact to the Group's development, performance and businesses.

## RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

For details of relationship with the employees, customers and suppliers, please refer to the subsections headed "Remuneration of Employees" and "Training for Employees" in the section headed "Management Discussion and Analysis", and the subsection headed "Major Customers and Suppliers" in this section.

## PRINCIPAL RISKS AND UNCERTAINTIES

For details of the financial risks of the Group, please refer to note 41 to the financial statements in this annual report. For details of the exchange rate risks of the Group, please refer to the section headed "Management Discussion and Analysis" in this annual report. Save as disclosed above, a number of other factors, including international policies, domestic and overseas economic conditions, may affect the result and business operations of the Group.

## PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance coverage in respect of any legal actions which may be instituted against its Directors and senior management in relation to their services during the reporting period.



# Report of the Supervisory Committee

To all shareholders:

During the year of 2016, the Supervisory Committee strictly complied with the PRC Company Law, the Articles of Association and the Procedural Rules for Meetings of the Supervisory Committee and duly adhered to the principles of honesty and integrity in performing the supervisory duties and exercising the rights conferred on it by the Articles of Association, and also in good faith safeguarded the shareholders' interests in a diligent, pragmatic and serious manner.

In 2016, the Supervisory Committee convened three meetings, at which ten resolutions were considered and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2015 annual report, 2016 interim report, and the profits distribution plans for 2015 and the first six months of 2016 of the Company respectively. The Supervisory Committee also attended the Board meetings and the general meetings held in 2016 to monitor the validity of procedures for the convening of and resolutions of the Board meetings and general meetings. Through convening Supervisory Committee meetings and attending Board meetings and general meetings, the Supervisory Committee performed its duties of supervising the major operating activities of the Company, as well as the performance of Directors and senior management officers in discharging their duties, and made suggestions to the Board.

The Supervisors attended the meetings of the Audit Committee and the communication meeting with external Directors for the year 2016, paid attention to the implementation and progress of concerns of the Audit Committee, and communicated with the independent non-executive Directors and auditors in respect of the Company's operating matters and financial conditions.

The Supervisory Committee had reviewed the Report of the Board which the Board submitted to the general meeting, and considered that the report had fairly reflected the current position of the Company. In 2016, the Board and the senior management of the Company had duly exercised various powers conferred by the shareholders, performed various obligations, and made their best endeavors to make important contributions to the development of the Company.

To better fulfill its supervisory role on the financial conditions of the Company, the Supervisory Committee reviewed the report of the auditors of the Company and discussed with the management of the Company, and considered that the statements had fairly reflected the financial position and operating results of the Company. The Company's financial statements are prepared regularly with clear records and complete information.

The Supervisory Committee is fully confident in the prospect of the Company. In 2017, according to the work plan for this year, the Supervisory Committee will enhance its supervision over the Company's compliant operation and its construction of the internal control system, establish communication mechanism with intermediary institutions, and keep concern on the implementation of the resolutions of the Board. The Supervisory Committee will continue to strictly perform its duties in accordance with the Articles of Association and the relevant requirements, to strengthen the self-construction of the Supervisory Committee, to improve the supervision level, and safeguard shareholders' interests.

*Chairman of the Supervisory Committee*

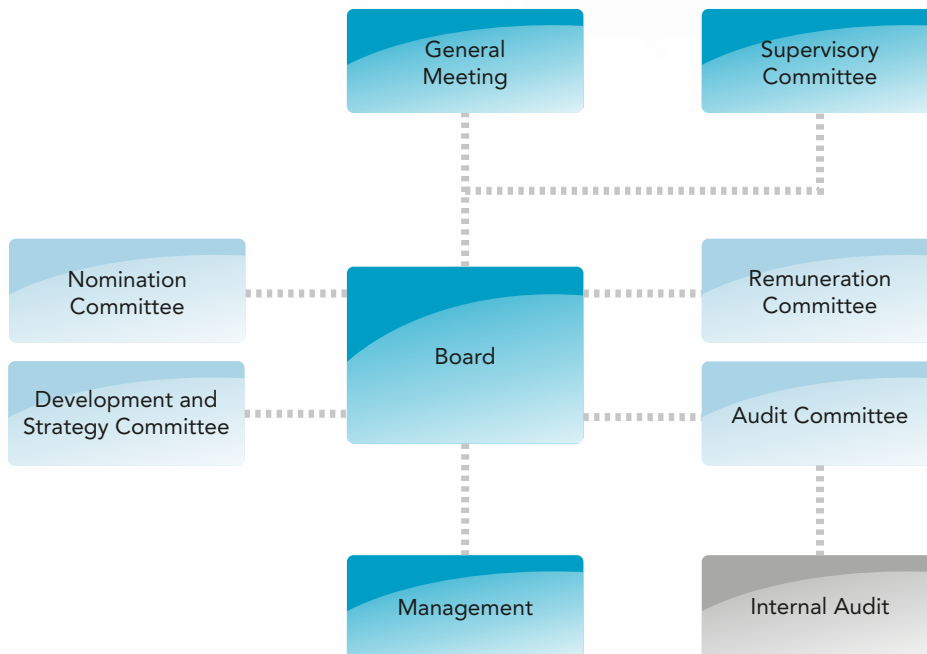
**Zheng Qiang**

Beijing, 15 March 2017

# Corporate Governance Report

The Company strictly complies with various applicable laws, rules and regulations as well as the Articles of Association to standardize its operation. During the reporting period, pursuant to the regulatory documentations such as the Articles of Association, Rules Governing the Operation of General Meetings, Rules Governing the Operation of Board Meetings, the Terms of Reference of the Supervisory Committee, Working Guidelines for the Management, Terms of Reference of the Audit Committee, Terms of Reference of the Remuneration Committee, Terms of Reference of the Nomination Committee and the Rules on Information Disclosure, the Company continuously enhanced its corporate governance standard through the co-ordination and operation of general meetings, the Board and the relevant specialized committees of the Board, the Supervisory Committee and the management.

The overall governance structure of the Company is set out as follows:



## BUSINESS MODEL AND LONG TERM STRATEGY

The Company mainly operates through its subsidiaries. The Company will give full play to its advantages, actively develop aviation business and perfect the aviation industry chain. The details of the business and financial review of 2016 are set out in the section headed "Management Discussion and Analysis" of this annual report.





## Corporate Governance Report

### CORPORATE GOVERNANCE POLICY

During the reporting period, the Board mainly adopted the following corporate governance policies:

- Corporate governance and related suggestions: In light of global economic downturn and complex global political situation in 2016, the Company discussed risks and risk management at Board meetings and the meetings of the relevant specialized committees. The Board conducted continuous assessment on potential influence of ever-changing external environment and amendments to national laws and regulations and regulatory rules on the business of the Company.
- Improvement of the capacity of Directors and senior management: The Company provided training for the newly appointed Directors, and from time to time provided information in relation to the supervision and company operations to the Directors to equip them with knowledge of the industry and the Group, and to facilitate the decision-making process of the Board and the specialized committees. During the reporting period, the Company also arranged a series of forums on the hot topics and important issues relating to the business of the Company.
- Compliance with laws and regulations: During this year, the Company established Confidentiality Management Rules on Information Disclosure and Investor Relations, and revised Authorization System for Legal Person and Terms of Reference of the Audit Committee of the Board, continuing to improve the rules and regulations of the Company to assure the Company to operate in compliance with rules and regulations. Meanwhile, pursuant to the requirements of the administration authorities for industry & commerce of the PRC, the Company completed the combination of four certificates into one, namely Business License, Organization Code Certificate, Tax Registration Certificate and the Statistics Registration Certificate, and got the new Business License certificate. In respect of risk management and internal control, the Company continue to review and appraise the underlying risks which may affect the realization of the Company's operation goals, so as to comprehensively improve the Company's risk management and internal control level.
- Corporate governance report: The Board reviewed the corporate governance report contained in this annual report before the publication of this annual report and was of the view that the corporate governance report was in compliance with the relevant requirements of the Hong Kong Listing Rules.

### CORPORATE GOVERNANCE CODE

During the reporting period, the Company strictly complied with various applicable laws, rules and regulations as well as the Articles of Association to standardize its operation. The Board reviewed the corporate governance practices adopted by the Company for the year ended 31 December 2016 and was of the view that the Company complied with the principles and code provisions set out in the Corporate Governance Code under the Hong Kong Listing Rules, except for the deviation that the Chairman of the Board was not able to attend the annual general meeting of the Company held on 13 June 2016 for healthy reason and Mr. Tan Ruisong, vice chairman of the Board, attended and chaired the annual general meeting on his behalf and answered the questions raised at that meeting.

## THE BOARD

The Company is managed by the Board. The Board are responsible for the leadership and monitoring of the Company and are collectively responsible for the supervision of the Company's affairs.

## DIRECTORS

As at the date of this report, the Board comprises nine Directors, including one executive Director, Mr. Lin Zuoming (Chairman), five non-executive Directors, namely, Mr. Tan Ruisong (Vice Chairman), Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. He Zhiping and Mr. Kiran Rao, and three independent non-executive Directors, namely, Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai. The Directors have comprehensive industrial skills, knowledge and experience. With extensive professional knowledge and experience, the independent non-executive Directors have assumed the supervisory and balancing roles and they are capable to make judgments independently and objectively in order to protect the interests of shareholders and the Company as a whole, which complies with the guidelines on the independence of independent non-executive Directors as set out in Rule 3.13 of the Hong Kong Listing Rules. In addition, the Company had received a written confirmation from each independent non-executive Director on their independency. Based on such confirmation and the relevant information that the Board is aware of, the Company believes that each independent non-executive Director remains independent.

The Company adopts the formal procedures in the appointment of new Directors and the nomination process is duly determined with transparency. The Company has established the Nomination Committee in accordance with certain criteria, which is responsible for the nomination of Directors for the approval by the shareholders of the Company. Relevant standards include appropriate professional knowledge and industry experience, personal ethics, integrity and the skills, and the commitment of adequate time.

Each Director (including non-executive Director) holds office for a period of three years, and is eligible for re-election upon expiration of the term of office. A list of Directors, their respective profiles and roles in the Board and specialized committees under the Board are set out on pages 21 to 25 of this annual report. Relevant information is also published on the website of the Company. There is no relationship (including financial, business, family or other material or relevant relationships) among members of the Board.

The Company has made appropriate insurance arrangements for the legal action that the Directors and senior management may face during the reporting period.

## RESPONSIBILITIES OF THE BOARD

The Board manages affairs of the Group on behalf of the shareholders of the Company. Each Director is obliged to act in the best interest of the Company with prudence and honesty.

The Board regularly reviews the Group's overall strategy, its business goals and operation results. The Board exercises its power to formulate the objectives and strategies of the Group, and to monitor the operation and financial performance of the Group.



## Corporate Governance Report

The Board shall also be responsible for the completeness of the financial information and the effectiveness of internal control systems and risk management procedures of the Group. The Board is also responsible for preparing the financial statements of the Group. All policies, material transactions or transactions involving conflicts of interest of the Group shall be decided by the Board. On the other hand, the chief executive officer is responsible for attaining the business goals of the Company and managing the daily operations. Duties reserved to the Board and those delegated to the management are clearly set out in the Rules Governing the Operation of the Board Meetings and Working Guidelines for the Management. The Board regularly reviews the duties and powers delegated to the chief executive officer to ensure that such arrangements are appropriate.

### RESPONSIBILITIES OF THE MANAGEMENT

The management of the Company is mainly responsible for the operation and management of the Company. They perform their duties within the scope authorized by the Board and are responsible for their performance under the supervision and review of the Board and the Supervisory Committee. The management of the Company regularly provides company information to the Directors and Supervisors and updates on the Company and the industry to enhance the communication among the management and the Directors and Supervisors, facilitate the performance of the duties by the Directors and Supervisors and keep the Directors and Supervisors informed of the latest information of the overall performance, business operation, financial condition and management of the Company.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the chief executive officer have been clearly segregated to ensure a balance of power and authority. The current Chairman of the Company, Mr. Lin Zuoming, is responsible for leading the Board to ensure the effective operation of the Board. During the reporting period, the chief executive officer, Mr. Tan Ruisong (resigned on 25 August 2016) and Mr. Chen Yuanxian (appointed on 25 August 2016), is responsible for business operations of the Company. The Company has formulated the Working Guideline for the Management to clearly set out the roles and responsibilities of the chief executive officer. Meanwhile, duties reserved to the Chairman and those delegated to the management are also clearly set out in the Authorization System for Legal Person.

### DIRECTORS TRAINING

Every newly appointed Director will receive relevant training based on his experience and background, to deepen his understanding of the culture and operation of the Group. The training generally consists of introduction for organization, businesses and governance of the Group. During the reporting period, the newly appointed non-executive Directors, Mr. Kiran Rao and Mr. He Zhiping, had received training upon their respective appointment to the Board of the Company.

In addition, every Director will receive upon joining the Board information in relation to guidelines on ethnics and other major governance matters. Director training is a constant process to ensure the Directors are fully informed in making their contribution to the Board. During the reporting period, the Directors received regular updates and summaries on the changes and latest development of the business and operation of the Group and the relevant legal and regulatory environment. In addition, all Directors are encouraged to participate in relevant training courses with the expense afforded by the Company.

The Company has been encouraging the Directors to attend continuous professional development courses and seminars organized by professional institutions or professional firms and read materials on relevant topics so that they can continuously update and further improve their relevant knowledge and skills. During the reporting period, Directors emphasized on updating their specialized knowledge and skills to meet the requirements of the development of the Company. The Company arranged for the Directors, to attend trainings in respect of macro-economy environment and the business update in the Company etc., to learn the basic knowledge which shall be acquired by the directors of a listed company. The Company also arranged trainings for the Directors on revisions to the Hong Kong Listing Rules and the Corporate Governance Code, e.g. the disclosure requirements on Environmental, Social and Governance Report, and organizing workshops and discussions on such new rules in Hong Kong for the Board members, the company secretary and other relevant personnel participating in the daily operation and management of the Company.

In addition, the Directors also actively studied and learnt knowledge on corporate governance through reading relevant materials in order to consolidate their development in their respective specialties. The Directors of the Company also attended lectures on governing the company according to the strategy of "Rule of Law", institutional innovation, reform of state-owned enterprises, finance management, etc. The trainings received by each Director during the reporting period were as follows:

Directors	Training Scope		
	Corporate Governance	Laws and Regulations	Business Management
<b>Executive Director</b>			
Mr. Lin Zuoming	√	√	√
<b>Non-executive Directors</b>			
Mr. Tan Ruisong	√	√	√
Mr. Gu Huizhong			
Mr. Gao Jianshe	√	√	√
Mr. He Zhiping	√	√	√
Mr. Kiran Rao	√	√	√
<b>Independent Non-executive Directors</b>			
Mr. Lau Chung Man, Louis	√	√	√
Mr. Liu Renhuai	√	√	√
Mr. Yeung Chi Wai	√	√	√



## Corporate Governance Report

### BOARD MEETINGS

The Board convenes four scheduled meetings every year. Matters to be considered at these regular Board meetings have been provided in writing. Further, additional Board meetings are held as and when required and reasonable notices are sent to the Directors before the convening of such meetings in accordance with the provisions of the Company Law of the PRC and the Articles of Association.

The company secretary assists the Chairman in preparing the agenda and related materials for each Board meeting. To the extent possible, the meeting documents are delivered to the Directors or committee members at least three days before the date of the relevant meeting of the Board or its specialized committees. The Chairman also ensures that all Directors are properly briefed on issues to be discussed at the Board meeting, including provision of relevant documents containing analysis and background information to the Directors.

The management has also provided the Directors and specialized committee members with appropriate and adequate information on a timely basis. This ensures that the Directors and specialized committee members are well-informed of the Company's latest development so that they may discharge their duties effectively.

All Directors have access to the service of the company secretary. The company secretary is responsible for ensuring that the board procedures are followed and advising the Board on compliance matters. The Directors, members of the Audit Committee, the Remuneration Committee, and the Nomination Committee may seek independent professional advice at the Company's expenses in discharging their duties.

The Board encourages the Directors to discuss the subject matters of the meetings openly and candidly at Board meetings and ensures that every executive Director is available for inquiries raised by non-executive Directors. Independent non-executive Directors may convene meetings amongst themselves as necessary to discuss issues related to the Group. Board minutes are kept by the company secretary. The Board minutes, together with any materials related to the Board meetings are made available for inspection by any member of the Board.

The Board has established a Development and Strategy Committee, an Audit Committee, a Remuneration Committee and a Nomination Committee to ensure good corporate governance. Duties of these committees are set out in accordance with the principles of the Corporate Governance Code. Each committee reports directly to the Board. Minutes of committee meetings are kept by the company secretary. In 2016, the Company convened two meetings of the Audit Committee, one meeting of the Remuneration Committee and three meetings of Nomination Committee. The terms of reference of the Audit committee, the Remuneration Committee and the Nomination Committee are published on the websites of the Company and the Stock Exchange.

## Corporate Governance Report

Five meetings were held by the Board during 2016. The attendance of every Director at the Board meetings in 2016 is set out below:

Directors	Times of meeting should attend	Times of attendance	Times of attendance by proxy
<b>Executive Director</b>			
Mr. Lin Zuoming	5	2	3
<b>Non-executive Directors</b>			
*Mr. Tan Ruisong	5	4	1
Mr. Gu Huizhong	5	3	2
Mr. Gao Jianshe	5	4	1
*Mr. He Zhiping	3	2	1
*Mr. Kiran Rao	4	1	3
*Mr. Guo Chongqing	2	1	1
*Mr. Maurice Savart	1	0	1
<b>Independent Non-executive Directors</b>			
Mr. Lau Chung Man, Louis	5	5	0
Mr. Liu Renhuai	5	5	0
Mr. Yeung Chi Wai	4	4	1

\* Mr. Tan Ruisong resigned as the general manager of the Company, and was re-designated as the non-executive Director of the Company with effect from 25 August 2016.

\* On 13 June 2016, Mr. Kiran Rao was appointed as a non-executive Director of the Company as approved by the general meeting of the Company; Mr. Maurice Savart ceased to be the non-executive Director and member of the Development and Strategy Committee of the Company.

\* on 25 August 2016, Mr. He Zhiping was appointed as a non-executive Director of the Company by the general meeting of the Company; Mr. Guo Chongqing ceased to be a non-executive Director and member of the Development and Strategy Committee of the Company.

In 2016, Directors who did not attend a Board meeting in person due to other business commitments all read the related documents of the meeting and appointed other Directors as proxy present their opinion and exercise their voting rights on their behalf at the meeting.



## Corporate Governance Report

### DEVELOPMENT AND STRATEGY COMMITTEE

Main responsibilities of the Development and Strategy Committee of the Company include: to learn and know the comprehensive condition regarding the operation of the Company, to learn, analyse and know the current environment of the industry at home and abroad, to learn and know related national policies, research on short-term, mid-term and long-term development strategies of the Company and relevant issues, to provide consultation and suggestions to the Company on its long-term strategies, major investments and reforms, to consider and approve special research reports on development strategies and to provide routine research reports on a regular or irregular basis.

Members of the Development and Strategy Committee communicated with each other from time to time in 2016 on matters relating to the committee's development, the Company's future development strategies and international cooperation. No formal meeting was convened by the committee during the reporting period.

### REMUNERATION COMMITTEE

Main responsibilities of the Remuneration Committee of the Company include: to formulate the Company's policies and structure of remuneration of Directors, Supervisors and senior management members, to make recommendations to the Board on the Company's policies and structure in respect of all Directors' and senior management members' remuneration and on the establishment of a formal and transparent procedure for developing remuneration policies; to review and approve proposals on the management's remuneration with reference to the Company's goals and objectives determined by the Board; to appraise and decide, on a yearly basis, remunerations of Directors, Supervisors and senior management members.

The Remuneration Committee is responsible for approving the emolument policies of the Directors, Supervisors and senior management staff and proposing to the Board amendments to the emolument policies and system. The Remuneration Committee will take into consideration factors such as work performance and experience of Directors and Supervisors when determining their remunerations and will report to the Board after each meeting. For the year ended 31 December 2016, the Remuneration Committee convened one meeting to consider and approve the resolutions relating to the remuneration standard of Directors, Supervisors and senior management who were newly appointed in 2016, and the remuneration standard of Directors, Supervisors and senior management in 2017.

For the year ended 31 December 2016, remunerations of senior management members by bands are set out as follows:

Remuneration Band	Number
RMB400,000-500,000	4

Details of remunerations of Directors and Supervisors for the year ended 31 December 2016 are set out in Note 8 to the financial statements.

During the reporting period, the Remuneration Committee held one meeting and attendance of the meetings by members of the Remuneration Committee is as follows:

Name of Director	Position	Times of Meetings should attend	Times of attendance	Times of Attendance by Proxy
Mr. Yeung Chi Wai	Chairman of the Remuneration Committee, independent non-executive Director	1	1	0
Mr. Gao Jianshe	non-executive Director	1	1	0
Mr. Lau Chung Man, Louis	independent non-executive Director	1	1	0
Mr. Liu Renhuai	independent non-executive Director	1	1	0

### AUDIT COMMITTEE

The Board has established the Audit Committee and set out and revised the Terms of Reference of the Audit Committee in accordance with the Guide for the Effective Audit Committee issued by the Hong Kong Institute of Certified Public Accountants and the provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules (as amended from time to time).

The Audit Committee is responsible for monitoring the financial operation and audit procedures of the Company, assessing effectiveness of the internal control and risk management systems of the Company, exerting its internal audit function, reviewing and supervising the performance of the corporate governance responsibilities of the Company as well as performing other duties and responsibilities assigned by the Board, and maintaining effective communication with the management, internal audit institution and external auditors of the Company.

Internal control, the Audit Committee mainly assists the Board for performing duties in risk management and internal control, including evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives, overseeing management in the design and implementation of the risk management and internal control systems, so as to ensure the effectiveness of the risk management and internal control systems and in compliance with the Hong Kong Listing Rules and responsibilities (including the responsibilities to publish the financial results) stipulated under the applicable laws and regulations, and to verify the integrity of financial statements of the Company. In respect of internal audit function, on behalf of the Board, the Audit Committee shall be directly responsible for selecting and monitoring the external auditors of the Company and the responsible persons of the internal audit institution and internal control institution and assessing the independence, qualifications and performance of the external auditors. The Audit Committee has the power to propose, through passing a resolution, to the Board on dismissing the external auditors and the responsible persons of the internal audit institution and internal control institution. To ensure co-ordination among the work of internal audit institution, internal control institution and external auditors, and to ensure that the internal audit function and internal control function are adequately resourced and has appropriate standing within the company, and to review and monitor its effectiveness.





## Corporate Governance Report

As at the date of this report, the Audit Committee comprises four members, namely, Mr. Yeung Chi Wai, Mr. Lau Chung Man, Louis, and Mr. Liu Renhuai who are independent non-executive Directors, and Mr. Gu Huizhong who is a non-executive Director. Mr. Lau Chung Man, Louis is the chairman of the Audit Committee. Mr. Lau Chung Man, Louis and Mr. Gu Huizhong have appropriate professional qualifications in accounting or related financial management expertise as required by the Hong Kong Listing Rules.

During 2016, the Audit Committee:

- reviewed the financial statements and the annual results announcement for the year ended 31 December 2015;
- reviewed the interim financial statements and relevant interim results announcement for the six months ended 30 June 2016;
- reviewed the Company's profit distribution plan for the year 2015 and the interim profit distribution plan for the year 2016;
- reviewed the proposal relating to the appointment of international and domestic auditors of the Company for the year 2016 and determination of their respective remunerations;
- reviewed the proposal relating to revising the Terms of Reference of the Audit Committee of the Board;
- reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2016, and regarded the systems being effective and sufficient;
- reviewed the Company's financial reporting system and risk management and internal control procedures; and
- reviewed the reports on operating results of the Company for the year 2015 and the first half of 2016, the internal control report of the Company for the year 2015, and listened to the report from the external auditors on its audit work in relation to the year 2015 and on its review of 2016 interim report as well as its recommendations to the management of the Company.

