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## 中國航空科技工業股份有限公司

### **AviChina Industry & Technology Company Limited\***

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

**(Stock Code: 2357)**

### **Announcement on the Annual Results for the Year Ended 31 December 2017**

#### **Financial Highlights**

- For the year ended 31 December 2017, profit attributable to equity holders of the Company amounted to RMB1,222 million, representing an increase of RMB62 million or 5.34% as compared with that of RMB1,160 million (as restated) in the corresponding period of the preceding year.
- For the year ended 31 December 2017, the Group recorded a revenue of RMB32,597 million, representing a decrease of RMB4,237 million or 11.50% as compared with that of RMB36,834 million (as restated) in the corresponding period of the preceding year.
- The Board recommended the payment of a final dividend for the year 2017 in an aggregate amount of RMB178,983,655.08, representing a dividend of RMB0.03 per share (2016: RMB0.02 per share), calculated based on the number of the existing total issued shares of the Company of 5,966,121,836 shares as at the date of this announcement.

#### **ANNUAL RESULTS**

The board of directors (the “**Board**”) of AviChina Industry & Technology Company Limited\* (the “**Company**”) hereby announces the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2017, together with the comparative figures for the year 2016 (as restated), as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*Year ended 31 December 2017*

	Notes	<u>2017</u> <b>RMB'000</b>	<u>2016</u> RMB'000 (Restated)
REVENUE	4	<b>32,596,711</b>	36,833,553
Cost of sales		<u><b>(25,152,802)</b></u>	<u>(29,795,882)</u>
Gross profit		<b>7,443,909</b>	7,037,671
Other income and gains	4	<b>473,248</b>	429,213
Other expenses		<u><b>(72,459)</b></u>	<u>(73,780)</u>
Other income and gains, net		<b>400,789</b>	355,433
Selling and distribution expenses		<b>(587,498)</b>	(573,050)
Administrative expenses		<u><b>(4,343,755)</b></u>	<u>(3,991,849)</u>
OPERATING PROFIT		<b>2,913,445</b>	2,828,205
Finance income		<b>177,069</b>	212,230
Finance costs		<u><b>(507,177)</b></u>	<u>(515,348)</u>
Finance costs, net	6	<b>(330,108)</b>	(303,118)
Share of profits of:			
Joint ventures		<b>22,196</b>	28,262
Associates		<u><b>152,352</b></u>	<u>98,549</u>
PROFIT BEFORE TAX	5	<b>2,757,885</b>	2,651,898
Income tax expenses	7	<u><b>(341,321)</b></u>	<u>(352,235)</u>
PROFIT FOR THE YEAR		<u><b>2,416,564</b></u>	<u>2,299,663</u>
Attributable to:			
Equity holders of the Company		<b>1,222,280</b>	1,160,082
Non-controlling interests		<u><b>1,194,284</b></u>	<u>1,139,581</u>
		<u><b>2,416,564</b></u>	<u>2,299,663</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE			
COMPANY			
Basic and diluted			
- For profit for the year	9	<u><b>RMB0.205</b></u>	<u>RMB0.194</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
PROFIT FOR THE YEAR	<b>2,416,564</b>	2,299,663
OTHER COMPREHENSIVE LOSS		
Other comprehensive income/loss to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(246,081)	(370,368)
Reclassification adjustments for accumulative gains included in the consolidated statement of profit or loss upon disposal	(54,120)	(38,512)
Income tax effect	<u>45,030</u>	<u>61,332</u>
	(255,171)	(347,548)
Exchange differences on translation of foreign operations	<u>(12,552)</u>	<u>11,638</u>
Other comprehensive income/loss to be reclassified to profit or loss in subsequent periods	<u>(267,723)</u>	<u>(335,910)</u>
Other comprehensive income/loss not to be reclassified to profit or loss in subsequent periods:		
Gain (loss) on a defined benefit scheme	<u>32,482</u>	<u>(43,015)</u>
OTHER COMPREHENSIVE INCOME/ LOSS FOR THE YEAR, NET OF TAX	<u>(235,241)</u>	<u>(378,925)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>2,181,323</u></u>	<u><u>1,920,738</u></u>
Attributable to:		
Equity holders of the Company	<u>1,083,455</u>	949,382
Non-controlling interests	<u>1,097,868</u>	<u>971,356</u>
	<u><u>2,181,323</u></u>	<u><u>1,920,738</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2017*