The Audit Committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2016.

The Audit Committee held two meetings during 2016. The Audit Committee reviewed and evaluated the findings of the Auditor's Report issued by the external auditors, the accounting principles and standards applied by the Group and the risk management, internal control and the financial statements of the Company. The Audit Committee reported to the Board its scope of work, discussion results and recommendations after every meeting. The attendance of the members of the committee is set out as follows:

Name of Director	Position	Times of Meetings should attend	Times of attendance	Times of Attendance by alternate director
Mr. Lau Chung Man, Louis	Chairman of the Audit Committee, Independent non-executive Director	2	2	0
Mr. Gu Huizhong	non-executive Director	2	1	1
Mr. Liu Renhuai	independent non-executive Director	2	2	0
Mr. Yeung Chi Wai	independent non-executive Director	2	2	0

## EXTERNAL AUDITORS

In 2016, the payment made to the Company's external auditors in relation to auditing services amounted to RMB3.39 million. The external auditors did not provide any services other than such auditing services to the Company and the Company did not make any payment to the external auditors for any non-auditing services. The payment mentioned above had been approved by the Audit Committee, the Board and the general meeting.

The statement of the external auditors of the Company in relation to their reporting responsibilities on the consolidated financial statements is set out on pages 88 to 89 of this annual report.

## NOMINATION COMMITTEE

The Nomination Committee shall perform the following duties: to review the structure, size and composition of the Board; to ensure the Board members have a balance of skills, experience and diversity of perspectives appropriate to meet the requirements of the business of the Company, and make recommendations on any proposed changes to the Board where necessary to be in line with the Company's strategies; to study the nomination standards and procedures for the Directors and senior management of the Company and to make recommendations to the Board; to identify individuals suitable to act as Directors and senior management, review such candidates and make appointment-related recommendations, select and nominate relevant individuals to be appointed as Directors or make recommendations to the Board on such selection and nomination; to assess the independence of independent non-executive Directors; to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular for the chairman of the Board and the president of the Company; to report to the Board on the decisions or suggestions made by the Nomination Committee.



## Corporate Governance Report

In order to achieve the purpose of the Board diversification, the Nomination Committee has established the following directors selection criteria:

- Select candidates with objective criteria, taking into account comprehensive factors like the gender, age, culture, educational background as well as professional experiences of the board members;
- Select candidates for directors according to the business characteristics and future development needs of the Company.

As at the date of this report, the Nomination Committee comprises five members including Mr. Lin Zuoming, Chairman of the Board, non-executive Director Mr. Gao Jianshe, and independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai. Mr. Lin Zuoming acts as the chairman of the Nomination Committee. During the reporting period, members of the Nomination Committee had carefully studied the nomination standards and procedures for the Directors and senior management of the Company.

The Nomination Committee held three meetings in 2016. The Nomination Committee discussed the composition and size of the board and professional committees, approved resolutions relating to change of Directors and resolutions nominating candidates for the supervisor, general manager, vice general manager and board secretary. The attendance of the Nomination Committee members at the meetings is as follows:

Name of Director	Position	Times of Meetings should attend	Times of attendance	Times of Attendance by alternate director
Mr. Lin Zuoming	Chairman of the Nomination Committee, executive Director	3	3	0
Mr. Gao Jianshe	Non-executive Director	3	3	0
Mr. Lau Chung Man, Louis	independent non-executive Director	3	3	0
Mr. Liu Renhuai	independent non-executive Director	3	3	0
Mr. Yeung Chi Wai	independent non-executive Director	3	3	0

## INTERESTS HELD BY DIRECTORS AND SECURITIES TRANSACTIONS

All Directors should declare to the Board whether they hold offices or positions in other companies or entities upon their appointments as Directors and they are required to update the Board annually in respect of their relevant interests. If the Board considers that a Director has conflict of interest in any motion or transaction, the Director shall declare his interests and abstain from voting. If required, the Director should be excused from the meeting.

Interests of the Company held by the Directors as at 31 December 2016 have been disclosed in the Report of the Board of this annual report. 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 Hong Kong Listing Rules and the Shares Trading Management Rules as its own guidelines for securities transactions by Directors, Supervisors and employees of the Company. All Directors and Supervisors have been provided with a copy of the Model Code and the Shares Trading Management Rules upon appointments. Prior to the announcement of the annual or interim results of the Company, written reminders of the restrictions on dealing in any securities or derivatives of the Company under the Hong Kong Listing Rules will be provided to the Directors and the Supervisors appropriately. All Directors and Supervisors of the Company have confirmed their compliance with the Model Code in 2016 upon specific enquiries with them.

Employees who may likely possess unpublished inside information of the Group are also required to comply with the Model Code. The Company is not aware of any breach in this regard in 2016.

## ACCOUNTABILITY AND AUDIT

### FINANCIAL REPORTING

The Directors are responsible for monitoring the preparation of the financial statements for every financial year and ensuring those financial statements present a true and fair view on the operating results, financial performance and cash flow of the Group in the relevant financial year. In preparing the financial statements for the year ended 31 December 2016, the Directors have:

- selected appropriate accounting policies and applied them consistently;
- adopted all relevant standards in compliance with the International Financial Reporting Standards; and
- made a prudent and reasonable judgment and estimation and prepared the financial statements on a going concern basis.

In accordance with the requirements of the Hong Kong Listing Rules, the Company has timely announced its annual and interim results within three and two months respectively after the end of the relevant financial periods.

### INTERNAL CONTROL

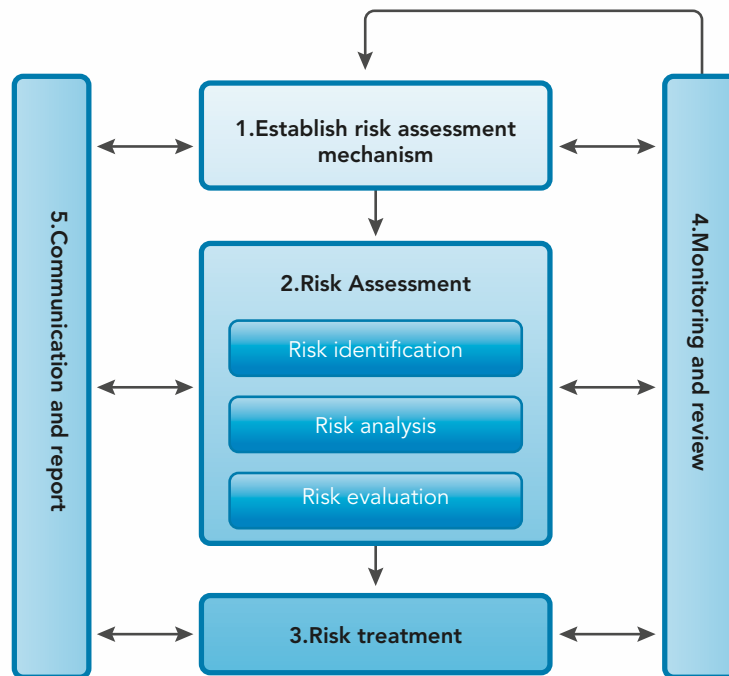
The Board is responsible for maintaining a steady, proper and effective risk management and internal control system for the Group to safeguard its assets. The responsibilities and obligations of the risk management and internal control system of the Group are clearly defined and complete systems have been established. Through the Audit Committee, the Board keeps continuous monitoring on the risk management and internal control system of the Group, exerts the internal audit function, and reviews the effectiveness of the risk management and internal control system of the Group annually, including change in the nature and extent of the significant risks, and the relevant coping capability of the Group, the ability of the management for monitoring the risk and internal control, the reporting of the monitoring results, significant weakness in monitoring and relevant foreseeable consequences and severity, and the effectiveness of the procedures for financial reporting and Hong Kong Listing Rules. The Directors are regularly informed of the major risks which may affect the performance of the Group through the Audit Committee.



## Corporate Governance Report

The institution of the Company in charge of internal control and audit acts as a supporting institution of its Audit Committee to monitor and provide guidance on how the Company and its subsidiaries establish and improve their respective risk management and internal control systems, to supervise and review the implementation of regulations on risk management and internal control systems in a timely manner and to organize the conduct of internal audit and perform audit responsibilities.

The Group has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective subsidiaries of the Company review and assess the status of potential risks which may impact on their ability to achieve their business objectives, and determine the nature and extent of such risks they are willing to take in achieving their business objectives. The Group adopts the relevant risk management principles in China as its approach to manage its business and operational risks and monitor its internal control. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:



Notes:

1. Set up the risk assessment mechanism of the Group;
2. Each subsidiary identifies risks which may potentially impact the achievement of its business objectives, and analyzes and evaluates the significance of such risks;
3. Each subsidiary assesses the adequacy of existing monitoring and control, determines and implements treatment plans for mitigating such risks;
- 4/5. Each subsidiary monitors the risk mitigating measures;

The risk management departments track the progress of risk mitigating measures, and report the consolidated view of risks to the Audit Committee on a regular basis.

The Board is responsible for the aforesaid risk management and internal control systems, and for reviewing the effectiveness of such systems. The Board further explains that the aforesaid system is aimed at managing instead of eliminating the risks which obstacle the achievement of business targets, and can only provide a reasonable assurance, rather than an absolute assurance, for not having significant misrepresentation and losses.

The Group strictly complies with the requirements of the Hong Kong Listing Rules and relevant laws and regulations on inside information management, and has established Rules on Information Disclosure and Confidentiality Management Rules on Information Disclosure and Investor Relations to strictly supervise the dealing and publishing of inside information to keep such information in confidentiality before being disclosed, and be disclosed in an accurate and timely manner.

In 2016, the major subsidiaries of the Company issued internal control evaluation reports after evaluating the effectiveness of their own internal control in accordance with the provisions and requirements of The Basic Standard for Enterprise Internal Control of the PRC and its supporting guidelines, and appointed accounting firms to conduct independent audit on their internal control in 2016. During the reporting period, those companies established and effectively implemented the internal control of the businesses and items within the scope of the evaluation, achieving the objectives of internal control with no major defect identified. On this basis, and taking into account the comments on the internal control and the state of establishment of the internal control system of other subsidiaries and the risk management status of each subsidiary, the department responsible for internal control and audit evaluated the risk management and internal control of the Group as a whole and reported the evaluation conclusions to the Audit Committee and the Board. The Board reviewed through the Audit Committee the effectiveness of the risk management and internal control system of the Group for the year ended on 31 December 2016, including all the significant financial, operational and regulatory control and risk management functions, and was satisfied that such system was effective and sufficient. The Audit Committee also reviewed and was satisfied with the sufficiency of resources and the qualifications and experience of the employees for performing the Group's accounting and financial reporting functions, the adequacy of the employee training courses and the relevant budget. Due to the inherent limitations of the risk management and internal control system, the establishment of the Group's risk management and internal control system is for the purpose of managing potential risks rather than eliminating all the risks, which is impossible to achieve. Therefore, the internal control system can only provide a reasonable assurance, rather than an absolute assurance, for the Group to achieve its operational targets. Likewise, it is impossible for the internal control system to completely eliminate all material inaccurate statements made or all the losses caused to the Group.

### **SUPERVISORY COMMITTEE**

The Supervisory Committee is accountable to the general meetings of the Company. The fifth session of the Supervisory Committee was established in 2015, comprising two shareholder representative Supervisors (Mr. Chen Guanjun and Mr. Liu Fumin) and one employee representative Supervisor (Ms. Li jing). In 2016, Mr. Chen Guanjun applied for resignation as the Supervisor of the Company and relevant positions; on 27 October 2016, as approved by general meeting of the Company, Mr. Zheng Qiang was appointed as the Supervisor of the Company. In 2016, the Supervisory Committee held three meetings and considered and approved ten resolutions. It supervised, on behalf of shareholders of the Company, the financial position of the Group, the legality and compliance of the performance of duties by the Directors and senior management of the Company, attended the Board meetings and general meetings and fulfilled its duties diligently.



## Corporate Governance Report

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards and the disclosure provisions of the Hong Kong Companies Ordinance. To the knowledge of the Directors, there is no event or condition that may have a material adverse effect on the continuing operation of the Company.

### GENERAL MEETING

The general meeting is the supreme authority of the Company. It performs its functions according to law and makes decisions on major issues in relation to the Company. The annual general meetings and extraordinary general meetings of the Company provide a channel for shareholders to communicate directly with the Board. In 2016, the Company convened one annual general meeting and two extraordinary general meeting, at which thirteen resolutions in total were considered and approved. All Directors, Supervisors and members of the senior management of the Company endeavored to attend the general meetings. The following is the attendance record of the Directors:

Director	Time(s) of meeting(s) should attend	Times of attendance
Mr. Lin Zuoming	3	0
Mr. Tan Ruisong	3	2
Mr. Gu Huizhong	3	3
Mr. Gao Jianshe	3	3
*Mr. Guo Chongqing	2	0
*Mr. He Zhiping	1	1
Mr. Kiran Rao	3	0
Mr. Lau Chung Man, Louis	3	3
Mr. Liu Renhuai	3	3
Mr. Yeung Chi Wai	3	2

\* On 25 August 2016, as approved by the general meeting of the Company, Mr. He Zhiping was appointed as a non-executive Director of the Company; Mr. Guo Chongqing ceased to serve as a non-executive Director and member of the Development and Strategy Committee of the Company.

Pursuant to the relevant provisions of the Company Law of the PRC and the Articles of Association, in the event that shareholders request to convene an extraordinary general meeting or a class shareholders' meeting, a request in writing setting out the matters to be considered at the meeting shall be signed and submitted by two or more shareholders who collectively hold 10% or more of the total voting rights represented at the meeting proposed to be held for the Board to convene an extraordinary general meeting or a class shareholders' meeting. Upon receipt of such written request, the Board shall convene the extraordinary general meeting or the class shareholders' meeting as soon as possible.

In accordance with the Company Law of the PRC, when the Company convenes an annual general meeting, any shareholder holding 3% or more of the total voting rights of the Company shall have the right to submit new proposals to the Company in writing, and the Company shall place on the agenda of the meeting such matters in the proposals that are within the scope of functions and powers of the general meeting.

The Board or any shareholder or shareholders who separately or collectively hold more than 3% of the voting rights of the Company are entitled to nominate candidates for election as Directors to the Board at the general meeting of the Company. A written notice of the intention to nominate a Director candidate and a notice in writing by that candidate indicating his acceptance of such nomination are required to be given to the Company not sooner than the date of despatch of the notice of the general meeting and not later than seven days before the date of such general meeting. The nomination of each Director candidate shall be submitted to the general meeting as a separate resolution for the shareholders' consideration.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Board Secretary, whose contact details are as follows:

AviChina Industry & Technology Company Limited

Postal Code: 100007

9/F., Easyhome Tower, No. 3A Dongzhimen South Avenue, Dongcheng District, Beijing, the PRC

Telephone: 86-10-58354309

Facsimile: 86-10-58354300/10

E-mail Address: avichina@avichina.com

### ARTICLES OF ASSOCIATION

For the year 2016, the Company acquired all of AVIC Planning's equity interest at the consideration of the issuance of 491,692,669 domestic shares to AVIC. Upon completion of the acquisition, the Company's shareholding structure has changed. The Company revised Articles 18 and 21 of the Articles of Association, so as to reflect the changes in the registered capital and issued shares of the Company. For details of the revision of the Articles of Associations, please refer to the circular and notice of the extraordinary general meeting of the Company dated 9 May 2016.

The revised Articles of Association is set out on the website of the Company and Stock Exchange on 20 July 2016.

### INFORMATION DISCLOSURE AND INVESTOR RELATIONS

The Board secretary is responsible for information disclosure of the Company. The Company has formulated and enforced its Rules on Information Disclosure and Confidentiality Management and its Rules on Information Disclosure and Investor Relations to ensure information disclosed by the Company is accurate, complete and made in a timely manner, and meanwhile, strictly supervise the dealing and publishing of inside information to keep such information in confidentiality before being disclosed. During the reporting period, the Company published its annual report, interim report and other relevant announcements (including the overseas regulatory announcements published by the subsidiaries of the Company whose shares are listed on other stock exchanges) in accordance with the Hong Kong Listing Rules and made detailed disclosures on material information and reported the progress of any significant issues relating to the Company.





## Corporate Governance Report

The Company has assigned specific employees to assume the role of investor relationship management. During the reporting period, due to the change of information disclosure methods required by the Stock Exchange, the Company had put more efforts in the maintenance of its websites to ensure that information is disclosed accurately and in a timely manner. The Company not only renews and modifies its Chinese and English websites continuously in accordance with the Hong Kong Listing Rules, but also regularly publishes and updates business news and information contained in its website to help investors understand the up-to-date situation of the Company clearly. Details of the businesses of the Group and announcements such as interim results and annual results could also be downloaded from the Company's websites.

The Company also emphasized the mutual communication with its investors. During 2016, the requirements of the Company maintained continuous dialogues and communications with shareholders pursuant to the Corporate Governance Code. A specific department of the Company is in charge of the communication with shareholders, investors and other participants of the capital market. The Company has invited investors and analysts to visit the China International Aviation and Aerospace Exhibition and AVICLUB, helping them learn the latest development trend of the Company and the industry. The Company also enhanced the connection with domestic and overseas investment banks by participating in various activities. Through communications with the capital market, shareholders and investors are able to timely and fully understand the operations and development plans of the Company and the key concerns from investors. The annual general meetings and extraordinary general meetings also provide further platform and opportunities for shareholders to exchange opinions directly with members of the Board.

# Environmental, Social & Governance Report

Our Group adheres to the concept of “Dedication, Integrity, Innovation and Transcendence”, guided by which we continue to strengthen management, standardise operation, improve efficiency and give back to shareholders and the community. We pursue growth together with our employees, and adhere to the principles of sustainable development, responsibility, public spirit, environmental protection and cooperation to create a better future.

## 1 RESPONSIBLE MANAGEMENT

### 1.1 Communication with Stakeholders

Our Group attaches great importance to communication with stakeholders. Through various channels, we communicate the Group’s concept of social responsibility and practice. Moreover, we try to understand stakeholders’ requirements, and take measures to meet their reasonable expectations and demands.

Stakeholder	Expectations and Requirements	Communication and Response Methods
Governmental and Regulatory Bodies	To implement state policies and laws and regulations To promote local economic development To drive local employment To advance industrial development	Submission of documents Advice and suggestions Special report Negotiation and cooperation
Shareholders	Returns on investment Compliant operation Production safety	Company announcements Special reports On-site investigations
Customers and Partners	To perform contracts according to law Integrity-based operation High quality products and services	Business communications Customer feedbacks Exchanges and seminars
Environment	Compliant emissions To conserve energy and reduce emissions To protect ecological systems	Working conferences Report submissions Investigations and inspections
Employees	Rights and interests maintenance Occupational health Compensation and benefits Career development	Workers congress Collective bargaining Democratic communication platform
Community and the Public	To improve the community environment To participate in public welfare undertakings To provide transparent information	Company websites Company announcements Interviews and communications



## Environmental, Social & Governance Report

### 1.2 Major Issues of Sustainable Development

In order to respond to the reasonable expectations and demands of stakeholders and prepare a more targeted and responsive report, our Group, on the basis of the requirements of the *Environmental, Social and Governance Reporting Guidelines and Guidelines for Sustainable Development Report (G4.0)*, identifies sustainable development issues and determines whether they are major issues to ensure full coverage of the key information disclosed in report as to major issues concerning the Company's development and stakeholder's concerns.

Environmental, Social and Governance Issues Screening Process	
	Source of Issues
	<ul style="list-style-type: none"> <li>– Recommendations from management</li> <li>– Analysis and suggestions by internal and external experts                             <ul style="list-style-type: none"> <li>– Media information analysis</li> </ul> </li> <li>– Domestic and international benchmarking studies</li> <li>– Standard guidelines for social responsibility</li> </ul>
	Screening Standards
	<ul style="list-style-type: none"> <li>– Contribution to sustainable development</li> <li>– Common concerns of stakeholders</li> <li>– Social responsibility related guideline highlights</li> <li>– In line with the needs of the Company's strategic development</li> </ul>
	Substantive Judgment Result

Major Issue Matrix



## 2 SUSTAINABLE OPERATION

Our Group is mindful of product quality and production safety. Through standardised and sound management we aim to give promote scientific and technological innovation to provide safe and high quality products and services for our customers. We also extend our requirements on quality control and social responsibility to our supply chain to promote healthy co-development of our entire industrial chain.

### 2.1 The Whole Process Product Quality Management

Product quality is the central development theme for aviation enterprises. In line with our principles of building a quality system, implementing quality control, laying a solid foundation for improving quality, strictly ensuring scientific research and production quality, and paying close attention to product quality, our subsidiaries at all levels have prepared their own quality manuals, covering product design and manufacturing, design research and finalisation, production and manufacturing, assembly and commissioning, acceptance, delivery, post-delivery activities and many other processes and activities, for carrying out quality security training, organising special quality investigations, and setting up quality management which adapts to the Group's strategic development and continuous improvement.

By 2016, Our Group's subsidiaries at all levels have established quality management systems, a number of subsidiaries from different business areas have universally passed special accreditation for quality management applicable to themselves. Moreover, quality management is constantly standardized and promoted.

#### **Changhe Aviation – Manufacturing system information platform for professional quality management**

Since 2013, Changhe Aviation has included its bottlenecks, weaknesses and risk points which directly affect product quality into professional quality management and control projects, and has developed the Evaluation Standard for Professional Quality Management Projects, and established a manufacturing system information platform to integrate information technology into professional quality management projects to achieve externalisation and visualisation of the quality management process. As at the end of 2016, Changhe Aviation had systematically summarised a total of 66 professional quality management projects. Through professional management and control, all quality indicators are stable and are continuously improving in line with product quality.

#### **AVIC Kaitian – Comprehensive governance of quality system documents**

In 2016, AVIC Kaitian focused on the revision of nearly three years of quality system documents, with an aim to, through training and study, examine systems and other comprehensive governance work and comprehensively enhance the implementation of system documents to ensure quality management and control. Moreover, the Company organised a study of 124 system documents, involving 25 departments/units. The Company also examined the implementation of more than 100 quality system documents from 29 departments (units), and reviewed and rectified implementation problems, which effectively improved its quality management.



## Environmental, Social & Governance Report

### 2.2 Research & Development and Innovation

Our Group has not only a professional, complete and strong scientific research team consisting of academic and national-level experts, national key laboratories and major scientific research and test facilities in first-class of Asia and the international advanced level, but also national-level enterprise technology centres and basic networks connecting domestic member units. Moreover, our Group has remote collaborative design and manufacturing capabilities. Our Group aims to fully utilise and integrate internal and external resources, and, through formation of research and development systems centred on enterprises and oriented by industry-university-research collaboration and application, promote the rapid and healthy development of China's aviation industry.

#### 2.2.1 Technology Research & Development

Our Group's subsidiaries at all levels carry out technical innovation, technological innovation, commercialise research findings and accelerate the industrialisation process in production practices and achieve abundant research results in such technical fields as aircraft, avionics, aviation electromechanical systems, manufacturing, flight testing, aviation standards, metrology and information technology. A number of our technologies have reached the international advanced level and fill a number of technology gaps, making an important contribution to development of China's aviation industry. In 2016, our subsidiary AVIC Planning's "Innovation and Application for the Key Technology of Prestressed Tensegrity Structure" project won the second class prize for Progress in Science and Technology. Its other project "Low Speed Pressurised Wind Tunnel Construction" won the first class prize for Progress in Science and Technology for National Defence.

#### Selected Innovative Results

JONHON Optronic	Successfully researched and manufactured a 40Gbps high speed backplane connector project, a breakthrough high-speed signal technology for integrity structure, simulation and testing, which filled China's technology gap in high-speed backplane connectors.
Changfeng Avionics	<p>The integrated avionics display devices it researches and produces are applied in air force aviation, navy aviation, army aviation, general aviation, civil aviation, foreign trade aviation and other fields, with a market share ranking first in China.</p> <p>The aircraft sensors it researches and produces are used for turbofans, turboshafts, turbojets, turboprops and other types of aircraft engines, with a market share of 70% in the aviation market.</p>
Changhe Aviation	It has achieved breakthroughs in large anti-icing/de-icing composite blade manufacturing, integrated arm processing and other key technologies, filling China's gap in anti-icing/de-icing rotor system technology for helicopters.

2.2.2 Industrial Exchanges and Cooperation

Our Group has always attached great importance to cooperation and exchange with international and domestic research institutions, as well as leading enterprises within the industry, and to the establishment of joint ventures to promote progress in aviation technology through technical seminars.

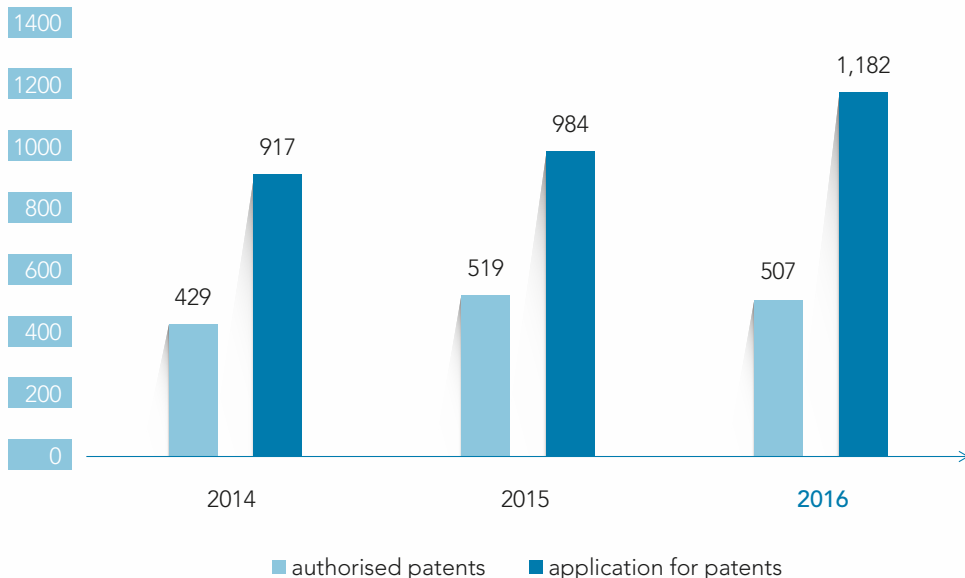
International Cooperation

Harbin Aviation	It has worked with European Airbus Centre, Singapore’s ST Aerospace, GKN Aerospace in Britain, Aircelle in France and Ukraine Kharkiv Aviation Institute as well as many other well-known international airlines to research and develop new products.
AVIC Planning	It cooperated with AIOLOS in Canada to design a climate laboratory construction project.

2.2.3 Intellectual Property Rights Management

As the vanguard of technological innovation in China’s aviation industry, our Group attaches great importance to the protection of intellectual property rights. The Group’s subsidiaries at all levels have, according to relevant national laws and regulations, and combined with their respective actual situations, formulated their own *Management Regulations of Intellectual Property Rights Protection*, *Patent Management Methods* and other related systems to standardise the management of intellectual property rights in scientific research projects.

Our Group’s Patents in the Last Three Years





## Environmental, Social & Governance Report

### 2.3 Production Safety

Our Group has established an optimised safety management system, and, through constantly improving the production safety and management system, strengthening safety hazard and emergency management, and promotion of a safety culture, established a long-term production safety mechanism. In 2016, there were no major safety accidents in our Group's subsidiaries at all levels.

#### 2.3.1 *Establishing Safety Management Architecture*

The Group has established a production safety management responsibility system employing administrative leaders as the first responsible persons and a "two duties for one post" production safety management mechanism. The Group's subsidiaries at all levels have established production safety committees and independent production safety management departments, and have hired full-time technology safety personnel who have Safety Training Certificates. The Group's grass-roots units have set up a "Production Safety Leading Team" which consists of both full-time and part-time technology safety personnel to ensure orderly production safety management at all levels.

#### 2.3.2 *Production Safety Education*

In order to strengthen employee awareness of production safety and their understanding of safety and risk, our Group's subsidiaries at all levels hire safety experts each year to provide analysis and educate leaders and cadres, technology safety personnel and team leaders (on national law, regulation, industry, guild regulations, production safety, safety technology, production safety accidents and other special production safety training) on safety at three levels (company, department and team), and provide training on safety and post-safety operating procedures to transferred or returning personnel to enable all employees and leaders.

#### 2.3.3 *Strengthening Troubleshooting and Governance of Hidden Hazards*

Our Group is mindful of risk identification and control. We employ safety personnel to conduct on-site production hazard troubleshooting regularly to discover and rectify any hidden risks. At the same time, our Group has ramped up job site checks and carries out non-scheduled inspections to effectively prevent production accidents.

#### 2.3.4 *Strengthening Emergency Management*

The Group's subsidiaries at all levels, according to the Emergency Plan for AVIC's Industrial Production Safety Accidents, have developed corresponding emergency plans and set up a three-level emergency management system to ensure that emergency measures can be effectively implemented and improve emergency management.

## 2.4 Supply Chain Management

Our Group is committed to establishing a stable partnership with the suppliers. Meanwhile, in cooperation, we help suppliers to enhance the sense of responsibility and ability to perform responsibility to promote the sustainable development of the supply chain.

Our Group's subsidiaries at all levels have established a complete set of management system for strict selection, assessment, evaluation and annual audit of suppliers, they have also developed Supplier Entry Management Regulations to specify the supplier selection conditions to ensure the suppliers meet the qualification requirements. The suppliers are comprehensively evaluated and ranked based on quality, delivery, price, service and quality. The Supplier Performance Assessment and Evaluation Report is also prepared to give feedbacks to suppliers about their respective performance assessment and evaluation results and put forward corresponding improvement requirements to ensure the timely deliver products with stable and reliable quality and reasonable price to meet our production needs.

### **JONHON Optronic – Social responsibility agreement with suppliers for the implementation of responsible procurement**

JONHON Optronic manages suppliers using the Supplier Introduction Control System in which it selects and confirms suppliers, evaluates their quality assurance system, signs relevant agreements with them, completes corresponding review and approval of qualified suppliers according to the qualified supplier review and approval process, and prepares a corresponding qualified supplier list. In the early period of introduction to suppliers, JONHON Optronic signs environmental protection, occupational health and safety, and social responsibility agreements to include management of suppliers' social responsibility in the procurement agreement.

## 3 ENVIRONMENTAL PROTECTION

Our Group adheres to the idea of efficient, clean, low-carbon and green development and promotes green aviation manufacturing focusing on source reduction, process control, cyclic utilisation and clean production to prevent environmental risks, accelerate the construction of resource-saving and environmentally friendly enterprises, and minimise environmental impacts.

### 3.1 Reducing Emissions

Each of the Group's subsidiaries has established a sound environmental management mechanism and strictly implements a system in which new projects, reconstruction projects and expansion projects can be designed, constructed and put into use simultaneously with its main work, as well as an environmental impact assessment system. In product design, production and technological innovation, we adhere to the idea of clean production, comprehensive utilisation of "three wastes" and use of mature governance schemes and equipment to strictly control pollutant emissions and create economic benefits.





## Environmental, Social & Governance Report

### 3.1.1 "Three Wastes" Management

#### Waste Gas Treatment

Our Group actively promotes the conversion of furnaces to more environmentally friendly models. In 2016, Harbin Aviation, Shaanxi Huayan and other subsidiaries completed the conversion of its coal furnaces to gas boilers, significantly reducing SO<sub>2</sub>, soot and other emissions. Other industrial waste gas emissions (such as for painting and electroplating-generated chromium acid waste gas) in the production process meet the discharge standards after treatment through waste gas purification treatment facilities.

#### Harbin Aviation – Boiler conversion reduces overall emissions of pollutants

AVIC Hafei's No. 8 boiler is a heating boiler with annual coal consumption of over 10,000 tons. In 2016, AVIC Hafei invested over RMB20 million in the boiler, helping reduce its annual soot, sulphur dioxide and nitrogen oxide emissions.

Improvement of combustion efficiency: A chain boiler with the same tonnage that was energy-saving and more environmentally friendly replaced the original 35t/h stoker boiler. The new boiler's combustion efficiency increased by over 80%, while the initial soot emission concentration decreased by 70%. Meanwhile, low nitrogen combustion technology was implemented to reduce nitrogen oxide by about 40%.

Soot elimination: A new advanced bag-type soot remover was used to replace the original granite tower precipitator, helping to achieve an efficiency of over 98%.

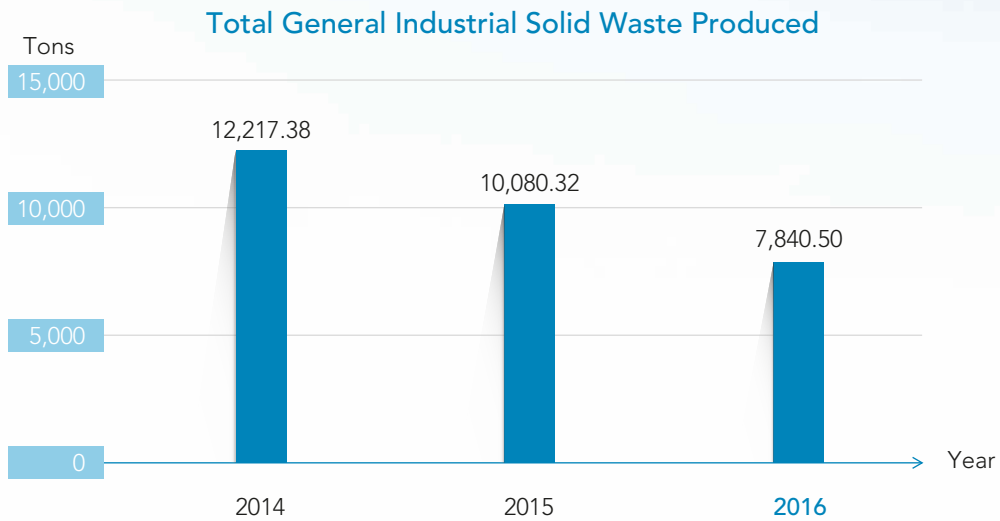
Desulphurisation: A new calcium oxide wet desulphurisation tower was used to replace the original double subtraction wet desulphurisation tower, helping to achieve an actual desulphurisation efficiency of over 96%.

#### Waste Water Treatment

In order to strictly control the concentration of pollutants in discharged wastewater, each of the Group's subsidiaries, in accordance with the governmental environmental protection requirements, has conducted different cleaning processes to improve the production waste water emissions and domestic sewage treatment. In 2016, all of the Group's subsidiaries had reached a sewage discharge rate of 100%.

**Solid Waste Management**

The Group classifies, collects and centrally stores industrial waste, of which, scrap metals generated in the machining process are recycled for sales, while domestic sewage is disposed of by the sanitation department.



The Group implements strict management and safe disposal of hazardous waste and has developed a management system and emergency plan for hazardous waste. Meanwhile, according to the national requirements, the Group reports its hazardous waste per annum and standardises the management of hazardous waste storage sites and ledgers. Moreover, the Group regularly hands over hazardous waste to qualified hazardous waste disposal units for disposal. In 2016, the Group generated a total of 1,844.67 tons of hazardous waste emissions.

**Changhe Aviation – Standardised solid waste management**

Sludge storage site conversion: To reduce exposure and secondary pollution of surface treatment sludge in temporary storage units to rain, loss and other environmental risks, Changhe Aviation has invested RMB40,000 in standardised conversion, a special management system and warning signs.

Standardised oil waste management: Changhe Aviation is equipped with waste collection and transport vehicles to collect and process the 902 tons of waste generated during production. It is also equipped with 45 special oil rag collection barrels at its production sites, and has developed special management regulations for collection, transport and safe disposal of oil waste.



## Environmental, Social & Governance Report

### 3.1.2 Packaging Reuse

The Group is especially focused on to the recycling of packaging materials. Its main packaging materials are self-made packaging boxes, finished product boxes and imported boxes for the products of international collaboration. The Company recycles and disposes of various types of boxes each week, helping to reduce box manufacturing costs and reduce waste.

- Ordinary boxes are repaired or disposed of in accordance with the disassembly and assembly situation;
- Special boxes, except for those recycled by manufacturers, are delivered with spare parts to relevant departments for subsequent use as product boxes;
- For product boxes that customers return for repair or broken boxes, the metal brackets are reused for manufacturing of wooden box bodies and box accessories for repair; and
- The product boxes delivered together with imported products are disassembled and reassembled carefully as required by the foreign party and then delivered together with the original protective packaging materials to relevant departments for repair.

### 3.1.3 Noise Control

The Group's subsidiaries have taken measures to reduce mechanical vibrations and traffic noise, and strengthen greening and other aspects to control factory noise pollution and reduce the impact on the surrounding environment and residents. We entrust qualified monitoring agencies to evaluate our factory boundary noise pollution once every quarter. The factory boundary noise of all factory areas meets the requirements of the Emission Standard for Industrial Enterprise Noise at Factory Boundaries.

## 3.2 Resource and Energy Use

The Group operates as a green manufacturing enterprise and has environmental management systems. It continuously implements clean production and energy audit schemes and through source control, saves raw materials, reduces energy consumption, optimises production, improves production technology and upgrades equipment. These measures have gradually improved the Company's overall energy management.

The Group's main energy types are: coal, natural gas, electricity, gasoline, diesel and kerosene. Natural gas and electricity are supplied by municipal pipe networks, while gasoline and kerosene are mainly used for vehicles and production parts cleaning. In 2016, the Group's comprehensive energy consumption reached 93,100 tons of standard coal, representing a decrease of 16% compared with 2015.

### **Oriental Instrument – Improved energy saving and cost-reducing**

Oriental Instrument continue to conduct in depth "monitoring and statistical analysis of energy consumption" to "reduce cost and increase efficiency", and "publicity of the concept of low carbon and environmental protection" and other activities. In 2016, it realised annual coal consumption savings of more than 300 tons, representing a year-on-year decrease of 14.5%. Its energy consumption per RMB10,000 of industrial value-added was 0.120 tons of standard coal, representing a year-on-year decrease of 40% compared with 2010. Its energy savings for product output value totalled 125 tons of standard coal. At the same time, the Company has promoted the implementation of LED green and efficient lighting projects and completed the "heat treatment vacuum furnace cooling water supply pipeline renovation", "factory transformer load balancing configuration" and "channel street light reconstruction" project and other work aimed at lowering cost and increasing efficiency. This has saved nearly 600 tons of water resources and about 170,000 kwh of electricity.

The Group is mindful of the management and use of water resources. We have reduced our consumption of water resources during production through wastewater reuse, water recycling and many other measures. The Group's water is mainly supplied by municipal pipe networks and surface and underground water. We regularly pay water fees and water resource fees according to the provisions.

### **Subsidiaries**

### **Water-saving Measures**

<b>JONHON Optronic</b>	Establishment of a Wastewater Reuse System
<b>Shaanxi Baocheng</b>	The electroplating operation uses electromagnetic water-saving valves, which have reduced water consumption for electroplating and the waste water quantity by more than 30%, reducing not only tap water consumption, but also sewage treatment.
<b>Qianshan Avionics</b>	Recycled water is used for production in factories and temperature test box cooling, which has helped the water recycling rate reach 20%.



## Environmental, Social & Governance Report

### 3.3 Enhancing Environmental Protection Awareness

On our “6·5 Environmental Protection Day”, each of the Group’s subsidiaries promotes awareness of environmental protection laws and regulations, and common-sense knowledge to their respective employees and the public through a variety of media. This also promotes the Company’s concept of and action on environmental protection. In June 2016, the Group’s subsidiaries carried out an “Energy Saving Publicity Week” and “low carbon” activities, using television, newspapers, display boards, WeChat, brochures and other channels to draw awareness to the new national environmental protection policy and environmental protection scientific knowledge, and invited the local environmental protection bureau and university academics to provide training on environmental protection, so as to guide employees to actively participate in low carbon and environmental protection action.

#### Environmental protection publicity activities

Hongdu Aviation prepared display boards and banners on world environmental protection day and place them at its entry gates and other positions to introduce employees to the significance of the daily theme (including environmental protection law, enforcement and environmental protection science), advance environmental awareness and help them take action to protect the environment. Hongdu Aviation also invited the Nanchang Municipal Environmental Protection Bureau and experts from Nanchang Hangkong University to provide training on environmental protection to employees. The environmental protection leaders of each unit, technology safety personnel and environmental protection personnel all participated in the training.

Lanzhou Aviation Electrical uses the “6·5 Environmental Protection Day” each year as an opportunity to draw awareness to environmental protection laws and regulations and common-sense knowledge among its employees through display boards, newspapers and other types of media. It also prepares all kinds of environmental protection publicity signs and place them along roads within its factory area, with an aim to enhance publicity of the Company’s environmental protection culture.

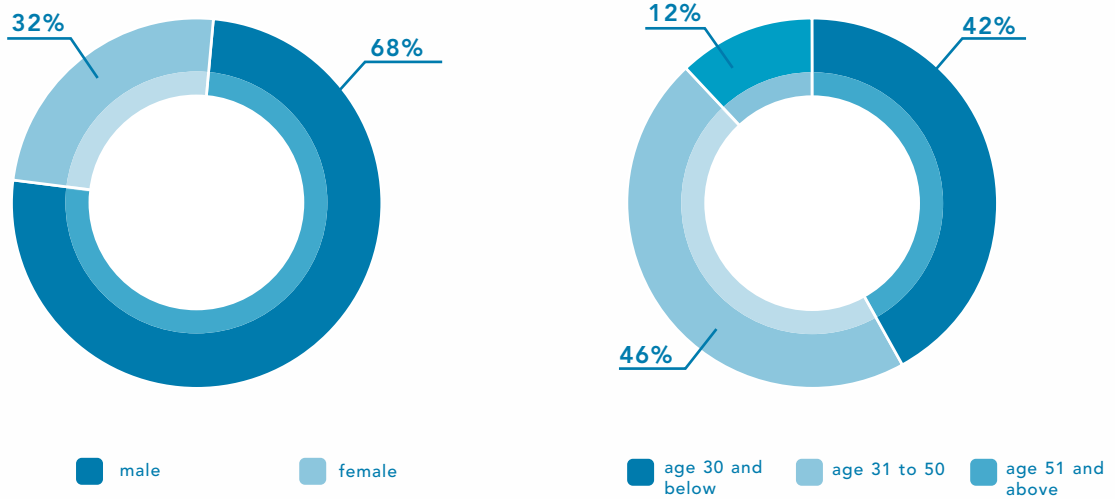
## 4 EMPLOYEE DEVELOPMENT

Our employees are the foundation of our company. The Group is especially focused on talent recruitment, training, use, and strengthening of talent training and innovation of development mechanisms, so as to constantly improve the overall quality and physical and mental health of employees. These measures also promote the sustainable development of employees, which in turn advances the sustainable development of the Company.

### 4.1 Recruitment and Employment

The Group strictly follows the Labour Law, Labour Contract Law, Law on the Protection of Rights and Interests of Women and relevant laws and regulations, to eliminate child and forced labour in any form. It adheres to an open, fair, and equal employment policy to realise equal pay for equal work as well as gender equality. As at the end of 2016, the number of employees totalled 51,119.

Employee's Structure Categorized by Gender and Age





## Environmental, Social & Governance Report

### 4.2 Development and Training

The Group, by comprehensively considering employee development and business development needs, provides targeted and diversified training and occupational development channels to employees to provide a business platform and developmental space to enhance the capability of its employees and the Company.

#### 4.2.1 Improving and Standardising Employee Training

The Group not only continues to promote and perfect its training systems, and, through the establishment of an open training support system improve training quality (e.g., via teacher qualifications and curriculum), but also provides special training for new employees and promotes post-operation training and post-qualification certification, with an aim to standardise the Company's training levels and management. In 2016, employee training hours totalled more than 48 million, and 100,000 employees were trained. Such training has achieved full coverage of all employees, business fields and career paths.

##### **JONHON Optronics – Training standardisation system**

JONHON Optronics, according to the ISO10015 international training standards, has standardised its management and processes to identify training needs, design training, provide such training and evaluate the training results. It has also constructed secondary training and management institutions and networks based on integrated management. Meanwhile, it trains its employees according to level and classification. Furthermore, it has constructed an expert teacher database, developed a training curriculum system, perfected its professional training to explore various training methods and established an OA training information platform to enhance the Company's overall training level.

#### 4.2.2 Culturing Skilled and Leadership Talents

The Group, from key universities, major projects, foreign countries, school-enterprise cooperation, post-doctoral workstations and other key measures, has recruited high level talents and cultivated a number of leading talents and innovation, research and development teams. These talents enable the Group to develop core technologies and accelerate the commercialisation of scientific research achievements to improve its technological innovation and research and development capabilities.

##### **Shanghai Aviation Electric – “Training, competition and identification” for skilled talents**

Shanghai Aviation Electric follows the principles of “Training, Competition and Identification” for training skilled talents in order to enhance their occupational skills. These principles help to integrate skill training, competition and identification. Shanghai Aviation Electric also encourages employees to keep learning to improve their skills and is committed to cultivating a skilled talent team. In 2016, the Company organised the first “Sophia Cup” competition for employees with teams composed of three persons from different departments and disciplines drawing on their diversity of experience and skills.

### 4.2.3 *Improving Promotion Mechanism*

The Company has established a rank management system with rankings according to position to clarify the promotion and standard review process, along with various promotion channels. At the same time, the Company is also committed to establishing incentive mechanisms in line with the market. First, it has established a basic distribution system, which is performance and contribution based and follows the principle of a salary distribution tilted to the backbone. Second, it has established supplementary incentive systems, including a project achievement (including scientific research, management innovation and quality control) reward system and a leading expert allowance system, to promote technology and management innovation. Finally, it has implemented a paid leave system with full employee coverage. It provides various incentives to outstanding talents in addition to material rewards to strengthen its employees' ethics and sense of belonging.

## 4.3 **Caring about Physical and Mental Health**

The Group attaches great importance to the management of occupational safety and health, and strictly complies with national laws and regulations and industry standards. The Group has established an occupational health and safety management system, which it continuously updates, and organises various cultural and sports activities to create a safe and comfortable working environment.

### 4.3.1 *Guaranteeing Occupational Health*

Each of the Group's subsidiaries has developed occupation disease prevention and control systems, anti-poison and dust-proof facility management systems, occupational safety and health training management systems and other occupational health management systems. Each year, we regularly carry out toxic dust monitoring and occupational hazard evaluation through pre-post, on-the-job and post-job physical examinations, occupational hazard notification and training, and distribution of protection equipment that complies with state requirements to employees. We have also established an employee mutual fund/employee medical fund for hospitalisation Medicare and other measures to ensure the safety and health of our employees. In 2016, the employee physical examination rate reached 100%.