	Notes	<u><b>31 December 2017</b></u> <b>RMB'000</b>	<u>31 December 2016</u> RMB'000 (Restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>14,527,086</b>	13,548,849
Investment properties		<b>281,545</b>	301,877
Land use rights		<b>1,689,809</b>	1,708,246
Goodwill		<b>69,188</b>	69,188
Other intangible assets		<b>619,438</b>	689,866
Investments in joint ventures		<b>122,433</b>	95,200
Investments in associates		<b>928,027</b>	839,427
Available-for-sale investments		<b>1,290,426</b>	1,509,655
Deferred tax assets		<b>288,221</b>	238,881
Prepayments, deposits and other receivables		<b>810,567</b>	638,067
		<hr/> <b>20,626,740</b>	<hr/> 19,639,256
Total non-current assets			
<b>CURRENT ASSETS</b>			
Inventories		<b>23,220,449</b>	21,654,590
Accounts and notes receivables	10	<b>17,541,036</b>	16,224,191
Prepayments, deposits and other receivables		<b>3,647,643</b>	3,445,487
Financial assets held for trading		<b>23,660</b>	31,057
Pledged deposits		<b>1,502,878</b>	1,035,307
Term deposits with initial terms of over three months		<b>1,307,509</b>	717,656
Cash and cash equivalents		<b>11,063,187</b>	8,879,976
		<hr/> <b>58,306,362</b>	<hr/> 51,988,264
Total current assets			
<b>TOTAL ASSETS</b>		<hr/> <b>78,933,102</b>	<hr/> <b>71,627,520</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

31 December 2017

	Notes	<b>31 December 2017</b> RMB'000	31 December 2016 RMB'000 (Restated)
<b>CURRENT LIABILITIES</b>			
Accounts and notes payables	11	<b>24,084,796</b>	24,157,459
Other payables and accruals		<b>9,374,200</b>	6,325,946
Interest-bearing bank and other borrowings		<b>5,345,625</b>	4,450,590
Obligations under finance leases		<b>45,305</b>	22,778
Tax payable		<b>264,078</b>	255,944
Total current liabilities		<b>39,114,004</b>	35,212,717
<b>NET CURRENT ASSETS</b>		<b>19,192,358</b>	16,775,547
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>39,819,098</b>	36,414,803
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>5,042,527</b>	5,291,129
Deferred income from government grants		<b>816,095</b>	869,321
Deferred tax liabilities		<b>82,441</b>	117,595
Convertible bonds		<b>1,531,945</b>	-
Obligations under finance leases		<b>373,802</b>	152,382
Other payables and accruals		<b>812,554</b>	1,021,531
Total non-current liabilities		<b>8,659,364</b>	7,451,958
<b>TOTAL LIABILITIES</b>		<b>47,773,368</b>	42,664,675
Net assets		<b>31,159,734</b>	28,962,845
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		<b>5,966,122</b>	5,966,122
Reserves		<b>8,743,139</b>	7,835,476
		<b>14,709,261</b>	13,801,598
Non-controlling interests		<b>16,450,473</b>	15,161,247
Total equity		<b>31,159,734</b>	28,962,845

## NOTES TO FINANCIAL STATEMENTS

### 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 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 (hereinafter collectively referred as 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.

#### 2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”), and the disclosures required by 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 RMB and all values are rounded to the nearest thousand except when otherwise indicated.

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

On 25 December 2017, a subsidiary of the Company entered into an Equity Transfer Agreement (the “Agreement”) with a subsidiary of its ultimate holding company,

AVIC, to acquire 69.3% equity interest of AVIC Renewable Energy Co., Ltd. (“AVIC Renewable Energy”) at the consideration of RMB413,571,300 by cash. The acquisition had been completed on 29 December 2017.

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

By applying the principles of merger accounting, these consolidated financial statements also included the financial position, result and cash flows of AVIC Renewable Energy as if it had been combined with the Group throughout the year ended 31 December 2017, and from the earliest date presented. Comparative figures as at 31 December 2016 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.