### 4.3.2 *Caring for Employees' Safety*

Each of the Group's subsidiaries actively organises various cultural and sports activities to enrich its employees' daily life. We have demonstrated our care for our female employees by providing breastfeeding rooms in our offices and organising protection policy lectures, health quizzes, workplace etiquette training, gynaecological examinations and other activities. Finally, every year we organise health examinations and provide welfare and subsidies to retired employees.





## Environmental, Social & Governance Report

### 4.4 Clean Governance

We have continuously improved our anti-corruption-related rules and regulations and have formulated the *Employee Disciplinary Action Measures (Trial)* and many other rules and regulations. Moreover, our management is also required to sign the Responsibility for Building a Clean Government to continuously improve our supervision mechanism, implement a responsibility system and establish a long-term anti-corruption mechanism.

Our Group has strengthened cultural education at all levels of management, and provides monthly anti-corruption education. We also conduct continuous supervision to maintain self-discipline at all levels of management by organising educational films, visits and lectures and enforcing regulations and self-discipline.

## 5 CONTRIBUTING TO OUR COMMUNITY

The Group promotes aviation, local strategy and business innovation, and supports local construction and local economy development. At the same time, by relying on the Wu Dagan volunteer service team (吳大觀志願服務隊), the Group provides aviation science education, makes donations, helps the community and promotes volunteering, to gain the trust and support of the local community and the public. In 2016, the Group spent more than 80,000 hours on volunteer service in total.

Aviation Industry Corporation of China, a controlling shareholder of the Group, established the Wu Dagan volunteer service team in 2012, to commemorate Mr. Wu Dagan, the “Father of China’s Aviation Engine” and his patriotic spirit and selfless dedication. Each of the Group’s subsidiaries has established a Wu Dagan volunteer service team.

### 5.1 Supporting Local Construction

The Group has always been committed to, via industrialisation development, giving back society, and adheres to openness and cooperation for mutual benefit and the expansion of cooperation with social capital. By promoting local construction, the Group supports the development of the aviation industry and associated industries. In 2016, the Group actively responded to the national call for the development of the general aviation industry and signed strategic cooperation agreements with related governments to further strengthen cooperation between government and industry, promote restructuring of industrial parks and increase the economic benefits generated by the aviation industry. The Group attaches great importance to the use of local resources to stimulate and promote the development of small and medium-sized enterprises, which in turn generates economic benefits and employment opportunities in the local area.

The Group is actively involved in the development of the new energy industry, and has provided supporting products for new energy electric vehicles to support local green transportation and travel.

### **Tianjin Aviation Mechanical and Electrical – “Key laboratory for aviation power distribution systems” supporting regional economic development**

The laboratory is mainly engaged in fundamental research of more-electric-aircraft and all – electric – aircraft technology, cultivation of industrial science and technology talents, strengthening of industry-academic exchanges, and provision of services inside and outside the industry. This leads to transfer of aviation technology to the civil aviation market, contributing to the development of China’ aviation power distribution industry and the local economy in Tianjin.

### **Changhe Aviation – New mode of cooperation between the government and enterprises**

In 2016, Jingdezhen Government and Changhe Aviation held a ceremony for the opening of helicopter services at Luojia airport, and the AC311 helicopter had its maiden flight as a tourist aircraft. Aviation and tourism are the two pillar industries in Jiangxi and this helicopter navigation project represented a new mode of cooperation between the government and enterprises. The perfect combination of “aviation and tourism”, not only adds a new way to enjoy views of Jingdezhen from the air, but also enriches Jingdezhen’s tourism products, improves its popularity, promotes the brand image and recognition of domestic civilian helicopters, promotes the integration of Jiangxi’s navigation and tourism industries, and has great significance for Jingdezhen’s industrial transformation and development.

### **AVIC Avionics – Civil-military integration and civil industrialisation development**

The Company actively carries out research of electromechanical products and civil industrialisation of aircraft exterior lighting systems. The Company has successively organised the implementation of long-life LED lamp technology research, welfare district projects and other civil-military integration and community development projects. As a result, the Company won the 2016 Annual Output Value Contribution Award of Anning District of Lanzhou City.



## Environmental, Social & Governance Report

### 5.2 Spreading Aerospace Cultures

The Group has popularised aviation technology knowledge, promoted aviation culture and improved the public awareness of aviation. The Group fully supports and participates in domestic general aviation development projects, and has improved general aviation transportation services and short distance transportation to meet basic travel demand in remote areas and replace ground traffic. Meanwhile, the Group also actively participates in the “General Aviation Day” and other such themed activities to promote the integration and development of general aviation with tourism and the Internet to better spread aerospace culture.

#### “Flight·Home” Aviation culture experience store opened in Beijing

In June 2016, China Aviation Publishing & Media Co., Ltd., a subsidiary of the Group, opened a “Flight·Home” aviation culture experience store in Beijing Baiwanzhuang Book Building. This is the first aviation culture experience store opened in the bookstore. “Flight·Home” is different from traditional merchandise stores. In addition to the sale of aviation books and cultural and creative products, and the aviation flight simulation experience and model airplane training model, the store conducts flight experience activities, such as aviation summer camps and on-site visits to aviation scientific research units.

Development of the aerospace industry and realisation of the Chinese aerospace dream is a task for both the current and future generations. The Group supports education to promote social progress and development, with an aim to spread the aerospace culture to young people and popularise aerospace science. This can not only expand students’ knowledge and enhance their awareness of innovation, but also cultivate their interest in aviation and aerospace science, broaden their horizons and inspire patriotism and national pride. In 2016, the Wu Dagan volunteer service team and the Youth League Committee of each of the Group’s subsidiaries visited the local primary and secondary schools to promote aviation science.

Subsidiaries	Cooperative Schools	Activities
AVIC Avionics	Wanli Primary School	Lectures on knowledge
Taiyuan Instrument	Taiyuan Taihang Primary School, Taihang Kindergarten	Thematic Class Meeting
AVIC Planning	Beijing Yuxiang Primary School, Beijing Liu Bin Bao Primary School	Popular science knowledge class on aviation and environmental protection and themes
Shanghai Aviation Electric	Shanghai Qibao No.2 Middle School	Aerospace knowledge class, Innovative science activities of “The dream of blue sky, aviation and sailing”

### 5.3 Participation in Public Welfare Activities

In 2016, the Group actively carried out a series of fixed-point poverty alleviation and volunteer activities all across China such as donations to assist in educational development, public services, community twinning, elderly assistance and charity sales, to connect the enterprise and the society and provide better conditions and opportunities for vulnerable groups to contribute to social fairness and harmony.

#### Examples of the Group's Fixed-point Poverty Alleviation Projects

Subsidiaries	Fixed-point Poverty Alleviation Areas	Poverty Alleviation Contents
AVIC Avionics	Wanguan Village, Kang towns, Longnan City, Gansu Province	The Youth League Committee purchased insulation cups, electronic watches and other items and donated them to primary school students in poor villages
Changfeng Avionics	Xinjiang Province, Zuogong County, Changdu City, Xizang Autonomous Region	Donated a total of RMB50,000 in Tibet and Xinjiang over the last three years
Changhe Aviation	6 counties and towns in Jiangxi Province	Helped poor households and disabled technical secondary school students and college students to complete their studies through the "Jinqiu Student Poverty Alleviation" program
Shaanxi Baocheng	Xiang Quan Town Shiyao Village, Wangjiazhuang Village, San Quan Village, and other key poverty alleviation villages and towns, Chencang District, Baoji City, Shaanxi province	Improvement of infrastructure, livelihoods and public services  The Company was awarded the titles of "advanced unit of 'breakthrough of Xishan' village poverty alleviation" and "advanced unit of village – enterprise twinning"



## Environmental, Social & Governance Report

Subsidiaries	Fixed-point Poverty Alleviation Areas	Poverty Alleviation Contents
AVIC Huiyang	Longjiapu Village, Yi County, Baoding City, Hebei Province	RMB20,000 and 6,000 articles of clothing were donated to the poor
AVIC Lanfei	Three villages in Gansu Province	In 2016, RMB260,000 was donated for infrastructure construction, village party branch and village committee office and culture construction poverty alleviation projects and other projects helping the poor
Taiyuan Instrument	Mujiawa Village, Peijiagou Town, Shilou County, Lvliang	In 2016, RMB30,000 of poverty alleviation funds were donated
Hongdu Aviation	Hope Primary Schools in the poverty alleviation areas	Volunteers were selected to visit schools to donate books and cultural and sports items valued at over RMB5,000 and promote aviation science

In 2016, the Group advocated that employees should carry out public benefit activities, such as monetary donations, blood donations, caring for the elderly and environmental protection projects. AVIC Lanfei visited the elderly within its the community to hold health related lectures, measure their blood pressure and donate essential daily medicine, as well as other volunteer activities. Hongdu Aviation's Youth League Committee organised its Wu Dagan volunteer service team to carry out a series of volunteer activities concerning public services, community twinning, elderly assistance and charity sales. More than 710 employees participated in volunteer activities in the whole year, with more than 2,200 hours spent. Taiyuan Instrument carried out "Yellow Bracelet" activities to help elderly people find their way home, and provided volunteer services in public bicycle outlets and performed many other innovative public service activities. Changfeng Avionics and AVIC Lanfei spontaneously organised voluntary blood donation drives. Each year, Keeven Instrument participates in the "Communist Party Members' Caring Donation" activities jointly organised by the Municipal Party Committee Organisation Department and Beijing Charity Association.

# Independent Auditor's Report

To the shareholders of AviChina Industry & Technology Company Limited  
(Established in the People's Republic of China with limited liability)

## OPINION

We have audited the consolidated financial statements of AviChina Industry & Technology Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 90 to 193, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statement in Hong Kong, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



# Independent Auditor's Report

To the shareholders of AviChina Industry & Technology Company Limited (Continued)  
(Established in the People's Republic of China with limited liability)

## KEY AUDIT MATTERS (Continued)

### Key audit matter

### How our audit addressed the key audit matter

#### *Impairment of accounts receivable*

As at 31 December 2016, the Group's accounts receivable were significant to the consolidated financial statements. Provision for impairment of accounts receivable is determined based on the evaluation of collectability of accounts receivable. A considerable amount of management judgement is required in assessing the ultimate realisation of accounts receivable, including the current creditworthiness and the past collection history of each customer and current market conditions.

The accounting policies and disclosures for the impairment of accounts receivable are included in notes 2.4, 3 and 23 to the consolidated financial statements.

Our audit procedures to assess the recoverability of accounts receivable included, but are not limited to the audit procedures below. We obtained an understanding of the impairment assessment process for accounts receivable, performed walkthroughs, and identified and tested relevant controls within the transaction process; communicated with management in regard to their estimation of collectability of accounts receivable, and compared to the historical collection records; checked the aging analysis, and selected samples to trace to the original supporting documents; inquired management about their consideration for the material and/or long-aged individual items, and examined the historical collection and evaluated the financial strength of the customers concerned; and examined subsequent collections by checking to the bank receipts.

#### *Construction contracts (the percentage of completion method)*

As at 31 December 2016, the Group's revenue recognition on construction contracts was significant to the consolidated financial statements. The Group uses the percentage of completion method in accounting for its contract revenues. Significant management judgement is involved in using the percentage of completion method as it requires management to estimate the total estimated cost as well as the cost incurred up to the date as a proportion of the total estimated cost for each contract.

The accounting policies and disclosures for the construction contracts (the percentage of completion method) are included in notes 2.4, 3 and 5 to the consolidated financial statements.

Our audit procedures to assess the revenue recognition included, but are not limited to the audit procedures below. We obtained an understanding of the contract accounting process, performed walkthroughs and identified and tested relevant controls within the process; checked the contract revenue recognised to the original contract clause; examined the compilation of the total estimated cost and discussed with management and various project officials to assess whether the estimation uncertainties have been adequately addressed; examined the cost incurred up to the date by reviewing the breakdown, selected material items to check to the original supporting documents; and recalculated the percentage of completion and performed gross profit analysis.

# Independent Auditor's Report

To the shareholders of AviChina Industry & Technology Company Limited (Continued)  
(Established in the People's Republic of China with limited liability)

## KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
<i>Impairment of inventories</i>	
<p>As at 31 December 2016, the Group's inventories were significant to the consolidated financial statements. Management estimates the net realisable value for finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes provision for impairment of obsolete and slow-moving items and writes off or writes down inventories to net realisable value. This assessment of impairment of inventories requires significant management estimates on current market conditions.</p>	<p>Our audit procedures to assess the impairment risk of inventories included, but are not limited to the audit procedures below. We obtained an understanding of the impairment assessment process for inventories, performed walkthroughs and identified and tested relevant controls within the transaction process; supervised stock take performed by management, and paid attention to the obsolete or slow-moving items; obtained the stock list and selected samples to check to subsequent net realisable values; and examined the impairment calculation prepared by management and inquired management of any significant fluctuations compared with the prior year.</p>

The accounting policies and disclosures for the impairment of inventories are included in notes 2.4, 3 and 22 to the consolidated financial statements.

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The directors of the Company are responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.





# Independent Auditor's Report

To the shareholders of AviChina Industry & Technology Company Limited (Continued)  
(Established in the People's Republic of China with limited liability)

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

# Independent Auditor's Report

To the shareholders of AviChina Industry & Technology Company Limited (Continued)  
(Established in the People's Republic of China with limited liability)

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Kwok Yin.

**Ernst & Young**  
Certified Public Accountants

Hong Kong  
15 March 2017

# Consolidated Statement of Profit or Loss

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
<b>REVENUE</b>	5	36,627,771	34,424,049
Cost of sales		(29,664,430)	(27,736,041)
Gross profit		6,963,341	6,688,008
Other income and gains	5	325,825	404,321
Other expenses		(63,775)	(80,986)
Other income and gains, net		262,050	323,335
Selling and distribution expenses		(573,050)	(551,494)
Administrative expenses		(3,921,305)	(3,716,387)
<b>OPERATING PROFIT</b>		2,731,036	2,743,462
Finance income		211,768	244,142
Finance costs		(464,621)	(490,096)
Finance costs, net	7	(252,853)	(245,954)
Share of profits and losses of:			
Joint ventures		28,262	20,848
Associates		98,549	127,649
<b>PROFIT BEFORE TAX</b>	6	2,604,994	2,646,005
Income tax expenses	10	(352,743)	(427,898)
<b>PROFIT FOR THE YEAR</b>		2,252,251	2,218,107
<b>Attributable to:</b>			
Equity holders of the Company		1,118,961	1,142,886
Non-controlling interests		1,133,290	1,075,221
		2,252,251	2,218,107
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic			
– For profit for the year	12	RMB0.188	RMB0.192
Diluted			
– For profit for the year	12	RMB0.188	RMB0.192

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000 (Restated)
<b>PROFIT FOR THE YEAR</b>	<b>2,252,251</b>	<b>2,218,107</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income/loss to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(370,368)	557,974
Reclassification adjustments for gains included in the consolidated statement of profit or loss		
– gain on disposal	(38,512)	(28,992)
Income tax effect	61,332	(79,347)
	(347,548)	449,635
Exchange differences on translation of foreign operations	11,638	10,508
Net other comprehensive income/loss to be reclassified to profit or loss in subsequent periods	(335,910)	460,143
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Loss on a defined benefit scheme	(43,015)	(74,689)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	(43,015)	(74,689)
<b>OTHER COMPREHENSIVE INCOME/LOSS FOR THE YEAR, NET OF TAX</b>	<b>(378,925)</b>	<b>385,454</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1,873,326</b>	<b>2,603,561</b>
<b>Attributable to:</b>		
Equity holders of the Company	908,261	1,390,442
Non-controlling interests	965,065	1,213,119
	<b>1,873,326</b>	<b>2,603,561</b>

# Consolidated Statement of Financial Position

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	12,395,357	11,549,435
Investment properties	14	301,877	346,024
Land use rights	15	1,704,798	1,639,197
Goodwill	16	69,188	69,188
Other intangible assets	17	118,709	138,928
Investments in joint ventures	18	95,200	75,121
Investments in associates	19	839,427	838,816
Available-for-sale investments	20	1,477,284	1,956,185
Deferred tax assets	21	231,356	207,003
Prepayments, deposits and other receivables	24	638,067	343,168
<b>Total non-current assets</b>		<b>17,871,263</b>	<b>17,163,065</b>
<b>CURRENT ASSETS</b>			
Inventories	22	21,652,915	19,908,387
Accounts and notes receivable	23	16,147,794	15,293,210
Prepayments, deposits and other receivables	24	3,288,497	2,594,120
Financial assets held for trading	25	31,057	38,530
Pledged deposits	26	1,035,307	1,728,065
Term deposits with initial terms of over three months	26	709,047	851,160
Cash and cash equivalents	26	8,772,885	9,535,436
<b>Total current assets</b>		<b>51,637,502</b>	<b>49,948,908</b>
<b>TOTAL ASSETS</b>		<b>69,508,765</b>	<b>67,111,973</b>

# Consolidated Statement of Financial Position

31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
<b>CURRENT LIABILITIES</b>			
Accounts and notes payable	27	23,953,202	21,417,999
Other payables and accruals	28	6,247,523	9,613,230
Interest-bearing bank and other borrowings	29	4,336,590	4,668,282
Tax payable		252,200	269,373
<b>Total current liabilities</b>		<b>34,789,515</b>	<b>35,968,884</b>
<b>NET CURRENT ASSETS</b>		<b>16,847,987</b>	<b>13,980,024</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>34,719,250</b>	<b>31,143,089</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	29	4,374,148	3,233,391
Deferred income from government grants	30	869,321	849,189
Deferred tax liabilities	21	117,595	184,506
Other payables and accruals	28	1,021,531	456,444
<b>Total non-current liabilities</b>		<b>6,382,595</b>	<b>4,723,530</b>
<b>TOTAL LIABILITIES</b>		<b>41,172,110</b>	<b>40,692,414</b>
<b>Net assets</b>		<b>28,336,655</b>	<b>26,419,559</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	31	5,966,122	5,474,429
Reserves	33	7,433,659	7,185,265
		<b>13,399,781</b>	<b>12,659,694</b>
Non-controlling interests		<b>14,936,874</b>	<b>13,759,865</b>
<b>Total equity</b>		<b>28,336,655</b>	<b>26,419,559</b>

Director  
Tan Ruisong

Director  
Gu Huizhong

# Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to equity holders of the Company						Subtotal	Non-controlling interests	Total
	Share capital	Capital reserve	Fair value reserve	Currency translation reserve	Other reserves	Retained earnings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 31 December 2015</b>									
(as previously reported)	5,474,429	3,850,227	471,196	3,999	208,315	1,992,838	12,001,004	13,758,050	25,759,054
Business combinations involving entities under common control (Note (a))	-	450,000	(284,925)	(142)	-	493,757	658,690	1,815	660,505
<b>As at 1 January 2016 (as restated)</b>	5,474,429	4,300,227	186,271	3,857	208,315	2,486,595	12,659,694	13,759,865	26,419,559
Profit for the year	-	-	-	-	-	1,118,961	1,118,961	1,133,290	2,252,251
Other comprehensive income for the year, net of tax	-	-	(222,277)	11,577	-	-	(210,700)	(168,225)	(378,925)
Total comprehensive income for the year	-	-	(222,277)	11,577	-	1,118,961	908,261	965,065	1,873,326
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	(2,190)	(2,190)
Capital injection by non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	293,986	293,986
Issue of shares (Note 2.1)	491,693	1,681,589	-	-	-	-	2,173,282	-	2,173,282
Business combinations involving entities under common control (Note (a))	-	(2,173,282)	-	-	-	-	(2,173,282)	-	(2,173,282)
2015 final dividend	-	-	-	-	-	(109,489)	(109,489)	-	(109,489)
Contribution from non-controlling shareholders of subsidiaries (Note(b))	-	-	-	-	-	-	-	189,860	189,860
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	(212,321)	(212,321)
Transfer to statutory surplus reserve (Note 33 (c))	-	-	-	-	14,267	(14,267)	-	-	-
Appropriation (Note 33 (c))	-	-	-	-	23,380	(23,380)	-	-	-
Others	-	-	-	-	(58,685)	-	(58,685)	(57,391)	(116,076)
<b>As at 31 December 2016</b>	5,966,122	3,808,534*	(36,006)*	15,434*	187,277*	3,458,420*	13,399,781	14,936,874	28,336,655

# Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	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	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	RMB'000
<b>As at 1 January 2015</b>											
(as previously reported)	5,474,429	(43,323)	3,686,692	21,870	233,970	(6,309)	179,799	1,268,306	10,815,434	12,485,925	23,301,359
Business combinations involving entities under common control (Note (a))	-	-	450,000	-	(284,851)	(238)	-	213,408	378,319	3,361	381,680
<b>As at 1 January 2015 (as restated)</b>	5,474,429	(43,323)	4,136,692	21,870	(50,881)	(6,547)	179,799	1,481,714	11,193,753	12,489,286	23,683,039
Profit for the year	-	-	-	-	-	-	-	1,142,886	1,142,886	1,075,221	2,218,107
Other comprehensive income for the year, net of tax	-	-	-	-	237,152	10,404	-	-	247,556	137,898	385,454
Total comprehensive income for the year	-	-	-	-	237,152	10,404	-	1,142,886	1,390,442	1,213,119	2,603,561
Acquisition of additional interests in subsidiaries	-	-	(12,690)	-	-	-	-	-	(12,690)	(7,146)	(19,836)
Capital injection by non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	26,205	26,205
Partial disposal of interests in a subsidiary	-	-	168,015	-	-	-	-	-	168,015	27,846	195,861
Full disposal of interests in a subsidiary	-	-	(336)	-	-	-	-	-	(336)	(76)	(412)
Shares vested under a share scheme	-	-	-	-	-	-	-	-	-	-	-
- Funded by the Company	-	23,299	-	(23,299)	-	-	-	-	-	-	-
- Funded by scheme participants	-	20,024	-	-	-	-	-	-	20,024	-	20,024
Value of employee services under a share scheme (Note 32)	-	-	-	1,429	-	-	-	-	1,429	-	1,429
2014 final dividend	-	-	-	-	-	-	-	(109,489)	(109,489)	-	(109,489)
Contribution from non-controlling shareholders of subsidiaries (Note(b))	-	-	-	-	-	-	-	-	-	177,364	177,364
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(165,186)	(165,186)
Transfer to statutory surplus reserve (Note 33 (c))	-	-	-	-	-	-	13,177	(13,177)	-	-	-
Appropriation (Note 33 (c))	-	-	-	-	-	-	15,339	(15,339)	-	-	-
Others	-	-	8,546	-	-	-	-	-	8,546	(1,547)	6,999
<b>As at 31 December 2015 (as restated)</b>	5,474,429	-	4,300,227*	-	186,271*	3,857*	208,315*	2,486,595*	12,659,694	13,759,865	26,419,559

Note (a): On 28 June 2016, the Company obtained the control over China Aviation Planning and Design Institute Co., Ltd. ("AVIC Planning") through business combinations involving entities under common control. Refer to Note 2.1 below.

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

\* These reserve accounts comprise the consolidated reserves of RMB7,433,659,000 (2015: RMB7,185,265,000 as restated) in the consolidated statement of financial position.



# Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		2,604,994	2,646,005
Adjustments for:			
Interest expense		401,808	408,789
Share of profits of joint ventures	18	(28,262)	(20,848)
Share of profits of associates	19	(98,549)	(127,649)
Interest income	7	(211,768)	(244,142)
Loss on disposals of items of property, plant and equipment		21,810	31,774
(Gain)/loss on disposals of investments in associates	5	(9)	1,382
Gain on disposals of available-for-sale investments	5	(40,347)	(185,778)
Gain on disposals of financial assets held for trading	5	(731)	(6,425)
Gain on disposal of a subsidiary	5	–	(7,368)
Fair value (gain)/loss on financial assets held for trading		(6,529)	9,249
Depreciation on investment properties	14	7,493	3,184
Depreciation on property, plant and equipment	13	883,461	894,953
Amortisation of other intangible assets	17	22,341	27,462
Amortisation of land use rights	15	54,792	31,722
Impairment of an investment in an associate	19	–	467
Impairment of available-for-sale investments	6	24,948	10,153
Impairment of property, plant and equipment	6	245	12,899
Impairment of accounts receivable and prepayments, deposits and other receivables	6	117,364	160,340
Write-down of inventories to net realisable value	6	173,880	127,898
Value of employee services under a share scheme		–	1,429
Dividend income from available-for-sale investments and financial assets held for trading		(17,610)	(28,333)
		<b>3,909,331</b>	<b>3,747,163</b>
Increase in inventories		(1,884,584)	(2,299,302)
Increase in accounts and notes receivable		(951,487)	(2,928,888)
(Increase)/decrease in prepayments, deposits and other receivables		(1,060,406)	1,747,845
Increase in accounts and notes payable		2,897,769	2,221,003
(Decrease)/increase in other payables and accruals		(3,842,527)	231,460
Decrease/(increase) in pledged deposits		692,758	(721,626)

# Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
Cash generated from operations		(239,146)	1,997,655
Interest received		211,768	244,142
Interest paid		(431,250)	(441,267)
Income tax paid		(399,849)	(347,040)
Net cash flows (used in)/from operating activities		(858,477)	1,453,490
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(1,084,877)	(1,793,308)
Purchase of land use rights		(32,208)	(39,563)
Additions to other intangible assets		(89)	(7,101)
Purchase of available-for-sale investments		(15,000)	(48,730)
Disposals of available-for-sale investments		69,075	38,515
Purchase of financial assets held for trading		(31,841)	(227,941)
Disposals of financial assets held for trading		46,574	186,849
Redemption of term deposits with initial terms of over three months		851,160	3,453,566
Addition of term deposits with initial terms of over three months		(709,047)	(851,160)
Government grant for purchase of property, plant and equipment	30	172,118	72,929
Proceeds from disposals of property, plant and equipment		26,302	140,482
Addition of an investments in associates		(70,000)	(55,600)
Disposal of investments in associates		1,450	9,359
Addition of an investment in a joint venture	18	(1,500)	(7,450)
Disposal of interests in subsidiaries		(15,576)	227,405
Dividends received from joint ventures	18	9,683	5,685
Dividend received from available-for-sale investments		14,759	13,769
Dividends received from associates		172,617	130,461
Cash paid for other investing activities		(15,000)	–
Cash received from other investing activities		3,000	180,000
Net cash flows(used in)/from investing activities		(608,400)	1,428,167

# Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		7,647,282	6,779,791
Repayments of borrowings		(6,842,914)	(6,489,718)
Capital injection by non-controlling shareholders of subsidiaries		259,422	13,542
Purchase of non-controlling interests of subsidiaries		–	(19,836)
Dividends paid to equity holders of the Company		(109,489)	(109,489)
Dividends paid to non-controlling shareholders of subsidiaries		(250,459)	(165,186)
Net cash flows from financing activities		703,842	9,104
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		9,535,436	6,645,421
Effect of foreign exchange rate changes, net		484	(746)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>8,772,885</b>	<b>9,535,436</b>
		31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	26	10,517,239	12,114,661
Less: Pledged deposits		(1,035,307)	(1,728,065)
Term deposits with initial terms of over three months		(709,047)	(851,160)
Cash and cash equivalents as stated in the statement of cash flows	26	8,772,885	9,535,436
<b>SUPPLEMENTAL DISCLOSURE OF A MAJOR NON-CASH ACTIVITY</b>			
Exchange of available-for-sale investments		–	197,615

# Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION

AviChina Industry & Technology Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on 30 April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation of China Aviation Industry Corporation II (“AVIC II”). AVIC II merged with China Aviation Industry Corporation I (“AVIC I”) to form Aviation Industry Corporation of China (“AVIC”) on 6 November 2008, and AVIC became the holding company of the Company thereafter. The Company’s H shares were listed on the MainBoard 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, and 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.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is AVIC, which is a state-owned enterprise under the control of the State Council of the PRC government.

### Information about subsidiaries

Particulars of the Company’s subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Harbin Aviation Industry (Group) Ltd. (哈爾濱航空工業(集團)有限公司)	PRC	RMB450,000,000	100	–	Manufacture and sale of aero products and related services
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	PRC	RMB717,114,512	43.77	Note(a)	Design, development, manufacture and sale of basic trainers, general-purpose aeroplanes and other aero products, including parts and components

# Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
AVIC Jonhon Optronics Technology Co., Ltd.* (中航光電科技股份有限公司)	PRC	RMB463,472,988	41.57	–	Research and development, manufacture and sale of electrical connectors, optical components and cable assemblies
			Note(a)		
China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司)	PRC	RMB1,759,162,938	43.22	–	Holding investments in companies engaged in aviation equipment business
			Note(b)		
Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司)	PRC	RMB293,163,439	100	–	Manufacture and sale of aviation electrical engineering products and accessories
China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計總院有限公司)**	PRC	RMB450,000,000	100	–	Delivery of planning, design, consultation, construction, operation and other related aviation engineering services
China Aviation Publishing & Media Co., Ltd. (中航出版傳媒有限責任公司)	PRC	RMB48,779,000	53.63	–	Advertising, public relations, consulting services, professional exhibition, information development, sale of audio and video equipment

# Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
AviChina Hong Kong Limited (中航科工香港有限公司)	Hong Kong	HKD1,000	100	–	Design, sale and development of aviation products, finance and investment, information consulting, training and house rental
AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司)***	PRC	RMB220,500,000	31.75 Note(b)	–	Development, manufacture, remodelling and sale of Unmanned Aerial Vehicle products
AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司)***	PRC	RMB200,000,000	100	–	Aviation industry project investment, consulting research and technology transfer
AVICOPTER PLC (中航直升機股份有限公司)	PRC	RMB589,476,716	6.56	28.21 Note(b)	Research, development, design, manufacture and sale of aero products, including parts and components
Jiangxi Changhe Aviation Industry Company Limited (江西昌河航空工業有限公司)	PRC	RMB470,142,916	–	34.77 Note(b)	Manufacture and sale of general-purpose aeroplane and helicopters

# Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司)	PRC	RMB86,830,000	–	34.77 Note(b)	Manufacture aviation propellers, speed governors, feathering pumps, helicopter rotors, tail rotors, hovercrafts with propellers
Tianjin Helicopter Co., Ltd. (天津直升機有限責任公司)	PRC	RMB250,000,000	–	34.77 Note(b)	Research and manufacture of helicopters, other aircrafts and aero space components, and production, sale and maintenance services
Harbin Hafei Aviation Industry Co., Ltd. (哈爾濱哈飛航空工業有限責任公司)	PRC	RMB500,000,000	–	34.77 Note(b)	Design, development, manufacture and sale of helicopters, other aircrafts and electrical engineering products
Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司)	PRC	RMB60,000,000	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司)	PRC	RMB173,542,800	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories

# Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司)	PRC	RMB146,773,263	–	43.22 Note(b)	Research, manufacture and sale of aviation auto control equipment and instruments
Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司)	PRC	RMB321,680,000	1.56	37.49 Note(b)	Research, manufacture and sale of air data systems and various types of aviation instruments
Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀錶有限責任公司)	PRC	RMB200,000,000	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司)	PRC	RMB48,334,292	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司)	PRC	RMB245,340,701	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司)	PRC	RMB160,000,000	–	34.58 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories



# Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司)	PRC	RMB63,440,000	–	43.22 Note(b)	Manufacture and sale of aviation instruments, sensors and autopilot products and related products
Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司)	PRC	RMB59,630,000	–	43.22 Note(b)	Research, manufacture, sale of avionics, airborne equipment and aviation products and related services
Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶 有限責任公司)	PRC	RMB100,000,000	–	43.22 Note(b)	Manufacture and sale of aeronautic instruments and other civil mechanical and electrical instruments
AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器 有限責任公司)	PRC	RMB61,265,300	–	26.14 Note(a)	Research, manufacture, sale, maintenance and related service of aviation electric equipment, electric connectors and related products

# Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
AVIC Forstar S&T Co., Ltd. (中航富士達科技股份 有限公司)	PRC	RMB62,700,000	–	23.08 Note(a)	Manufacture of electric connectors, wires and cables, cable components, microwave components, opto electronic devices, antennas, power supplies, instruments and meter production and marketing
Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術 有限公司)	PRC	RMB2,360,000	–	21.20 Note(a)	Research and development, manufacture and sale of optical fibre connectors, optical-module ceramic cores, active and passive optical fibre communication devices, and new ceramic materials
China Aviation Optical Precision Electronics (Shenzhen) Co., Ltd. (中航光電精密電子 (深圳)有限公司)	PRC	RMB50,000,000	–	21.20 Note(a)	Manufacture and sale of electrical connectors
China Aviation International Construction and Investment Co., Ltd. (中國航空國際建設 投資有限公司)**	PRC	RMB130,000,000	–	100	Project contracting of aviation, civil and industrial construction

# Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Aviation Integration Equipment Co., Ltd. (中航工程集成設備有限公司)**	PRC	RMB61,000,000	–	100	Research, manufacture and sale of mechanical equipment
China Aviation Engineering Supervision (Beijing) Co., Ltd. (中航工程監理(北京)有限公司)**	PRC	RMB6,000,000	–	100	Construction supervision and engineering consulting
AVIC CAPDI Engineering Consulting (Beijing) Co., Ltd. (中航建發工程諮詢(北京)有限公司)**	PRC	RMB1,500,000	–	100	Engineering consulting
AVIC CAPDI (Macau) Company Limited. (中航院設計諮詢(澳門)有限公司)**	Macau	MOP600,000	–	100	Engineering, designing and consulting

\* On 6 July 2016, China Aviation Optical-Electrical Technology Co., Ltd. changed its official English name to AVIC Jonhon Optronics Technology Co., Ltd., and its official Chinese name remained unchanged.

\*\* During the year, the Group acquired China Aviation Planning and Design Institute Co., Ltd. through business combinations involving entities under common control. Further details of this acquisition are included in Note 2.1 to the financial statements.

\*\*\* AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. was newly established on 31 October 2016 and accounted for as a subsidiary of the Group even though the Group has only a 31.75% equity interest in this company because of the factors explained in Note (b) below.

AviChina Industrial Investment Co., Ltd. was newly established on 28 June 2016. The Company holds 100% equity interest with a total investment of RMB200,000,000.

# Notes to Financial Statements

31 December 2016

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about subsidiaries (Continued)

Note (a): Although the Company holds less than 50% of the equity interests and voting rights in these entities, it is deemed to have control since the equity interests held by other shareholdings are dispersed and the other shareholders have not organised their interests in such a way that they exercise more votes than the Group.

Note (b): Although the Company, directly or indirectly, owns less than 50% of the equity interest in these entities, it is able to gain power over these entities with more than one half of the voting rights by virtue of agreements with other investors. Consequently, the Group has consolidated these entities.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance.

They have been prepared under the historical cost convention, except for available-for-sale investments and financial assets held for trading which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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

On 30 September 2015 and 10 March 2016, the Company entered into an Equity Transfer Agreement, a Supplementary Agreement and a Share Issuance Agreement (collectively "the Agreements") with its ultimate holding company, AVIC, to acquire 100% equity interest of AVIC Planning, a wholly-owned subsidiary of AVIC, at the consideration of RMB2,173,281,600 by issuance of 491,692,669 domestic shares of the Company of RMB1 each to AVIC at the issue price of RMB4.42 per consideration share. The consideration shares were fully issued by the Company on 28 June 2016, and on the same date the Company obtained the control over AVIC Planning.

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

By applying the principles of merger accounting, these consolidated financial statements of the Company also included the financial position, profit or loss, comprehensive income and cash flows of AVIC Planning as if it had been combined with the Group throughout the year ended 31 December 2015, and from the earliest date presented. Comparative figures as at 31 December 2015 and for the year then ended have been restated as a result of such. All intra-group transactions and balances have been eliminated on consolidation.

# Notes to Financial Statements

31 December 2016

## 2.1 BASIS OF PREPARATION (Continued)

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

The quantitative impact on the financial statements is summarised below:

(i) *The consolidated statement of profit or loss for the year ended 31 December 2015*

	As previously reported RMB'000	Merger of AVIC Planning RMB'000	Elimination of inter-company transactions RMB'000	As restated RMB'000
Revenue	26,408,437	8,677,565	(661,953)	34,424,049
Profit for the year	1,937,757	315,074	(34,724)	2,218,107

(ii) *The consolidated statement of comprehensive income for the year ended 31 December 2015*

	As previously reported RMB'000	Merger of AVIC Planning RMB'000	Elimination of inter-company transactions RMB'000	As restated RMB'000
Total comprehensive income for the year	2,323,189	315,096	(34,724)	2,603,561

(iii) *The consolidated statement of financial position as at 31 December 2015*

	As previously reported RMB'000	Merger of AVIC Planning RMB'000	Elimination of inter-company balances RMB'000	As restated RMB'000
Total non-current assets	16,094,678	702,070	366,317	17,163,065
Total current assets	44,555,026	6,190,131	(796,249)	49,948,908
Total non-current liabilities	4,279,324	444,206	–	4,723,530
Total current liabilities	30,611,326	5,719,640	(362,082)	35,968,884
Total equity	25,759,054	728,355	(67,850)	26,419,559

# Notes to Financial Statements

31 December 2016

## 2.1 BASIS OF PREPARATION (Continued)

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

#### (iv) The consolidated statement of cash flows for the year ended 31 December 2015

	As previously reported RMB'000	Merger of AVIC Planning RMB'000	As restated RMB'000
Cash and cash equivalents at beginning of year	5,797,986	847,435	6,645,421
Net cash flows from/(used in) operating activities	1,617,435	(163,945)	1,453,490
Net cash flows from investing activities	1,367,800	60,367	1,428,167
Net cash flows from/(used in) financing activities	155,947	(146,843)	9,104
Effect of foreign exchange rate changes, net	(746)	–	(746)
Cash and cash equivalents at end of the year	8,938,422	597,014	9,535,436

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.



# Notes to Financial Statements

31 December 2016

## 2.1 BASIS OF PREPARATION (Continued)

### Basis of consolidation (Continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>

The adoption of the above new and revised standards has had no significant financial effect on the financial statements.

# Notes to Financial Statements

31 December 2016

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> <sup>2</sup>
Amendments to IFRS 4 IFRS 9	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> <sup>2</sup> <i>Financial Instruments</i> <sup>2</sup>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
IFRS 15	<i>Revenue from Contracts with Customers</i> <sup>2</sup>
Amendments to IFRS 15 IFRS 16	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i> <sup>2</sup> <i>Leases</i> <sup>3</sup>
Amendments to IAS 7	<i>Disclosure Initiative</i> <sup>1</sup>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> <sup>1</sup>
Amendments to IAS 40	<i>Transfers of Investment Property</i> <sup>2</sup>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> <sup>2</sup>
<i>Annual Improvements 2014 – 2016 Cycle</i>	Amendments to a number of IFRSs <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> No mandatory effective date yet determined but available for adoption

<sup>5</sup> Annual Improvements 2014-2016 Cycle has amendments to three standards. Amendments to IFRS 12 will be effective for annual periods beginning on or after 1 January 2017. Amendments to IFRS 1 and Amendments to IAS 28 will be effective for annual periods beginning on or after 1 January 2018.

The Group is in the process of determining whether these new and revised IFRSs will have any material impact on the Group's results of operations and financial position.





# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Investments in associates and joint ventures**

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### *Merger accounting*

The financial statements incorporate the financial position, results and cash flows of the companies comprising the Group in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the carrying values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in associates and joint ventures (Continued)

#### *Merger accounting (Continued)*

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control (whichever period is shorter).

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

#### **Business combinations and goodwill**

Business combinations, except for business combinations involving entities under common control by using merger accounting as described in Note 2.1, are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.



# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Business combinations and goodwill** (Continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### **Fair value measurement**

The Group measures its listed equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, investment properties and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.



# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group;or
- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Group are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Group are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life as follows:

Buildings	20-40 years
Plant and equipment	5-18 years
Furniture, fixtures, other equipment and motor vehicles	3-8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.



# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Investment properties**

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost, including related transaction costs, less accumulated depreciation and accumulated impairment losses, if any.

### **Land use rights**

Land use rights represent prepayment for operating leases and they are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated.

Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

### **Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

### *Development costs*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet their criteria are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its expected useful life and tested for impairment.

Where the research phase and the development phase of an internal project cannot be clearly distinguished, all expenditure incurred on the project is charged to the statement of profit or loss.



# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets (other than goodwill) (Continued)

#### *Technology know-how*

Technology know-how is initially recognised at cost. Technology know-how that has a definite useful life is carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost of technology know-how over its estimated useful life of 5 to 10 years.

#### *Trademarks and licences*

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 3 to 4 years.

#### *Contractual customer relationships*

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method of 8 years over the expected life of the customer relationship.

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.





# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, borrowings and receivables and available-for-sale financial investments as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

#### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the fair value reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the fair value reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.



# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### **Impairment of financial assets**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

#### *Financial assets carried at amortised cost*(Continued)

The amount of any impairment loss identified is measured as the difference between the asset carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Borrowings and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

#### *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.



# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Impairment of financial assets** (Continued)

#### *Available-for-sale financial investments* (Continued)

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

### **Financial liabilities**

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group’s financial liabilities include accounts and notes payable, other payables and accruals, interest-bearing bank and other borrowings.

#### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

#### *Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

### **Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns.



# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.



# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and it is released to the statement of profit or loss over the expected useful life of the related asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of aviation products, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;
- (c) from the rendering of services, over the service terms as the services are rendered, as further explained in the accounting policy for "Contracts for services" below;
- (d) rental income, on a time proportion basis over the lease terms;
- (e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (f) dividend income, when the shareholders' right to receive payment has been established.





# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Construction contracts**

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### **Contracts for services**

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payments

The Company operates an equity settled, share-based compensation scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible employees of the Company. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by the market value of the grant date.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of treasury shares acquired for the Scheme is reflected as additional share dilution in the computation of earnings per share.



# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Other employee benefits

#### *Pension scheme*

The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

#### *Housing benefits*

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

#### *Termination benefits*

The Group has recognised the termination benefit obligations as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, future salary increases, mortality rates, the growth rate of the benefits and other factors. The deviation from the actual result and the actuary result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the liability amount of supplementary employee retirement benefit obligations. All assumptions are reviewed at each reporting date.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

# Notes to Financial Statements

31 December 2016

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies

These financial statements are presented in RMB, which is the Company functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rate prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rate for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:



# Notes to Financial Statements

31 December 2016

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Judgements (Continued)

#### *Consolidation of entities in which the Group holds less than a majority of voting rights*

Management considers that the Group has de facto control of certain entities even though it has less than 50% of the voting rights, since the equity interests held by other shareholders are dispersed and the other shareholders have not organised their interests in such a way that they exercise more votes than the Group.

#### *Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

#### *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Deferred tax and income tax*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Deferred tax liabilities are recognised for withholding tax refund. Significant management judgement is required to determine the amount of deferred tax assets and liabilities that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

# Notes to Financial Statements

31 December 2016

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

#### *Depreciation and amortisation*

The Group's management determines the estimated useful lives and related depreciation/amortisation charges for the property, plant and equipment, investment properties and intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortisation charges where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

#### *Impairment of accounts receivable and other receivable*

Provision for impairment of accounts and other receivable is determined based on the evaluation of collectability of accounts and other receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each customer and the current market condition.

#### *Inventories*

Management estimates the net realisable value for finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and will make provision for impairment on obsolete and slow-moving items or will write off or write down inventories to net realisable value.

#### *Revenue recognition (Construction contracts)*

The Group uses the percentage of completion method in accounting for its contract revenues. The use of the percentage of completion method requires the Group to estimate the contract costs incurred up to the date as a proportion of the total estimated cost for each contract. Based on the Group's experience and nature of the construction contracts undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that costs to complete and revenue can be reliably estimated.

#### *Impairment of available-for-sale financial assets*

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2016, impairment losses of RMB24,948,000 have been recognised for available-for-sale financial assets (2015: RMB10,153,000).



# Notes to Financial Statements

31 December 2016

## 4. OPERATING SEGMENT INFORMATION

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

The Executive Directors classifies the business into three reportable segments:

- Manufacturing, assembly, sales and servicing of helicopters, trainers and other aircraft ("Aviation entire aircraft");
- Manufacturing and sale of aviation parts and components ("Aviation parts and components");
- Delivery of aviation engineering services such as planning, design, consultation, construction and operation ("Aviation engineering services").

The revenue from external parties reported to the Executive Directors is measured in a manner consistent with that in the consolidated statement of profit or loss. Segment results are defined based on profit before income tax excluding interest income, finance costs and corporate and other unallocated expenses.