The quantitative impact on the financial statements is summarised below:

(i) The consolidated statement of profit or loss for the year ended 31 December 2016

	<b>As previously reported</b>	Merger of AVIC Renewable Energy	Elimination of inter-company transactions	<b>As restated</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	36,627,771	205,782	-	36,833,553
Profit for the year	2,252,251	47,412	-	2,299,663

(ii) The consolidated statement of comprehensive income for the year ended 31 December 2016

	<b>As previously reported</b>	Merger of AVIC Renewable Energy	Elimination of inter-company transactions	<b>As restated</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total comprehensive income for the year	1,873,326	47,412	-	1,920,738

(iii) The consolidated statement of financial position as at 31 December 2016

	<b>As previously reported</b>	Merger of AVIC Renewable Energy	Elimination of inter-company balances	<b>As restated</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total non-current assets	17,871,263	1,767,993	-	19,639,256
Total current assets	51,637,502	350,762	-	51,988,264
Total non-current liabilities	6,382,595	1,069,363	-	7,451,958
Total current liabilities	34,789,515	423,202	-	35,212,717
Total equity	28,336,655	626,190	-	28,962,845

(iv) The consolidated statement of cash flows for the year ended 31 December 2016

	<b>As previously reported</b>	Merger of AVIC Renewable Energy	<b>As restated</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents at beginning of year	9,535,436	111,064	9,646,500
Net cash flows (used in) operating activities	(858,477)	(69,279)	(927,756)
Net cash flows (used in) investing activities	(608,400)	(142,751)	(751,151)
Net cash flows from financing activities	703,842	208,057	911,899
Effect of foreign exchange rate changes, net	484	-	484
Cash and cash equivalents at end of the year	8,772,885	107,091	8,879,976

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the current year, the Group has adopted the following new and revised IFRSs.

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2014 – 2016</i>
	<i>Cycle: Amendments to IFRS 12</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>

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



### *Amendments to IAS 7 Disclosure Initiative*

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfill the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The application of amendments to IAS 7 has resulted in additional disclosures on the Group's financing activities, especially a reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities is provided in note 45. On initial application of the amendments, the Group is not required to provide comparative information for preceding periods. Apart from the additional disclosure in note 45, the directors of the Company considered that these amendments have had no impact on the Group's consolidated financial statements.

### **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.

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRS 17	Insurance Contracts <sup>3</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2014 – 2016 Cycle <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle <sup>2</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures <sup>2</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>1</sup>
IFRIC Int - 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
IFRIC Int - 23	Uncertainty over Income Tax Treatments <sup>2</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> Effective date not yet determined

### **3. 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 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.

### 3. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017	Aviation entire aircraft <u>RMB'000</u>	Aviation parts and components <u>RMB'000</u>	Aviation engineering services <u>RMB'000</u>	Total <u>RMB'000</u>
<b>Segment Revenue:</b>				
Sales to external customers	10,404,546	16,980,047	5,212,118	32,596,711
Intersegment sales				<u>1,218,343</u>
				33,815,054
<i>Reconciliation:</i>				
Elimination of intersegment operations				<u>(1,218,343)</u>
Revenue				<u>32,596,711</u>
<b>Segment results</b>	557,440	2,195,240	378,193	3,130,873
<i>Reconciliation:</i>				
Interest income				177,069
Corporate and other unallocated expenses				(42,880)
Finance costs				<u>(507,177)</u>
Profit before tax				<u>2,757,885</u>
<b>Segment assets</b>	28,152,099	38,619,604	13,688,167	80,459,870
<i>Reconciliation:</i>				
Elimination of intersegment receivables				<u>(1,526,768)</u>
Total assets				<u>78,933,102</u>
<b>Segment liabilities</b>	18,046,681	21,246,266	10,007,189	49,300,136
<i>Reconciliation:</i>				
Elimination of intersegment payables				<u>(1,526,768)</u>
Total liabilities				<u>47,773,368</u>
<b>Other segment information:</b>				
Share of profits and losses of :				
Joint ventures	912	21,284	-	22,196
Associates	2,339	156,592	(6,579)	152,352
Impairment losses recognised in the statement of profit or loss	35,439	206,170	23,238	264,847
Other non-cash expenses	63,903	1,998	-	65,901
Depreciation and amortisation	377,563	591,162	166,141	1,134,866
Investments in joint ventures	23,978	98,455	-	122,433
Investments in associates	442,067	446,258	39,702	928,027
Capital expenditure*	769,914	1,147,698	641,056	2,558,668
* Capital expenditure consists of additions to property, plant and equipment, investment properties, land use right, intangible assets and investments in joint ventures and associates.				