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



# Notes to Financial Statements

31 December 2016

## 4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2016	Aviation entire aircraft RMB'000	Aviation parts and components RMB'000	Aviation engineering services RMB'000	Total RMB'000
<b>Segment Revenue:</b>				
Sales to external customers	11,149,053	17,067,810	8,410,908	36,627,771
Intersegment sales				1,960,610
				38,588,381
<i>Reconciliation:</i>				
Elimination of intersegment operations				(1,960,610)
Revenue				36,627,771
<b>Segment results</b>	536,848	2,041,222	321,273	2,899,343
<i>Reconciliation:</i>				
Interest income				211,768
Corporate and other unallocated expenses				(41,496)
Finance costs				(464,621)
Profit before tax				2,604,994
<b>Segment assets</b>	28,031,082	33,476,440	9,866,710	71,374,232
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(1,865,467)
Total assets				69,508,765
<b>Segment liabilities</b>	16,111,296	17,970,048	8,956,233	43,037,577
<i>Reconciliation:</i>				
Elimination of intersegment payables				(1,865,467)
Total liabilities				41,172,110
<b>Other segment information:</b>				
Share of profits and losses of:				
Joint ventures	–	28,252	10	28,262
Associates	(27,462)	128,390	(2,379)	98,549
Impairment losses recognised in the statement of profit or loss	41,429	244,119	30,889	316,437
Other non-cash expenses	142,163	–	–	142,163
Depreciation and amortisation	385,753	546,515	35,819	968,087
Investments in joint ventures	–	87,680	7,520	95,200
Investments in associates	447,971	386,217	5,239	839,427
Capital expenditure*	648,583	1,057,087	182,224	1,887,894

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



# Notes to Financial Statements

31 December 2016

## 4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2015	Aviation entire aircraft RMB'000 (Restated)	Aviation parts and components RMB'000 (Restated)	Aviation engineering services RMB'000 (Restated)	Total RMB'000 (Restated)
<b>Segment Revenue:</b>				
Sales to external customers	11,573,420	14,596,362	8,254,267	34,424,049
Intersegment sales				2,258,104
				36,682,153
<i>Reconciliation:</i>				
Elimination of intersegment operations				(2,258,104)
Revenue				34,424,049
<b>Segment results</b>				
	623,388	1,997,833	313,109	2,934,330
<i>Reconciliation:</i>				
Interest income				244,142
Corporate and other unallocated expenses				(42,371)
Finance costs				(490,096)
Profit before tax				2,646,005
<b>Segment assets</b>				
	29,966,940	31,016,508	7,594,245	68,577,693
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(1,465,720)
Total assets				67,111,973
<b>Segment liabilities</b>				
	18,332,961	16,804,723	7,020,450	42,158,134
<i>Reconciliation:</i>				
Elimination of intersegment payables				(1,465,720)
Total liabilities				40,692,414
<b>Other segment information:</b>				
Share of profits and losses of:				
Joint ventures	–	20,789	59	20,848
Associates	(322)	130,549	(2,578)	127,649
Impairment losses recognised in the statement of				
profit or loss	157,812	120,283	33,662	311,757
Other non-cash expenses	123,572	3,730	–	127,302
Depreciation and amortisation	394,614	519,711	42,996	957,321
Investments in joint ventures	–	67,612	7,509	75,121
Investments in associates	529,715	301,483	7,618	838,816
Capital expenditure*	923,419	1,087,667	212,111	2,223,197

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

# Notes to Financial Statements

31 December 2016

## 5. REVENUE, OTHER INCOME AND GAINS

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; the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
<b>Revenue</b>		
Sale of goods	29,051,224	25,979,837
Rendering of services	7,576,547	8,444,212
	<b>36,627,771</b>	<b>34,424,049</b>
<b>Other income</b>		
Income from sale of materials	367,395	293,840
Cost of sale of materials	(321,114)	(265,452)
Profit from sale of materials	46,281	28,388
Income from rendering of maintenance and other services	99,061	99,775
Dividend income	21,841	28,333
Net rental income	11,633	16,059
	<b>178,816</b>	<b>172,555</b>
<b>Gains</b>		
Fair value gains, net:		
Financial assets held for trading	6,529	–
Foreign exchange gains, net:	29,240	7,489
Default fine	18,323	9,986
Gain on exchange of non-monetary assets	10,219	–
Gain on disposal of:		
Available-for-sale investments	40,347	185,778
Interests in associates	9	–
Financial assets held for trading	731	6,425
Interest in a subsidiary	–	7,368
Others	41,611	14,720
Other income and gains	<b>325,825</b>	<b>404,321</b>
	<b>36,953,596</b>	<b>34,828,370</b>

# Notes to Financial Statements

31 December 2016

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
Cost of inventories sold		22,978,604	20,437,392
Cost of services provided		6,685,826	7,298,649
Depreciation:			
Investment properties	14	7,493	3,184
Property, plant and equipment	13	883,461	894,953
Less: Amortisation of deferred income from government grants	30	(98,490)	(39,691)
		792,464	858,446
Amortisation:			
Land use rights	15	54,792	31,722
Intangible assets	17	22,341	27,462
Research and development costs:			
Current year expenditure		2,233,312	2,079,648
Less: Government grants released*		(753,785)	(663,514)
		1,479,527	1,416,134
Auditor's remuneration		8,525	9,823
Employee benefit expense (including directors' and supervisors' remuneration):			
Wages, salaries, housing benefits and other allowances		5,364,763	4,879,790
Share-based payment expense		–	1,429
Pension scheme contributions		859,735	724,685
Foreign exchange differences, net		(29,240)	(7,489)
Impairment of:			
An investment in an associate	19	–	467
Available-for-sale investments		24,948	10,153
Accounts receivable and prepayments, deposits and other receivables		117,364	160,340
Property, plant and equipment	13	245	12,899
Write-down of inventories to net realisable value		173,880	127,898

\* Various government grants have been received for setting up research activities in Mainland China. The government grants received have been deducted from the research and development costs to which they relate. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

# Notes to Financial Statements

31 December 2016

## 7. FINANCE COSTS, NET

	2016 RMB'000	2015 RMB'000 (Restated)
Finance income:		
Bank interest income	201,417	232,640
Other interest income	10,351	11,502
	211,768	244,142
Finance costs:		
Interest on bank borrowings and other borrowings	431,000	440,899
Interest on finance leases	250	368
Total interest expense	431,250	441,267
Less: Interest capitalised	(29,442)	(32,480)
Other financial costs	62,813	81,309
	464,621	490,096
Finance costs, net	(252,853)	(245,954)

# Notes to Financial Statements

31 December 2016

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383 (1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	1,522	1,815
Other emoluments:		
Salaries, allowances and benefits in kind	1,545	1,219
	3,067	3,034

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2016 RMB'000	2015 RMB'000
Mr. Lau Chungman	210	210
Mr. Liu Renhuai	170	170
Mr. Yeung Chi Wai	210	105
Mr. Guo Chongqing*	–	85
	590	570

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

# Notes to Financial Statements

31 December 2016

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

### (b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
<b>Executive directors:</b>					
Mr. Lin Zuoming	–	450	–	–	450
Mr. Tan Ruisong	–	500	–	–	500
<b>Non-executive directors:</b>					
Mr. Gu Huizhong	380	–	–	–	380
Mr. Gao Jianshe	380	–	–	–	380
Mr. Kiran Rao*	–	–	–	–	–
Mr. He Zhiping*	57	–	–	–	57
Mr. Guo Chongqing*	85	–	–	–	85
Mr. Maurice Savart*	30	–	–	–	30
	932	950	–	–	1,882

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015					
<b>Executive directors:</b>					
Mr. Lin Zuoming	–	450	–	–	450
Mr. Tan Ruisong	–	500	–	–	500
<b>Non-executive directors:</b>					
Mr. Gu Huizhong	380	–	–	–	380
Mr. Gao Jianshe	380	–	–	–	380
Mr. Guo Chongqing*	85	–	–	–	85
Mr. Maurice Savart	60	–	–	–	60
Mr. Sheng Mingchuan	–	–	–	–	–
	905	950	–	–	1,855

There was no arrangement under which directors waived or agreed to waive any remuneration during the year.

# Notes to Financial Statements

31 December 2016

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

### (c) Supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
<b>Supervisors:</b>					
Mr. Zheng Qiang**	-	-	-	-	-
Mr. Liu Fumin	-	-	-	-	-
Ms. Li Jing	-	328	-	-	328
Mr. Chen Guanjun**	-	267	-	-	267
	-	595	-	-	595

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015					
<b>Supervisors:</b>					
Mr. Chen Guanjun	160	-	-	-	160
Mr. Liu Fumin	-	-	-	-	-
Ms. Li Jing	-	269	-	-	269
Ms. BaiPing	160	-	-	-	160
Mr. Yu Guanghai	20	-	-	-	20
	340	269	-	-	609

\* On 14 June and 25 August of 2016, Mr. Kiran Rao and Mr. He Zhiping were appointed as the new non-executive directors of the Company respectively; Mr. Maurice Savart and Mr. Guo Chongqing resigned as the non-executive directors of the Company respectively.

\*\* On 27 October of 2016, Mr. Zheng Qiang was appointed as the new supervisor of the Company; Mr. Chen Guanjun resigned as the supervisor of the Company.

# Notes to Financial Statements

31 December 2016

## 9. FIVE HIGHEST PAID EMPLOYEES

The five individuals whose remuneration were highest in the Group for the year did not include any directors whose remuneration are set out in Note 8 above. Details of the remuneration for the year of the five highest paid employees of the Group are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	4,412	4,323

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
Nil to HK\$1,000,000	3	1
HK\$1,000,001 to HK\$1,500,000	2	4

During the years ended 31 December 2015 and 2016, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals has waived any remuneration during the years ended 31 December 2015 and 2016.



# Notes to Financial Statements

31 December 2016

## 10. INCOME TAX EXPENSES

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2015:15%), 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% (2015: 25%) on the assessable income of respective entities in the Group.

	2016 RMB'000	2015 RMB'000 (Restated)
Current income tax	382,676	425,679
Deferred income tax	(29,933)	2,219
Total tax charge for the year	352,743	427,898

The reconciliation between the Group's actual tax charge and the amount which is calculated based on the statutory tax rate of 25% in the PRC is as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Profit before tax	2,604,994	2,646,005
Tax at the statutory tax rate of 25%	651,249	661,501
Lower tax rate(s) for specific provinces or enacted by local authorities	(310,674)	(244,347)
Profits and losses attributable to joint ventures and associates	(31,703)	(37,124)
Income not subject to tax	(22,764)	(17,548)
Expenses not deductible for tax	36,549	45,320
Tax losses utilised from previous periods	(6,100)	(1,307)
Tax losses not recognised	31,466	13,806
Others	4,720	7,597
Tax charge at the Group's effective rate	352,743	427,898

# Notes to Financial Statements

31 December 2016

## 11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed:		
Final dividend, proposed of RMB0.02 (2015: RMB0.02) per share	119,322	109,489

The proposed final dividend is proposed by the directors at a meeting held on the date of approval of these financial statements, and is subject to the approval of the Company's shareholders at the following annual general meeting.

This dividend for the year ended 31 December 2016 was not recognised as a payable in the consolidated financial statements as at 31 December 2016 but will be reflected as an appropriation of retained earnings for the year ending 31 December 2017.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 5,966,121,836 (2015:5,963,258,214) in issue during the year as if the share consideration for acquisition of AVIC Planning was issued on 1 January 2015.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2016.

The calculation of the diluted earnings per share amount is based on the profit for the year ended 31 December 2015 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year ended 31 December 2015, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2016 RMB'000	2015 RMB'000 (Restated)
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	1,118,961	1,142,886
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (thousands)	5,966,122	5,963,258
Potential dilutive effect arising from restricted shares (thousands)	–	1,672
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation (thousands)	5,966,122	5,964,930

# Notes to Financial Statements

31 December 2016

## 13. PROPERTY, PLANT AND EQUIPMENT

2016	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture, fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
<b>Cost</b>					
As at 1 January 2016 (restated)	2,734,987	6,500,008	5,877,559	2,457,382	17,569,936
Additions	1,275,277	21,819	316,743	177,663	1,791,502
Transfer from investment properties	–	45,791	–	–	45,791
Transfer upon completion	(1,200,514)	672,022	248,247	280,245	–
Disposals/write-off	(34,747)	(87,352)	(85,528)	(101,196)	(308,823)
Transfer to investment properties	–	(4,046)	–	–	(4,046)
As at 31 December 2016	2,775,003	7,148,242	6,357,021	2,814,094	19,094,360
<b>Accumulated depreciation and impairment</b>					
As at 1 January 2016 (restated)	–	(1,372,662)	(2,963,468)	(1,684,371)	(6,020,501)
Depreciation	–	(210,924)	(383,879)	(288,658)	(883,461)
Transfer from investment properties	–	(444)	–	–	(444)
Impairment	–	–	–	(245)	(245)
Disposal/write-off	–	53,342	66,604	84,274	204,220
Transfer to investment properties	–	1,428	–	–	1,428
As at 31 December 2016	–	(1,529,260)	(3,280,743)	(1,889,000)	(6,699,003)
<b>Net book value</b>					
As at 31 December 2015 (restated)	2,734,987	5,127,346	2,914,091	773,011	11,549,435
As at 31 December 2016	2,775,003	5,618,982	3,076,278	925,094	12,395,357

As at 31 December 2016, certain of the Group's property, plant and equipment with a carrying value of approximately RMB76,960,000 (31 December 2015: RMB118,012,000 as restated) were situated on leasehold lands in the PRC which are granted by AVIC for the Group's use at no cost or have been leased from certain subsidiaries of the ultimate holding company under long-term leases. The remaining period of the Group's rights on the leasehold land at 31 December 2016 ranged from 6 to 33 years (31 December 2015: 7 to 34 years as restated).

The Group was in the process of applying for the legal titles for buildings with a net book value of RMB2,311,427,000 as at 31 December 2016 (31 December 2015: RMB2,084,102,000 as restated).

# Notes to Financial Statements

31 December 2016

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

2015 (Restated)	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture, fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
<b>Cost</b>					
As at 1 January 2015	3,059,648	5,383,392	5,278,424	2,188,534	15,909,998
Additions	1,763,320	40,198	195,758	196,197	2,195,473
Transfer from investment properties	–	8,975	–	–	8,975
Transfer upon completion	(2,042,556)	1,378,737	505,575	158,244	–
Disposals/write-off	(45,425)	(62,194)	(96,127)	(79,429)	(283,175)
Disposal of a subsidiary	–	(5,233)	(6,071)	(6,164)	(17,468)
Transfer to investment properties	–	(243,867)	–	–	(243,867)
As at 31 December 2015	2,734,987	6,500,008	5,877,559	2,457,382	17,569,936
<b>Accumulated depreciation and impairment</b>					
As at 1 January 2015	–	(1,225,058)	(2,611,617)	(1,443,883)	(5,280,558)
Depreciation	–	(190,169)	(403,225)	(301,559)	(894,953)
Transfer from investment properties	–	(1,115)	–	–	(1,115)
Impairment	–	–	(12,344)	(555)	(12,899)
Disposal/write-off	–	30,239	59,678	56,778	146,695
Disposal of a subsidiary	–	1,949	4,040	4,848	10,837
Transfer to investment properties	–	11,492	–	–	11,492
As at 31 December 2015	–	(1,372,662)	(2,963,468)	(1,684,371)	(6,020,501)
<b>Net book value</b>					
As at 31 December 2015	2,734,987	5,127,346	2,914,091	773,011	11,549,435

Certain property, plant and equipment were pledged as security for bank borrowings (Note 29 (d)).

# Notes to Financial Statements

31 December 2016

## 14. INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000 (Restated)
Carrying amount at 1 January	346,024	42,817
Additions	29,126	–
Transfer from owner-occupied property	2,618	314,655
Depreciation	(7,493)	(3,184)
Disposal of a subsidiary	–	(404)
Transfer to owner-occupied property	(68,398)	(7,860)
Carrying amount at 31 December	301,877	346,024
At valuation	569,084	455,122

All investment properties are located in the PRC and their valuations as at 31 December 2016 and 2015 stated above were based on either the observable market prices of similar buildings in the same districts or the discounted cash flow method, which are within Level 2 of the fair value hierarchy (Note 41).

The Group was in the process of applying for the legal titles for investment properties with a net book value of RMB74,290,000 as at 31 December 2016 (31 December 2015: RMB121,520,000 as restated).

# Notes to Financial Statements

31 December 2016

## 15. LAND USE RIGHTS

	2016 RMB'000	2015 RMB'000 (Restated)
<b>Cost</b>		
As at 1 January	1,829,309	1,883,231
Additions	32,208	39,563
Transfer from investment properties	25,192	–
Transfer from prepayments and deposits	65,134	–
Disposal of a subsidiary	–	(3,561)
Transfer to investment properties	–	(89,924)
As at 31 December	<b>1,951,843</b>	1,829,309
<b>Accumulated amortisation</b>		
As at 1 January	(190,112)	(166,829)
Amortisation	(54,792)	(31,722)
Transfer from investment properties	(2,141)	–
Disposal of a subsidiary	–	795
Transfer to investment properties	–	7,644
As at 31 December	<b>(247,045)</b>	(190,112)
<b>Net book amount</b>		
As at 31 December	<b>1,704,798</b>	1,639,197

The Group was in the process of applying for the legal titles for land use rights with a net book value of RMB22,636,000 as at 31 December 2016 (31 December 2015: RMB53,111,000 as restated).

# Notes to Financial Statements

31 December 2016

## 16. GOODWILL

	2016 RMB'000	2015 RMB'000 (Restated)
At 1 January	69,188	62,144
Addition	–	7,044
Carrying amount at 31 December	69,188	69,188

The goodwill acquired in the acquisitions of Shenzhen Xiangtong Photoelectric Technology Co., Ltd. ("Xiangtong Photoelectric") in 2014 and AVIC Forstar S&T Co., Ltd. ("AVIC Forstar") in 2013 is fully allocated to each cash-generating unit respectively. As of 31 December 2016, the Group performed an impairment assessment of goodwill based on the respective recoverable amounts of the CGUs and concluded that no impairment provision was necessary. The recoverable amount of each CGU is determined based on a value-in-use calculation using the discounted cash flow method. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

The key assumptions used for value-in-use calculations in 2016 were annual volume growth rates of 0% to 25% and 6% to 7% (2015: 0% to 29% and 6% to 18%), long-term growth rates of 0% and 0% (2015: 0% and 0%) and pre-tax discount rates of 13% and 13% (2015: 13% and 13%) for Xiangtong Photoelectric and AVIC Forstar, respectively.

Management determined that volume of sales and gross margin covering over the five-year forecast period are the key assumptions. The volume of sales in each period is the main driver for revenue and costs. The annual volume growth rates are based on past performance and management's expectations of market development. The long-term growth rates used are determined with reference to the forecasts included in industry reports and adjusted by the entities' specific conditions. The discount rates used are pre-tax and reflect specific risks relating to the relevant businesses.

# Notes to Financial Statements

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## 17. OTHER INTANGIBLE ASSETS

2016	Development costs RMB'000	Technology know-how RMB'000	Trademarks and licences RMB'000	Contractual customer relationships RMB'000	Total RMB'000
<b>Cost</b>					
As at 1 January 2016 (restated)	48,597	141,416	8,341	19,302	217,656
Additions	2,033	89	–	–	2,122
As at 31 December 2016	50,630	141,505	8,341	19,302	219,778
<b>Accumulated amortisation</b>					
As at 1 January 2016 (restated)	–	(67,931)	(5,569)	(5,228)	(78,728)
Amortisation	–	(19,871)	(1,264)	(1,206)	(22,341)
As at 31 December 2016	–	(87,802)	(6,833)	(6,434)	(101,069)
<b>Net book amount</b>					
As at 31 December 2016	50,630	53,703	1,508	12,868	118,709
<b>2015 (Restated)</b>					
	Development costs RMB'000	Technology know-how RMB'000	Trademarks and licences RMB'000	Contractual customer relationships RMB'000	Total RMB'000
<b>Cost</b>					
As at 1 January 2015	45,110	135,103	8,173	19,302	207,688
Additions	3,487	6,313	168	–	9,968
As at 31 December 2015	48,597	141,416	8,341	19,302	217,656
<b>Accumulated amortisation</b>					
As at 1 January 2015	–	(45,518)	(2,933)	(2,815)	(51,266)
Amortisation	–	(22,413)	(2,636)	(2,413)	(27,462)
As at 31 December 2015	–	(67,931)	(5,569)	(5,228)	(78,728)
<b>Net book amount</b>					
As at 31 December 2015	48,597	73,485	2,772	14,074	138,928



# Notes to Financial Statements

31 December 2016

## 18. INVESTMENTS IN JOINT VENTURES

The following table illustrates the financial information of the Group's joint ventures which are not individually material:

	2016 RMB'000	2015 RMB'000 (Restated)
Share of net assets, as at 1 January	75,121	52,508
Increase in investments	1,500	7,450
Share of profit for the year	28,262	20,848
Dividend declared	(9,683)	(5,685)
Share of net assets, as at 31 December	95,200	75,121

## 19. INVESTMENTS IN ASSOCIATES

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2016 RMB'000	2015 RMB'000 (Restated)
Share of net assets, as at 1 January	848,542	833,338
Share of profit for the year	98,549	127,649
Increase in investments	76,120	55,600
Dividend declared	(172,617)	(153,977)
Disposal of investments	(1,441)	(8,450)
Transfer to available-for-sale investments, net	-	(5,618)
	849,153	848,542
Provision for impairment	(9,726)	(9,726)
Share of net assets, as at 31 December	839,427	838,816

# Notes to Financial Statements

31 December 2016

## 20. AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Listed equity investments, at fair value	917,078	1,326,457
Unlisted equity investments, at cost (Note)	646,863	691,437
	<b>1,563,941</b>	2,017,894
Less: Provision for impairment	(86,657)	(61,709)
	<b>1,477,284</b>	1,956,185

During the year, the fair value loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB370,368,000 (2015: a gain of RMB557,974,000 as restated), of which RMB38,512,000 (2015:RMB28,992,000 as restated) was reclassified from other comprehensive income to the statement of profit or loss for the year.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date.

Note: These equity investments represent interests in certain unlisted companies which do not have a quoted market price in an active market and for which the range of other methods of reasonably estimating fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, these investments are carried at cost less accumulated impairment losses.

# Notes to Financial Statements

31 December 2016

## 21. DEFERRED TAX

The movement in deferred tax assets and liabilities during the year are as follows:

### Deferred tax assets

	Impairment RMB'000	Accruals and other temporary differences RMB'000	Total RMB'000
At 1 January 2015 (restated)	117,345	115,893	233,238
Deferred tax credited/(charged) to profit or loss during the year	41,019	(31,300)	9,719
Deferred tax credited/(charged) to the other comprehensive income during the year	–	(18,030)	(18,030)
At 31 December 2015 (restated)	158,364	66,563	224,927
Deferred tax credited/(charged) to profit or loss during the year	21,056	2,334	23,390
Deferred tax credited/(charged) to the other comprehensive income during the year	–	2,204	2,204
At 31 December 2016	<b>179,420</b>	<b>71,101</b>	<b>250,521</b>

Deferred tax assets have not been recognised in respect of the following items:

	2016 RMB'000	2015 RMB'000 (Restated)
Deductible temporary differences	112,711	52,104
Tax losses not recognised	384,264	255,435

Tax losses not recognised will expire in one to five years as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
2016	–	25,469
2017	43,337	45,998
2018	63,228	60,941
2019	79,603	71,266
2020	64,841	51,761
2021	133,255	–
	<b>384,264</b>	<b>255,435</b>

Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences which related to certain subsidiaries that have been loss-marking for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses can be utilised.

# Notes to Financial Statements

31 December 2016

## 21. DEFERRED TAX (Continued)

### Deferred tax liabilities

	Fair value change of available-for- sale investments RMB'000	Investment profit to be amortised RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2015 (restated)	67,463	–	27,960	95,423
Deferred tax charged/(credited) to profit or loss during the year	11,842	17,714	(17,618)	11,938
Deferred tax charged/(credited) to the other comprehensive income during the year	81,260	–	13,809	95,069
At 31 December 2015 (restated)	160,565	17,714	24,151	202,430
Deferred tax charged/(credited) to profit or loss during the year	11,842	(4,429)	(13,956)	(6,543)
Deferred tax charged to the other comprehensive income during the year	(59,127)	–	–	(59,127)
At 31 December 2016	113,280	13,285	10,195	136,760

### Offsetting of deferred tax assets and deferred tax liabilities

	2016		2015 (Restated)	
	Offsetting amount RMB'000	Net amount after offsetting RMB'000	Offsetting amount RMB'000	Net amount after offsetting RMB'000
Deferred tax assets	(19,165)	231,356	(17,924)	207,003
Deferred tax liabilities	19,165	117,595	17,924	184,506

## 22. INVENTORIES

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Raw materials	6,255,850	6,452,773
Work in progress	12,998,198	11,344,236
Finished goods	2,398,867	2,111,378
	21,652,915	19,908,387

# Notes to Financial Statements

31 December 2016

## 23. ACCOUNTS AND NOTES RECEIVABLE

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Accounts receivable		
– Ultimate holding company	4,310	5,618
– Fellow subsidiaries	5,961,059	7,693,114
– A joint venture	259	94
– Associates	26,523	36,395
– Other related party	–	2,766
– Others	6,686,343	5,332,658
Accounts receivable, gross	12,678,494	13,070,645
Provision for impairment	(664,157)	(572,318)
Accounts receivable, net	12,014,337	12,498,327
Notes receivable		
– Fellow subsidiaries	2,191,714	1,561,469
– A joint venture	1,034	950
– Others	1,940,709	1,232,464
	4,133,457	2,794,883
Accounts and notes receivable	16,147,794	15,293,210

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 to twelve 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. Accounts and notes receivable from those related parties are unsecured, non-interest-bearing and are repayable in accordance with the relevant trading terms.

# Notes to Financial Statements

31 December 2016

## 23. ACCOUNTS AND NOTES RECEIVABLE (Continued)

An aged analysis of the accounts receivable as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Within 1 year	9,735,933	10,861,250
1 to 2 years	1,788,223	1,352,485
2 to 3 years	376,470	194,697
Over 3 years	113,711	89,895
	<b>12,014,337</b>	<b>12,498,327</b>

The movements in provision for accounts receivable are as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
At beginning of year	572,318	405,069
Impairment losses recognised	93,884	186,103
Amount written off as uncollectible	(2,045)	(18,854)
	<b>664,157</b>	<b>572,318</b>

# Notes to Financial Statements

31 December 2016

## 23. ACCOUNTS AND NOTES RECEIVABLE (Continued)

Included in the above provision for impairment of accounts receivable was a provision for individually impaired accounts receivable of RMB24,626,000 (2015:RMB12,925,000 as restated) with a carrying amount before provision of RMB66,606,000 (2015:RMB12,968,000 as restated), and a provision for collectively impaired accounts receivable of RMB639,531,000 (2015:RMB559,393,000 as restated) with a carrying amount before provision of RMB6,504,205,000 (2015: RMB8,897,110,000 as restated).

The individually impaired accounts receivable relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

The aged analysis of the accounts receivable that are not individually nor collectively considered to be impaired is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Not past due	6,101,651	4,152,272
Less than 1 year past due	4,832	7,618
1 to 2 years past due	680	677
Over 2 years past due	520	–
	<b>6,107,683</b>	<b>4,160,567</b>

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the Group's accounts and notes receivable are amounts due from the Group's joint ventures and associates of RMB259,000 (2015:RMB94,000 as restated) and RMB26,523,000 (2015:RMB36,395,000 as restated), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

Certain accounts and notes receivable were pledged as security for bank borrowings (Note 29 (d)).

# Notes to Financial Statements

31 December 2016

## 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Advances to suppliers		
– Fellow subsidiaries	862,471	262,611
– Others	885,063	772,823
Amounts due from customers for contract work	145,806	145,806
Dividends receivable		
– Associates	50	37,550
– Others	–	300
Prepayments and deposits	728,317	383,523
Other advances to		
– Ultimate holding company	412	1,249
– Fellow subsidiaries	76,638	27,185
Other current assets	502,931	525,828
Other receivables	724,876	780,413
	<b>3,926,564</b>	<b>2,937,288</b>
Less: Non-current portion	<b>(638,067)</b>	<b>(343,168)</b>
	<b>3,288,497</b>	<b>2,594,120</b>

As of 31 December 2016, other receivables of RMB95,706,000 (2015: RMB76,502,000 as restated) were impaired. The individually impaired receivables mainly relate to those small debtors which are in financial difficulties.



# Notes to Financial Statements

31 December 2016

## 25. FINANCIAL ASSETS HELD FOR TRADING

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Listed equity investment, at market value	31,057	38,530

## 26. CASH AND BANK BALANCES

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Cash and bank balances	10,517,239	12,114,661
Less: Pledged deposits	(1,035,307)	(1,728,065)
Term deposits with initial terms of over three months	(709,047)	(851,160)
Cash and cash equivalents	8,772,885	9,535,436

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2016, RMB2,985,086,000 (31 December 2015: RMB2,334,399,000 as restated) was deposited in AVIC Finance Co, Ltd., a fellow subsidiary of the Company.

# Notes to Financial Statements

31 December 2016

## 27. ACCOUNTS AND NOTES PAYABLE

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Accounts payable (Note(a))		
– Ultimate holding company	138	341
– Fellow subsidiaries	3,037,576	4,740,852
– Joint ventures	8,172	12,231
– Associates	4,492	26,254
– Others	14,747,489	11,620,187
	<b>17,797,867</b>	<b>16,399,865</b>
Notes payable (Note (b))		
– Fellow subsidiaries	1,823,728	2,404,922
– Joint ventures	51,262	12,247
– Associates	600	–
– Others	4,279,745	2,600,965
	<b>6,155,335</b>	<b>5,018,134</b>
	<b>23,953,202</b>	<b>21,417,999</b>

Notes:

(a) An ageing analysis of the accounts payable as at 31 December 2016 and 2015, based on the invoice date, is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Within 1 year	13,139,169	12,987,129
1 to 2 years	3,079,340	2,561,982
2 to 3 years	1,178,862	598,989
Over 3 years	400,496	251,765
	<b>17,797,867</b>	<b>16,399,865</b>

The accounts payable are non-interest-bearing and are normally settled within six months.

(b) The notes payable are with an average maturity period of less than six months. As at 31 December 2016, notes payable of RMB3,360,153,000 (31 December 2015: RMB3,262,196,000 as restated) were secured by pledged deposits to the extent of RMB1,009,104,000 (2015: RMB1,671,851,000 as restated).

# Notes to Financial Statements

31 December 2016

## 28. OTHER PAYABLES AND ACCRUALS

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Advances from customers		
– Ultimate holding company	32,267	32,267
– Fellow subsidiaries	1,690,207	4,765,092
– Others	521,895	606,398
Wages, salaries, bonuses and other employee benefits	2,103,511	1,992,986
Accrued expenses	275,066	270,498
Payable for property, plant and equipment		
– Fellow subsidiaries	60,343	49,779
– Others	176,284	118,036
Payable for acquisition of equity interests in subsidiaries		
– Fellow subsidiaries (Note)	411,718	335,444
– Others	12,240	12,240
Deferred income from government grants	56,632	15,657
Amounts payable to the ultimate holding company	268,827	268,827
Other advances from		
– Ultimate holding company	2,107	1,908
– Fellow subsidiaries	209,347	246,807
Dividend payable to non-controlling shareholders of subsidiaries	186,112	186,487
Consumption tax, business tax and other taxes payable	244,896	202,097
Provision	212,829	199,429
Other payables	804,773	765,722
	<b>7,269,054</b>	<b>10,069,674</b>
Less: Non-current portion	<b>(1,021,531)</b>	<b>(456,444)</b>
	<b>6,247,523</b>	<b>9,613,230</b>

Other payables and accruals are non-interest-bearing and will be settled in accordance with the relevant terms.

Note:

On July 2013, China Avionics Systems Co., Ltd., a subsidiary of the Company (the "Transferee"), and AVIC Avionics Systems Co., Ltd. (the "Transferor") signed a "Share Transfer Agreement regarding Beijing Keeven Aviation Instrument Co., Ltd. and Suzhou Changfeng Avionics Co., Ltd." (the "Share Transfer Agreement"), based on which the Transferee acquired 100% shares of Beijing Keeven Aviation Instrument Co., Ltd. and Suzhou Changfeng Avionics Co., Ltd. ("Suzhou Changfeng"), held by the Transferor in cash of RMB1,417,700,400. According to the Share Transfer Agreement, if land use rights held by Suzhou Changfeng was claimed by Suzhou Land Reserve Center and the compensation received from Suzhou Land Reserve Center (the "Land Compensation"), after deduction of taxes, was higher than the book value of the land use rights (namely the net income of the Land Compensation), the Transferee needs to pay the Transferor in cash the net income of the Land Compensation actually received by Suzhou Changfeng; if the Land Compensation, after deduction of taxes, was lower than the book value of the land use rights (namely the net loss of the Land Compensation), the Transferor should pay the Transferee in cash the net loss of the Land Compensation of Suzhou Changfeng.

From the date of the Share Transfer Agreement until 31 December 2016, Suzhou Changfeng has received part of the Land Compensation, amounting to RMB412 million. The Transferee has recorded the above payments in other payables as net income of the Land Compensation due to the Transferor, while writing off capital reserve. As at 31 December 2016, Suzhou Changfeng has not settled the above the Land Compensation with regard to the land use rights with Suzhou Land Reserve Center, and therefore the amount payable to the Transferor remains unknown to the Transferee.

# Notes to Financial Statements

31 December 2016

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2016			31 December 2015		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
<b>Current</b>						
Bank borrowings – unsecured	3-6	2017	1,310,000	3-7	2016	1,895,532
Bank borrowings – secured	4-6	2017	62,400	2-7	2016	520,000
Other borrowings – unsecured	3-6	2017	1,769,500	4-7	2016	1,717,074
Other borrowings – secured	4-6	2017	286,500	4-7	2016	88,362
Current portion of long-term						
bank borrowings – unsecured	4-6	2017	234,774	4-7	2016	564
bank borrowings – secured	2-7	2017	499,116	4-7	2016	200,000
other borrowings – unsecured	4-6	2017	171,800	4-7	2016	246,750
other borrowings – secured	4-6	2017	2,500			–
			<b>4,336,590</b>			<b>4,668,282</b>
<b>Non-current</b>						
Bank borrowings – unsecured	1-6	2018-2030	41,036	3-6	2017-2018	414,334
Bank borrowings – secured	2-7	2018-2026	389,318	3-7	2017-2020	580,648
Other borrowings – unsecured	2-8	2018-2019	3,437,844	3-8	2017-2019	1,738,450
Other borrowings – secured	4-6	2018-2021	505,950	5-6	2018	499,959
			<b>4,374,148</b>			<b>3,233,391</b>
			<b>8,710,738</b>			<b>7,901,673</b>

# Notes to Financial Statements

31 December 2016

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Analysed into:		
Bank borrowings repayable:		
– Within one year	2,106,290	2,616,096
– In the second year	184,575	675,179
– In the third to fifth years, inclusive	75,536	39,139
– Beyond five years	170,243	280,664
	<b>2,536,644</b>	<b>3,611,078</b>
Other borrowings repayable:		
– Within one year	2,230,300	2,052,186
– In the second year	523,000	303,700
– In the third to fifth years, inclusive	3,420,794	1,747,209
– Beyond five years	–	187,500
	<b>6,174,094</b>	<b>4,290,595</b>
	<b>8,710,738</b>	<b>7,901,673</b>

Notes:

- (a) As at 31 December 2016, other borrowings represented:
- corporate bonds issued by AVIC Jonhon Optron Technology Co., Ltd. in an aggregate principal amount of RMB500,000,000 (31 December 2015: RMB500,000,000) bearing interest at 5.08% per annum and guaranteed by the Company.
  - corporate bonds issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB1,000,000,000 (31 December 2015: Nil) bearing interest at 3.52% per annum.
  - corporate bonds issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB900,000,000 (31 December 2015: Nil) bearing interest at 3.20% per annum.
  - borrowings granted by a fellow subsidiary of AVIC amounting to RMB3,786,538,000 (31 December 2015: RMB3,790,636,000 as restated) bearing interest at 3% to 7% per annum.

# Notes to Financial Statements

31 December 2016

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

(b) The exposure of the total borrowings to the change of interest rates is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Bank borrowings		
– Fixed rates	1,387,036	2,142,581
– Floating rates	1,149,608	1,468,497
	<b>2,536,644</b>	<b>3,611,078</b>
Other borrowings		
– Fixed rates	5,647,044	3,494,909
– Floating rates	527,050	795,686
	<b>6,174,094</b>	<b>4,290,595</b>
	<b>8,710,738</b>	<b>7,901,673</b>

The annual effective interest rates of long-term and short-term borrowings at the end of the reporting period were as follows:

	2016	2015 (Restated)
Weighted average effective interest rates		
– Bank borrowings	4%	4%
– Other borrowings	5%	5%

(c) The long-term and short-term borrowings are denominated in RMB.

# Notes to Financial Statements

31 December 2016

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

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

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Securities over the Group's assets, at carrying value		
– Pledged deposits	2,000	–
– Buildings	21,479	58,046
– Notes receivable	16,500	88,362
– Accounts receivable	238,940	570,129
	<b>278,919</b>	<b>716,537</b>
Guarantees provided by		
– Fellow subsidiaries	254,434	390,549
– Entities within the Group	1,242,450	499,959
	<b>1,496,884</b>	<b>890,508</b>

(e) As at 31 December 2016, the Group had the following undrawn committed borrowings facilities:

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
At floating rates		
– Expiring within one year	8,061,759	10,683,437

# Notes to Financial Statements

31 December 2016

## 30. DEFERRED INCOME FROM GOVERNMENT GRANTS

Movements of deferred income from government grants for each of the years ended 31 December 2016 and 2015 are as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
At 1 January	849,189	831,608
Additions	172,118	72,929
Amortisation	(98,490)	(39,691)
At 31 December	922,817	864,846
Less: Current portion	(53,496)	(15,657)
	869,321	849,189

## 31. SHARE CAPITAL

### Shares

	31 December 2016 RMB'000	31 December 2015 RMB'000
Registered, issued and fully paid:		
3,609,687,934 (2015:3,117,995,265) domestic shares of RMB1 each	3,609,688	3,117,995
2,356,433,902 (2015:2,356,433,902) H shares of RMB1 each	2,356,434	2,356,434
	5,966,122	5,474,429

The H shares rank pari passu in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars. The transfer of the domestic shares is subject to such restrictions as the PRC laws may impose from time to time.



# Notes to Financial Statements

31 December 2016

## 32. SHARE-BASED COMPENSATION

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

Upon the grant of restricted shares to scheme participants, 50% of the grant price amounting to approximately RMB64,707,000 was funded by the scheme participants. 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 had been held as restricted shares by a trustee before they were 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 the scheme participants. The related weighted average share price on that day was HK\$3.90.

On 31 March 2014, another one-third of the restricted shares with the value of employee services of approximately RMB24,296,000 were unlocked and transferred to the scheme participants. The related weighted average share price on that day was HK\$4.30.

On 31 March 2015, the remaining one-third of the restricted shares with the value of employee services of approximately RMB23,299,000 were unlocked and transferred to the scheme participants. The related weighted average share price on that day was HK\$5.57.

During the year ended 31 December 2016, no restricted share was unlocked or transferred to any scheme participants.

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

	2016		2015	
	Fair value (per share) HK\$	Number of restricted shares granted '000	Fair value (per share) HK\$	Number of restricted shares granted '000
At 1 January	-	-	2.08	11,455
Vested/exercised during the year	-	-	2.08	(11,455)
At 31 December	-	-	2.08	-

No restricted shares were granted during the year (2015:Nil). No share-based compensation was recognised during the year ended 31 December 2016 (2015:RMB1,429,000).

# Notes to Financial Statements

31 December 2016

## 33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 94 to 95 of the financial statements.

### (a) Capital reserve

Capital reserve of the Group also includes reserves arising from the issuance of additional shares by subsidiaries, capital contributions in associates and disposals to non-controlling interests without change in control. Upon group restructuring where there are acquisitions or distributions with a holding company, the consideration is also accounted for in capital reserve of the Group.

### (b) Currency translation reserve

Currency translation reserve arises from currency translations of a subsidiary that has a functional currency different from RMB, which is the Group's presentation currency.

### (c) Other reserves

#### (i) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with the PRC accounting standards to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, this reserve balance should not fall below 25% of the registered capital by other usage.

#### (ii) Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside an amount to a safety reserve at the rate ranging from 0.1% to 2% on the total revenue of aviation products recognised for the year. The reserve can be utilised for improvements of safety on the manufacturing work of aviation products, and the amounts utilised are charged to the consolidated statement of profit or loss, as incurred. In 2016, RMB45,470,000 (2015: RMB42,352,000 as restated) was appropriated to the special reserve, and RMB22,090,000 (2015: RMB27,013,000 as restated) was utilised.

# Notes to Financial Statements

31 December 2016

## 34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

### Percentage of equity interest held by non-controlling interests

	2016	2015
AVIC Jonhon Optron Technology Co., Ltd.	58.43%	58.43%
China Avionics Systems Co., Ltd.	56.78%	56.78%
AVICOPTER PLC	65.23%	65.34%
Jiangxi Hongdu Aviation Industry Co., Ltd.	56.23%	56.23%

### Profit for the year allocated to non-controlling interests

	2016 RMB'000	2015 RMB'000
AVIC Jonhon Optron Technology Co., Ltd.	474,615	369,694
China Avionics Systems Co., Ltd.	305,486	314,485
AVICOPTER PLC	306,685	301,947
Jiangxi Hongdu Aviation Industry Co., Ltd.	10,627	48,724

# Notes to Financial Statements

31 December 2016

## 34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

### Dividends paid to non-controlling interests

	2016 RMB'000	2015 RMB'000
AVIC Jonhon Optron Technology Co., Ltd.	55,107	27,081
China Avionics Systems Co., Ltd.	57,888	49,943
AVICOPTER PLC	96,140	53,832
Jiangxi Hongdu Aviation Industry Co., Ltd.	4,347	4,032

### Accumulated balances of non-controlling interests at the reporting date

	2016 RMB'000	2015 RMB'000
AVIC Jonhon Optron Technology Co., Ltd.	2,945,396	2,486,042
China Avionics Systems Co., Ltd.	3,640,229	3,400,042
AVICOPTER PLC	4,774,213	4,376,354
Jiangxi Hongdu Aviation Industry Co., Ltd.	2,854,554	2,973,394

# Notes to Financial Statements

31 December 2016

## 34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2016	AVIC Jonhon	China Avionics	AVICOPTER	Jiangxi Hongdu
	Optronic Technology Co., Ltd. RMB'000	Systems Co., Ltd. RMB'000	PLC RMB'000	Aviation Industry Co., Ltd. RMB'000
Revenue	5,695,318	6,776,333	12,328,598	3,659,605
Total expenses	1,130,524	1,719,204	1,215,375	292,225
Profit for the year	781,545	523,281	469,935	17,729
Total comprehensive income/(loss) for the year	781,588	465,017	461,615	(203,012)
Current assets	6,652,450	12,445,268	15,548,059	6,219,706
Non-current assets	1,926,494	5,092,399	3,514,036	4,400,430
Current liabilities	3,058,620	9,088,655	11,189,493	3,502,776
Non-current liabilities	838,899	2,242,546	691,304	2,054,323
Net cash flows from/(used in) operating activities	116,929	(424,183)	(335,622)	(725,890)
Net cash flows used in investing activities	(182,107)	(348,597)	(160,567)	(408,090)
Net cash flows from financing activities	48,054	731,999	26,360	960,720
Effect of foreign exchange rate changes, net	23,146	507	56	304
Net increase/(decrease) in cash and cash equivalents	6,022	(40,274)	(469,773)	(172,956)

# Notes to Financial Statements

31 December 2016

## 34. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

2015	AVIC Jonhon Optronic Technology Co., Ltd. RMB'000	China Avionics Systems Co., Ltd. RMB'000	AVICOPTER PLC RMB'000	Jiangxi Hongdu Aviation Industry Co., Ltd. RMB'000
Revenue	4,578,093	6,662,986	12,376,254	2,800,677
Total expenses	913,168	1,689,543	1,324,416	193,267
Profit for the year	607,690	529,405	461,943	85,529
Total comprehensive income for the year	607,771	471,526	461,943	379,040
Current assets	5,742,522	11,444,378	18,328,754	5,300,611
Non-current assets	1,790,286	4,792,631	3,597,073	4,292,105
Current liabilities	2,709,013	8,133,107	14,480,253	3,803,838
Non-current liabilities	896,715	2,322,030	778,522	514,346
Net cash flows from operating activities	550,328	261,418	554,903	266,757
Net cash flows used in investing activities	(213,514)	(409,248)	(105,278)	(354,535)
Net cash flows from/(used in) financing activities	(111,664)	617,868	(594,190)	352,793
Effect of foreign exchange rate changes, net	9,962	101	126	3,223
Net increase/(decrease) in cash and cash equivalents	235,112	470,139	(144,439)	268,238

# Notes to Financial Statements

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## 35. OPERATING LEASE ARRANGEMENTS

### As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms initially ranging from one to five years.

As at 31 December 2016 and 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Land and buildings		
Within one year	34,263	20,273
In the second to fifth years, inclusive	44,881	39,740
After five years	28,944	13,553
	108,088	73,566

## 36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of the reporting period:

Contracted, but not provided for

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Land and buildings	–	445,389
Plant and equipment	62,080	67,145
Construction	436,881	433,245
Investment in acquisition of a subsidiary	–	2,173,282
	498,961	3,119,061

# Notes to Financial Statements

31 December 2016

## 37. RELATED PARTY DISCLOSURES

The Group is directly and indirectly controlled by AVIC, which owned 58.57% in total of the Company's shares as at 31 December 2016. There remaining 41.43% of the shares are widely held.

Related parties refer to entities in which AVIC has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; or directors or officers of the Company and of its ultimate holding company, associates or joint ventures. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government structure, a majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"), including AVIC, its subsidiaries, associates and joint ventures in the ordinary course of business.

In accordance with IAS 24 Related Party Disclosures, state-owned enterprises and their subsidiaries, other than entities under AVIC (also a state-owned enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither AVIC nor the PRC government publishes financial statements for public use. In the normal course of the Group's business, the Group may either enter into various transactions with one or more of such state-owned enterprises and their subsidiaries. However, the Company adopts IAS 24 (revised 2009) which grants exemptions on disclosure requirements about government-related entities.

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions in addition to there lated party information shown elsewhere in the financial statements. Management of the Group are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.



# Notes to Financial Statements

31 December 2016

## 37. RELATED PARTY DISCLOSURES (Continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
Ultimate holding company:			
Rendering of service	(3)	8,019	–
Service fee payable	(3)	–	1,610
Associates:			
Sales of products	(3)	127,434	142,311
Purchases of products	(3)	85,361	90,589
Rendering of service	(3)	61,310	154,772
Service fee payable	(3)	58	296
Rental expense	(3)	–	5,600
Joint ventures:			
Sales of products	(3)	1,143	903
Purchases of products	(3)	105,658	109,634
Fellow subsidiaries:			
Sales of products	(3)	20,059,272	16,947,153
Purchases of products	(3)	7,293,647	8,955,001
Rendering of service	(3)	4,205,580	6,007,318
Service fee payable	(3)	565,616	365,687
Rental expense	(3)	78,138	66,349
Rental income	(3)	11,135	9,087
Guarantee	(3)	254,434	390,549
Others			
Sales of products	(3)	6,095	5,308

# Notes to Financial Statements

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## 37. RELATED PARTY DISCLOSURES (Continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (Continued)

Notes:

- (1) Fellow subsidiaries are companies whose are controlled by the same ultimate holding company, AVIC.
- (2) This represents Commercial Aircraft Corporation of China Ltd., which is an associate of AVIC.
- (3) 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 as follows:

- **Sales/purchases of goods and materials, and rendering/receiving services**

The products and ancillary services are provided: (i) according to the Government-prescribed price; (ii) if there is no Government-prescribed price, then according to the Government-guidance price; (iii) if there is no Government-guidance price, then according to the market price; and (iv) if none of the above is applicable, then according to the contractual price.

- **Rental income/expenses**

The annual rental is reviewed and adjusted regularly and not be higher than the prevailing market annual rental as determined by an independent valuer with reference to the market rent of land or properties with similar conditions and locations.

- **Guarantees**

Guarantees are provided by related parties for the subsidiaries of the Company to obtain borrowings.

# Notes to Financial Statements

31 December 2016

## 37. RELATED PARTY DISCLOSURES(Continued)

### (b) Outstanding balances with related parties:

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Assets:		
Accounts receivable		
– Ultimate holding company	4,310	5,618
– Fellow subsidiaries	5,961,059	7,693,114
– A joint venture	259	94
– Associates	26,523	36,395
– Other related party	–	2,766
Notes receivable		
– Fellow subsidiaries	2,191,714	1,561,469
– A joint venture	1,034	950
Advance to suppliers		
– Fellow subsidiaries	862,471	262,611
Other receivables and prepayments		
– Ultimate holding company	412	1,249
– Fellow subsidiaries	76,638	27,185
– Associates	50	37,550
Deposits		
– A fellow subsidiary	2,985,086	2,334,399
Liabilities:		
Accounts payable		
– Ultimate holding company	138	341
– Fellow subsidiaries	3,037,576	4,740,852
– Joint ventures	8,172	12,231
– Associates	4,492	26,254
Notes payable		
– Fellow subsidiaries	1,823,728	2,404,922
– Joint ventures	51,262	12,247
– Associates	600	–
Advances from customers		
– Ultimate holding company	32,267	32,267
– Fellow subsidiaries	1,690,207	4,765,092
Other payables and accruals		
– Ultimate holding company	270,934	270,735
– Fellow subsidiaries	681,408	632,030
Borrowings		
– Fellow subsidiary	3,786,538	3,790,636

# Notes to Financial Statements

31 December 2016

## 37. RELATED PARTY DISCLOSURES(Continued)

### (b) Outstanding balances with related parties: (Continued)

Except for borrowings from fellow subsidiary as stated in Note 29, other balances with related parties above are unsecured, non-interest-bearing, and are repayable or settled in accordance with the relevant trading terms.