### 3. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2016 (Restated)	Aviation entire aircraft <u>RMB'000</u>	Aviation parts and components <u>RMB'000</u>	Aviation engineering services <u>RMB'000</u>	Total <u>RMB'000</u>
<b>Segment Revenue:</b>				
Sales to external customers	11,149,053	17,067,810	8,616,690	36,833,553
Intersegment sales				<u>1,960,610</u>
				38,794,163
<i>Reconciliation:</i>				
Elimination of intersegment Operations				<u>(1,960,610)</u>
Revenue				<u>36,833,553</u>
<b>Segment results</b>	536,848	2,041,222	418,442	2,996,512
<i>Reconciliation:</i>				
Interest income				212,230
Corporate and other unallocated expenses				(41,496)
Finance costs				<u>(515,348)</u>
Profit before tax				<u>2,651,898</u>
<b>Segment assets</b>	28,031,082	33,476,440	11,985,465	73,492,987
<i>Reconciliation:</i>				
Elimination of intersegment receivables				<u>(1,865,467)</u>
Total assets				<u>71,627,520</u>
<b>Segment liabilities</b>	16,111,296	17,970,048	10,448,798	44,530,142
<i>Reconciliation:</i>				
Elimination of intersegment payables				<u>(1,865,467)</u>
Total liabilities				<u>42,664,675</u>
<b>Other segment information:</b>				
Share of profits 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	67,422	352,970
Other non-cash expenses	142,163	-	-	142,163
Depreciation and amortisation	385,753	546,516	140,632	1,072,901
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	351,762	2,057,432

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

### 3. OPERATING SEGMENT INFORMATION (continued)

#### Information about major customers

Revenue from customer of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	<u>2017</u> RMB'000	<u>2016</u> RMB'000
Customer A <sup>1</sup>	<u>8,079,171</u>	<u>7,487,658</u>

<sup>1</sup> Revenue from Aviation entire aircraft.

#### 4. 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:

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
<u>Revenue</u>		
Sale of goods	27,544,672	29,051,224
Rendering of services	<u>5,052,039</u>	<u>7,782,329</u>
	<u>32,596,711</u>	<u>36,833,553</u>
<u>Other income</u>		
Income from sale of materials	375,348	367,555
Cost of sale of materials	<u>(342,328)</u>	<u>(321,114)</u>
Profit from sale of materials	33,020	46,441
Income from rendering of maintenance and other services	143,363	109,924
Dividend income	<u>11,109</u>	<u>29,452</u>
	154,472	139,376
Gross rental income	28,577	17,500
Gross rental expense	<u>(16,788)</u>	<u>(5,867)</u>
	<u>11,789</u>	<u>11,633</u>
	<u>199,281</u>	<u>197,450</u>
<u>Gains</u>		
Fair value gains, net:		
Financial assets held for trading	2,914	6,529
Foreign exchange gains, net:	-	29,284
Default fine	38,181	98,323
Gain on exchange of non-monetary assets	1,000	10,219
Gain on disposal of:		
Available-for-sale investments	81,767	40,347
Interests in a subsidiary	12,214	-
Interests in associates	37,704	4,349
Financial assets held for trading	-	731
Property, plant and equipment	56,543	364
Others	<u>43,644</u>	<u>41,617</u>
Other income and gains	<u>473,248</u>	<u>429,213</u>
	<u>33,069,959</u>	<u>37,262,766</u>

## 5. PROFIT BEFORE TAX

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

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
Cost of inventories sold	20,968,518	22,978,604
Cost of services provided	4,184,284	6,817,278
Depreciation:		
Investment properties	11,918	7,493
Property, plant and equipment	1,034,003	964,822
Less: Amortisation of deferred income from government grants	<u>(222,765)</u>	<u>(98,490)</u>
	823,156	873,825
Amortisation:		
Land use rights	36,873	54,983
Intangible assets	52,072	45,603
Research and development costs:		
Current year expenditure	2,244,263	2,233,312
Less: Government grants released*	<u>(387,494)</u>	<u>(753,785)</u>
	1,856,769	1,479,527
Auditor's remuneration	7,912	8,525
Employee benefit expense (including directors' and supervisors' remuneration):		
Wages, salaries, housing benefits and other allowances	5,842,390	5,401,786
Share-based payment expense	17,759	-
Pension scheme contributions	880,707	859,735
Foreign exchange loss (gain), net	30,629	(29,284)
Impairment of:		
Available-for-sale investments	6,071	24,948
Accounts receivable and prepayments, deposits and other receivables	158,878	131,267
Property, plant and equipment	1,350	21,330
Other intangible assets	41,029	-
Write-down of inventories to net realisable value	57,519	175,425

\* 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.

## 6. FINANCE COSTS, NET

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
Finance income:		
Bank interest income	177,069	201,879
Other interest income	-	10,351
	<u>177,069</u>	<u>212,230</u>
Finance costs:		
Interest on bank borrowings and other borrowings	479,529	477,257
Interest on finance leases	7,241	7,252
	<u>486,770</u>	<u>484,509</u>
Total interest expense	486,770	484,509
Less: Interest capitalised	(30,264)	(32,206)
Other financial costs	50,671	63,045
	<u>507,177</u>	<u>515,348</u>
Finance costs, net	<u>(330,108)</u>	<u>(303,118)</u>

The interested capitalized in construction in progresses are ranging from 1.08% to 4.90%(2016:1.08% to 5.58%).



## 7. INCOME TAX EXPENSES

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2016:15%), 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% (2016: 25%) on the assessable income of respective entities in the Group.

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
Current income tax	380,785	385,977
Deferred income tax	<u>(39,464)</u>	<u>(33,742)</u>
Total tax charge for the year	<u><u>341,321</u></u>	<u><u>352,235</u></u>

Hong Kong Profit Tax is calculated at 16.5% (2016:16.5%) on the estimated assessable profits for the year ended 31 December 2017.

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:

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
Profit before tax	<u>2,757,885</u>	<u>2,651,898</u>
Tax at the statutory tax rate of 25%	689,471	662,975
Lower tax rate(s) for specific provinces or enacted by local authorities	(320,120)	(317,137)
Profits and losses attributable to joint ventures and associates	(43,637)	(31,703)
Income not subject to tax	(70,563)	(25,321)
Expenses not deductible for tax	42,979	40,578
Tax losses utilised from previous periods	(4,439)	(10,301)
Tax losses not recognised	66,677	34,638
Others	<u>(19,047)</u>	<u>(1,494)</u>
Tax charge at the Group's effective rate	<u><u>341,321</u></u>	<u><u>352,235</u></u>

## 8. DIVIDENDS

	<u>2017</u> RMB'000	<u>2016</u> RMB'000
Proposed:		
Final dividend, proposed of RMB0.03 (2016 RMB0.02) per share	<u>178,984</u>	<u>119,322</u>

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 2017 was not recognised as a payable in the consolidated financial statements as at 31 December 2017 but will be reflected as an appropriation of retained earnings for the year ended 31 December 2018.

## 9. 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 (2016: 5,966,121,836) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2017 (2016: nil) .

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

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
<b>Earnings</b>		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	1,222,280	1,160,082
<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	5,966,122
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation (thousands)	<u>5,966,122</u>	<u>5,966,122</u>

## 10. ACCOUNTS AND NOTES RECEIVABLES

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
Accounts receivable		
– Ultimate holding company	4,013	4,310
– Fellow subsidiaries	5,708,610	5,961,059
– A joint venture	74	259
– Associates	95,780	26,523
– Others	<u>8,390,254</u>	<u>6,767,702</u>
Accounts receivable, gross	14,198,731	12,759,853
Provision for impairment	<u>(825,306)</u>	<u>(681,119)</u>
Accounts receivable, net	13,373,425	12,078,734
Notes receivable		
– Fellow subsidiaries	1,706,446	2,191,714
– A joint venture	1,051	1,034
– Others	<u>2,460,114</u>	<u>1,952,709</u>
	<u>4,167,611</u>	<u>4,145,457</u>
Accounts and notes receivables	<u><u>17,541,036</u></u>	<u><u>16,224,191</u></u>

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.