### (c) Compensation of key management personnel of the Group

	2016 RMB'000	2015 RMB'000 (Restated)
Short-term employee benefits	4,411	4,264
Share-based compensation	–	196
Total compensation paid to key management personnel	4,411	4,460

Key management includes directors (executive and non-executive), supervisors, senior management and the Board secretary.

Further details of directors' and supervisors' emoluments are included in Note 8 to the financial statements.

## 38. TRANSFERS OF FINANCIAL ASSETS

### (1) Transferred financial assets that are not derecognised in their entirety

(a) At 31 December 2016, the Group endorsed certain bills receivables accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB423,317,000 (2015: RMB826,749,000 as restated) to certain of its suppliers in order to settle the accounts payable due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated accounts payable settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the accounts payable settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB423,317,000 (2015: RMB826,749,000 as restated) as at 31 December 2016.

(b) As part of its normal business, the Group entered into accounts receivable factoring arrangements (the "Arrangements I") and transferred certain accounts receivable to banks. Under the Arrangements I, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment. The Group is exposed to default risks of the accounts debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the accounts receivable, including the sale, transfer or pledge of the accounts receivable to any other third parties. The original carrying value of the accounts receivable transferred under the Arrangements I that have not been settled as at 31 December 2016 was RMB238,940,000 (2015: RMB570,129,000 as restated). The carrying amount of the assets that the Group continued to recognise as at 31 December 2016 was RMB238,940,000 (2015: RMB570,129,000 as restated) and that of the associated liabilities as at 31 December 2016 was RMB230,000,000 (2015: RMB505,000,000 as restated).



# Notes to Financial Statements

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## 38. TRANSFERS OF FINANCIAL ASSETS (Continued)

### (2) Transferred financial assets that are derecognised in their entirety

- (a) At 31 December 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the accounts payable due to such suppliers with a carrying amount in aggregate of RMB2,198,131,000 (2015: RMB1,709,702,000 as restated). The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated accounts payable. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2016, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

- (b) Other than described in (1)(b) above, the Group also entered into accounts receivable factoring arrangements (the "Arrangements II") and transferred certain accounts receivable to a bank and AVIC Finance. Under the Arrangements II, the Group was not required to reimburse the banks or AVIC Finance for loss of interest if any trade debtors have late or default payment. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to those accounts receivable. Accordingly, it has derecognised the full carrying amounts of those accounts receivable. The original carrying value of the accounts receivable transferred under the Arrangements II as at 31 December 2016 was RMB513,277,000 (2015: Nil).

During the year ended 31 December 2016, the Group has recognised loss of RMB10,992,000 (2015: Nil) on the date of transfer of those accounts receivable.

# Notes to Financial Statements

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## 39. FINANCIAL INSTRUMENTS BY CATEGORY

2016

### Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Available- for-sale financial assets	Total
	Held for trading			
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments	–	–	1,477,284	1,477,284
Accounts and notes receivable	–	16,147,794	–	16,147,794
Financial assets included in prepayments, deposits and other receivables	–	3,221,473	–	3,221,473
Financial assets held for trading	31,057	–	–	31,057
Pledged deposits	–	1,035,307	–	1,035,307
Cash and cash equivalents	–	8,772,885	–	8,772,885
Term deposits with initial terms of over three months	–	709,047	–	709,047
	31,057	29,886,506	1,477,284	31,394,847

### Financial liabilities

	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000
Accounts and notes payable	23,953,202	23,953,202
Financial liabilities included in other payables and accruals	1,173,832	1,173,832
Interest-bearing bank and other borrowings	8,710,738	8,710,738
	33,837,772	33,837,772

# Notes to Financial Statements

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## 39. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2015 (Restated)

### Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Available – for-sale financial assets	Total
	Held for trading			
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments	–	–	1,956,185	1,956,185
Accounts and notes receivable	–	15,293,210	–	15,293,210
Financial assets included in prepayments, deposits and other receivables	–	2,392,833	–	2,392,833
Financial assets held for trading	38,530	–	–	38,530
Pledged deposits	–	1,728,065	–	1,728,065
Cash and cash equivalents	–	9,535,436	–	9,535,436
Term deposits with initial terms of over three months	–	851,160	–	851,160
	38,530	29,800,704	1,956,185	31,795,419

### Financial liabilities

	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000
Accounts and notes payable	21,417,999	21,417,999
Financial liabilities included in other payables and accruals	1,564,628	1,564,628
Interest-bearing bank and other borrowings	7,901,673	7,901,673
	30,884,300	30,884,300

# Notes to Financial Statements

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## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amount		Fair value	
	2016	2015	2016	2015
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000 (Restated)
<b>Financial assets</b>				
Available-for-sale investments				
– Listed equity securities	917,078	1,326,457	917,078	1,326,457
Financial assets held for trading	31,057	38,530	31,057	38,530
<b>Financial liabilities</b>				
Interest-bearing bank and other borrowings: non-current	4,374,148	3,233,391	4,387,441	3,304,651
Other payables and accruals: non-current	28,833	49,456	26,341	45,171

Management has assessed that the fair values of cash and cash equivalents, accounts and notes receivable, accounts and notes payable, financial assets included in prepayments, deposits and other receivables, short-term interest-bearing bank and other borrowings, financial liabilities included in other payables and accruals and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for the interest-bearing bank and other borrowings as at 31 December 2016 was assessed to be insignificant.



# Notes to Financial Statements

31 December 2016

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of financial assets held for trading and certain listed equity investments are based on quoted market prices. The fair value of certain listed equity investment has been estimated using the Monte Carlo Simulation model based on assumptions that are supported by observable market prices or rates.

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

#### Assets measured at fair value:

As at 31 December 2016

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments:				
– listed equity investments	746,908	170,170	–	917,078
Financial assets held for trading	31,057	–	–	31,057
	<b>777,965</b>	<b>170,170</b>	<b>–</b>	<b>948,135</b>

As at 31 December 2015  
(Restated)

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments:				
– listed equity investments	1,141,590	184,867	–	1,326,457
Financial assets held for trading	38,530	–	–	38,530
	<b>1,180,120</b>	<b>184,867</b>	<b>–</b>	<b>1,364,987</b>

# Notes to Financial Statements

31 December 2016

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

### Fair value hierarchy (Continued)

#### Liabilities measured at fair value

The Group did not have any financial liabilities measured at fair value as at 31 December 2016 and 2015.

During the year, 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 (2015:Nil).

#### Assets for which fair values are disclosed:

As at 31 December 2016

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Investment properties	–	569,084	–	569,084
	–	569,084	–	569,084

As at 31 December 2015

(Restated)

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Investment properties	–	455,122	–	455,122
	–	455,122	–	455,122

The fair values of investment properties stated above were based on either the observable market prices of similar buildings in the same districts or the discounted cash flow method, which are within Level 2 of the fair value hierarchy.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (2015: Nil).

# Notes to Financial Statements

31 December 2016

## 40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

### Fair value hierarchy (Continued)

*Liabilities for which fair values are disclosed:*

As at 31 December 2016

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant	Significant	
		observable	unobservable	
		inputs (Level 2) RMB'000	inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings: non-current	–	4,387,441	–	4,387,441
Other payables and accruals: non-current	–	26,341	–	26,341
	–	4,413,782	–	4,413,782

As at 31 December 2015

(Restated)

	Fair value measurement using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant	Significant	
		observable	unobservable	
		inputs (Level 2) RMB'000	inputs (Level 3) RMB'000	
Interest-bearing bank and other borrowings: non-current	–	3,304,651	–	3,304,651
Other payables and accruals: non-current	–	45,171	–	45,171
	–	3,349,822	–	3,349,822

# Notes to Financial Statements

31 December 2016

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise time deposits, interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and notes receivable and accounts and notes payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest-rate risk, price risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Interest-rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents, details of which have been disclosed in Note 26. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 29. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. As of 31 December 2016, 81% (2015: 71% as restated) of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest-rate risk.

At 31 December 2016, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by the People's Bank of China, with all other variables held constant, profit for the year would have been RMB33,152,000 (2015: RMB36,939,000 as restated) lower/higher.

### Price risk

The Group is principally exposed to equity securities price risk in respect of investments held by the Group which are classified as financial assets held for trading and available-for-sale financial assets. Some of these financial assets are publicly traded in recognised stock exchanges. At 31 December 2016, if the quoted market price of these financial assets held for trading and available-for-sale financial assets held by the Group had increased/decreased by 10%, with all other variables held constant, profit for the year and equity would have been RMB2,640,000 (2015: RMB3,275,000 as restated) and RMB80,591,000 (2015: RMB116,024,000 as restated) higher/lower respectively as a result of the changes in fair value of these financial assets.



# Notes to Financial Statements

31 December 2016

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit risk

48% (2015: 66% as restated) of the Group's pledged deposits, term deposits and cash and cash equivalents are held in state-owned financial institutions, which management believes are of high credit quality. Most of the Group's financial assets held for trading and available-for-sale financial assets are also publicly traded in recognised stock exchanges. Management does not expect any losses from non-performance by these counterparties.

The Group has significant related party balances (Note 37 (b)) with low credit risk, and for the balances with third parties, the Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally, the Group does not require collateral from trade debtors. Management makes periodic collective assessment as well as individual assessment on the recoverability of accounts and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of accounts and notes receivable, prepayments, deposits and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and long-term and short-term bank and other borrowings.

As at 31 December 2016, the net current assets of the Group amounted to RMB16,847,987,000 (31 December 2015: RMB13,980,024,000 as restated). Management monitors regularly the Group's current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amounts of committed banking facilities to meet its working capital requirements. The amount of undrawn credit facilities at the end of each reporting period is disclosed in Note 29 (e) to the financial statements. The directors believe that the Group's current operating cash flows and credit facilities are sufficient for financing its capital commitments in the near future and for working capital purposes.

# Notes to Financial Statements

31 December 2016

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2016				Total RMB'000
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	4,609,226	859,213	3,585,677	188,308	9,242,424
Accounts and notes payable	23,953,202	–	–	–	23,953,202
Other payables and accruals	1,173,832	–	–	–	1,173,832

Restated	2015				Total RMB'000
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	
Interest-bearing bank and other borrowings	4,905,723	1,083,990	1,915,038	468,164	8,372,915
Accounts and notes payable	21,417,999	–	–	–	21,417,999
Other payables and accruals	1,550,589	14,039	–	–	1,564,628

### Capital management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may consider the macro economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generated from operations and may raise funding through capital market or bank borrowings as necessary.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total assets as shown in the consolidated statement of financial position.

# Notes to Financial Statements

31 December 2016

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital management (Continued)

The gearing ratios at 31 December 2016 and at 31 December 2015 were as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Total borrowings (Note 29)	8,710,738	7,901,673
Total assets	69,508,765	67,111,973
Gearing ratio	13%	12%

## 42. EVENTS AFTER THE REPORTING PERIOD

On 18 January 2017, the Board of AVIC Jonhon Optronic Technology Co., Ltd. approved and conducted the initial grant of the restricted shares to 266 selected scheme participants under a restricted share incentive scheme (the "Scheme") including directors, mid-level and senior management, experts and core personnel of AVIC Jonhon Optronic Technology Co., Ltd. and senior management and core personnel of its subsidiaries. The restricted shares have been granted on 18 January 2017 at the grant price of RMB28.19 per restricted share. The total number of the shares under the initial grant is 6,001,000, representing approximately 0.996% of the issued share capital of AVIC Jonhon Optronic Technology Co., Ltd. There are lock-up period of two years and unlocking period of three years in total of the Scheme.

## 43. COMPARATIVE AMOUNTS

As stated in Note 2.1, the Company obtained the control over AVIC Planning through business combinations involving entities under common control during the current year, and hence the comparative information of the consolidated financial statements is restated to include the financial position, financial performance and cash flows of AVIC Planning. Accordingly, certain comparative information is restated to conform with current year's presentation and accounting.

# Notes to Financial Statements

31 December 2016

## 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2016	31 December 2015
	RMB'000	RMB'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	17,676	17,631
Investment properties	21,079	21,774
Intangible assets	1,033	1,992
Interests in subsidiaries	7,678,533	5,383,893
Interests in associates	116,417	45,600
Available-for-sale financial assets	511,104	644,758
Deferred income tax assets	4,653	1,417
Prepayments, deposits and other receivables	129,507	908
Total non-current assets	8,480,002	6,117,973
<b>CURRENT ASSETS</b>		
Accounts receivable	1,737	1,780
Advance to suppliers	–	13,600
Other receivables and prepayments	433,878	239,886
Cash and cash equivalents	1,508,314	1,945,485
Total current assets	1,943,929	2,200,751
<b>TOTAL ASSETS</b>	<b>10,423,931</b>	<b>8,318,724</b>



# Notes to Financial Statements

31 December 2016

## 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	31 December 2016 RMB'000	31 December 2015 RMB'000
<b>CURRENT LIABILITIES</b>		
Other payables and accruals	228,689	228,607
Tax payable	7,647	13,246
Total current liabilities	236,336	241,853
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	22,855	37,214
Total non-current liabilities	22,855	37,214
<b>TOTAL LIABILITIES</b>	<b>259,191</b>	<b>279,067</b>
Net assets	10,164,740	8,039,657
<b>EQUITY</b>		
Share capital	5,966,122	5,474,429
Reserves (Note)	4,198,618	2,565,228
Total equity	10,164,740	8,039,657

Note: A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	1,947,445	210,881	112,021	294,881	2,565,228
Profit for the year	-	-	-	142,662	142,662
Other comprehensive loss for the year, net of tax.	-	(81,372)	-	-	(81,372)
Total comprehensive income for the year	-	(81,372)	-	142,662	61,290
Issue of shares	1,681,589	-	-	-	1,681,589
2015 final dividend	-	-	-	(109,489)	(109,489)
Transfer to statutory surplus reserve	-	-	14,267	(14,267)	-
At 31 December 2016	3,629,034	129,509	126,288	313,787	4,198,618

# Notes to Financial Statements

31 December 2016

## 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: A summary of the Company's reserves is as follows: (Continued)

	Shares held for restricted share scheme RMB'000	Capital reserve RMB'000	Share-based compensation reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
<b>At 1 January 2015</b>	(43,323)	1,947,445	21,870	76,808	98,844	285,776	2,387,420
Profit for the year	–	–	–	–	–	131,771	131,771
Other comprehensive income for the year, net of tax.	–	–	–	134,073	–	–	134,073
<b>Total comprehensive income for the year</b>	–	–	–	134,073	–	131,771	265,844
Shares vested under a share scheme							
– Funded by the Company	23,299	–	(23,299)	–	–	–	–
– Funded by scheme participants	20,024	–	–	–	–	–	20,024
Value of employee services under a share scheme	–	–	1,429	–	–	–	1,429
2014 final dividend	–	–	–	–	–	(109,489)	(109,489)
Transfer to statutory surplus reserve	–	–	–	–	13,177	(13,177)	–
<b>At 31 December 2015</b>	–	1,947,445	–	210,881	112,021	294,881	2,565,228

Capital reserve of the Company represents (i) the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment, set off by net premium on issue of shares upon listing of the Company; and (ii) the difference between the fair value of shares issued and their respective par value.

## 45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2017.



# Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings indicated.

“Airbus Helicopters”	Airbus Helicopters, a subsidiary of Airbus Group and formerly known as Eurocopter
“AMES”	AVIC Electromechanical Systems Company Limited (中航機電系統有限公司), a wholly-owned subsidiary of AVIC
“Articles of Association”	Articles and Association of the Company (as amended from time to time)
“AVIC”	Aviation Industry Corporation of China (中國航空工業集團公司), a controlling shareholder of the Company holding directly and indirectly 58.57% equity interest of the Company as at 31 December 2016
“AVICOPTER”	AVICOPTER PLC (中航直升機股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 28.21% of its interests being held by the Company through Harbin Aviation Group and 6.45% of its interests being directly held by the Company
“AVIC Avionics”	China Avionics Systems Co., Ltd., (中航航空電子系統股份有限公司) a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange with 43.22% of its equity interest being held by the Company
“AVIC Capital”	AVIC Capital Co., Ltd. (中航資本控股股份有限公司), whose A shares are listed on the Shanghai Stock Exchange, a subsidiary of AVIC
“AVIC Finance”	Aviation Industry Corporation Finance Company Limited (中航工業集團財務有限責任公司), a subsidiary of AVIC
“AVIC Forstar”	AVIC Forstar S&T Company Limited. (中航富士達科技股份有限公司), a subsidiary of JONHON Optronics
“AVIC Huiyang”	Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司), a wholly-owned subsidiary of AVICOPTER
“AVIC Group”	AVIC and its subsidiaries (excluding the Group)
“AVIC I”	China Aviation Industry Corporation I (中國航空工業第一集團公司), the predecessor of AVIC
“AVIC II”	China Aviation Industry Corporation II (中國航空工業第二集團公司), a former controlling shareholder of the Company and the predecessor of AVIC

## Definitions

“AVIC Kaitian”	Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), which is held as to 86.74% by and a subsidiary of AVIC Avionics, and held as to 1.56% by the Company directly
“AVIC Lanfei”	Lanzhou Flight Control Co., Ltd., (蘭州飛行控制有限責任公司), a wholly-owned subsidiary of AVIC Avionics
“AVIC Planning”	China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究總院有限公司), a wholly-owned subsidiary of the Company
“AviChina”, “the Company”	AviChina Industry & Technology Company Limited (中國航空科技工業股份有限公司), a joint stock limited company established in the PRC with limited liability on 30 April 2003
“AviChina Hong Kong”	AviChina Hong Kong Limited (中航科工香港有限公司), a wholly-owned subsidiary of the Company
“AviChina Intelligent Surveying & Mapping”	AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司), a subsidiary of the Company
“AviChina Industrial Investment”	AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司), a wholly-owned subsidiary of the Company
“Board” or “Board of Directors”	the board of directors of the Company
“CAPMC”	China Aviation Publishing & Media Co., Ltd. (中航出版傳媒有限責任公司), which is held as to 53.63% by and a subsidiary of the Company
“Changfeng Avionics”	Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司), a wholly-owned subsidiary of AVIC Avionics
“Changhe Aviation”	Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司), a wholly-owned subsidiary of AVICOPTER
“Director(s)”	the director(s) of the Company
“Domestic Shares”	ordinary shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi by PRC nationals and/or PRC corporate entities
“Former AVIC”	Aviation Industry of China Corporation (中國航空工業總公司), the predecessor of AVIC I and AVIC II



## Definitions

“Group”, “the Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign invested shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are traded in Hong Kong dollars and listed on the Stock Exchange
“Harbin Aviation”	Harbin Hafei Aviation Industry Limited Liability Company (哈爾濱哈飛航空工業有限責任公司), a wholly-owned subsidiary of AVICOPTER
“Harbin Aviation Group”	Harbin Aviation Industry (Group) Co., Ltd. (哈爾濱航空工業(集團)有限公司), a wholly-owned subsidiary of the Company
“Helicopter Tianjin”	Tianjin Helicopter Company Limited (天津直升機有限責任公司), a wholly-owned subsidiary of AVICOPTER
“Hongdu Aviation”	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 43.77% of its interests being held by the Company
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Jingdezhen Helicopter R&D Branch”	AVIChina Industry and Technology Company Limited Jingdezhen Helicopter Research and Development Branch (中國航空科技工業股份有限公司景德鎮直升機研發分公司)
“JONHON Optronics”	China Aviation Optical-Electrical Technology Co., Ltd., (中航光電科技股份有限公司), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, with 41.57% of its equity interest held by the Company
“Keeven Instrument”	Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics
“Lanzhou Aviation Electrical”	Lanzhou Wanli Aviation Electrical Co., Ltd. (蘭州萬里航空機電有限責任公司), a wholly-owned subsidiary of AVIC Avionics
“Oriental Instrument”	Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司), a wholly-owned subsidiary of AVIC Avionics
“Qianshan Avionics”	AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司), a wholly-owned subsidiary of AVIC Avionics
“PRC”	the People’s Republic of China

## Definitions

“Restricted Shares”	the H Shares granted/to be granted under the Incentive Scheme and has the meanings ascribed to such term in the Incentive Scheme
“Incentive Scheme”	the restricted share incentive scheme adopted by the Company at the extraordinary general meeting of the Company held on 29 March 2011
“Shaanxi Baocheng”	Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀錶有限責任公司), a wholly-owned subsidiary of AVIC Avionics
“Shaanxi Huayan”	AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics
“Shanghai Aviation Electric”	Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司), a wholly-owned subsidiary of AVIC Avionics
“Shares”	Domestic Shares and H Shares
“Shenyang Xinghua”	AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (沈陽興華航空電器有限責任公司), a subsidiary of JONHON Optronic
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Taiyuan Instrument”	AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics
“Tianjin Aviation”	Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司), a wholly-owned subsidiary of the Company
“Trainer”	aeroplanes designed and used for pilot training purposes
“Xiangtong Photoelectric”	Shenzhen Xiangtong Photo electric Technology Co., Ltd. (深圳市翔通光電技術有限公司), a subsidiary of JONHON Optronic



# Corporate Information

## BOARD OF DIRECTORS

Executive Director (Chairman)	Lin Zuoming
Non-Executive Director (Vice Chairman)	Tan Ruisong
Non-Executive Director	Gu Huizhong
Non-Executive Director	Gao Jianshe
Non-Executive Director	He Zhiping
Non-Executive Director	Kiran Rao
Independent Non-Executive Director	Lau Chung Man, Louis
Independent Non-Executive Director	Liu Renhuai
Independent Non-Executive Director	Yeung Chi Wai

## SUPERVISORS

Chairman of the Supervisory Committee	Zheng Qiang
Supervisor	Liu Fumin
Supervisor	Li Jing

## SENIOR MANAGEMENT

General Manager	Chen Yuanxian
Vice General Manager	Tang Jun Chen Guanjun
Board Secretary	Gan Liwei

## COMPANY SECRETARY

Xu Bin

## 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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2202A, 22th Floor, Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong







## Corporate Information

### SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
Room 1712-1716, 17th Floor, Hopewell Centre,  
183 Queen's Road East, Hong Kong

### ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2016 will be held at 9:00 a.m. on Friday, 18 May 2017 at AVIC Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC.

### AUDITORS

#### International Auditors

Ernst & Young  
22nd Floor, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

#### Auditors in the PRC

Ernst & Young Hua Ming LLP  
Level 15, Ernst & Young Tower, Oriental plaza  
No. 1 East Chang'an Avenue  
Dong Cheng District,  
Beijing, the PRC

### LEGAL ADVISERS

#### As to Hong Kong law

Baker & McKenzie  
14th Floor, Hutchison House  
10 Harcourt Road, Central  
Hong Kong

#### As to PRC law

Beijing Jingtian & Gongcheng Law Firm  
34th Floor, Tower 3, China Central Place,  
77 Jianguo Road, Chaoyang District,  
Beijing, the PRC