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

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
Within 1 year	10,870,624	9,799,999
1 to 2 years	1,663,082	1,788,223
2 to 3 years	670,970	376,470
Over 3 years	<u>168,749</u>	<u>114,042</u>
	<u><u>13,373,425</u></u>	<u><u>12,078,734</u></u>

## 11. ACCOUNTS AND NOTES PAYABLES

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
Accounts payable (Note (a))		
- Ultimate holding company	11,058	138
- Fellow subsidiaries	2,915,776	3,037,576
- Joint ventures	6,689	8,172
- Associates	57,649	4,492
- Others	<u>14,976,684</u>	<u>14,951,746</u>
	<u>17,967,856</u>	<u>18,002,124</u>
Notes payable (Note (b))		
- Fellow subsidiaries	2,011,324	1,823,728
- Joint ventures	15,349	51,262
- Associates	34,263	600
- Others	<u>4,056,004</u>	<u>4,279,745</u>
	<u>6,116,940</u>	<u>6,155,335</u>
	<u>24,084,796</u>	<u>24,157,459</u>

Notes:

(a) An ageing analysis of the accounts payable as at the end of reporting period, based on the invoice date, is as follows:

	<u>2017</u> RMB'000	<u>2016</u> RMB'000 (Restated)
Within 1 year	11,903,022	13,286,612
1 to 2 years	3,794,203	3,079,904
2 to 3 years	1,267,904	1,200,113
Over 3 years	<u>1,002,727</u>	<u>435,495</u>
	<u>17,967,856</u>	<u>18,002,124</u>

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

(b) The notes payables are with an average maturity period of less than six months. As at 31 December 2017, notes payable of RMB 3,942,943,000 (31 December 2016: RMB 3,360,153,000 as restated) were secured by pledged deposits to the extent of RMB 1,394,524,000 (31 December 2016: RMB1,009,104,000 as restated).

## MANAGEMENT DISCUSSION AND ANALYSIS

Due to the acquisition of AVIC Renewable Energy Investment Co., Ltd.\* (中國航空工業新能源投資有限公司) (“**AVIC Renewable Energy**”) by China Aviation Planning and Design Institute Co., Ltd.\* (中國航空規劃設計研究總院有限公司) (“**AVIC Planning**”), a subsidiary of the Company in 2017, the corresponding financial data of the Group in the corresponding period of the preceding year was restated pursuant to the relevant regulations and requirements. In 2017, the business segments of the Group continued to be divided into aviation entire aircraft segment, aviation parts and components segment, and aviation engineering services segment.

Unless otherwise stated, the corresponding financial data in the corresponding period of the preceding year referred in this announcement has been restated.

For the year ended 31 December 2017, profit attributable to equity holders of the Company amounted to RMB1,222 million, representing an increase of RMB62 million or 5.34% as compared with that of RMB1,160 million (as restated) in the corresponding period of the preceding year. The Group recorded a revenue of RMB32,597 million, representing a decrease of RMB4,237 million or 11.50% as compared with that of RMB36,834 million (as restated) in the corresponding period of the preceding year.

## CONSOLIDATED OPERATING RESULTS

### 1 Composition of Revenue

The revenue of the Group for the year 2017 was RMB32,597 million, representing a decrease of RMB4,237 million or 11.50% as compared with that of RMB36,834 million in the corresponding period of the preceding year, which was mainly attributable to the decrease of the revenue in the aviation engineering services segment of the Group.

The revenue of the Group’s aviation entire aircraft business for the year 2017 amounted to RMB10,405 million, representing a decrease of RMB744 million or 6.67% as compared with that of RMB11,149 million in the corresponding period of the preceding year, which was mainly attributable to the decrease of sales volume resulted from the upgrading of certain helicopter products. The revenue of the aviation entire aircraft business for the year 2017 accounted for 31.92% of the total revenue of the Group, representing an increase of 1.65 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 for the year 2017 amounted to RMB16,980 million, representing substantially the same level with that in the corresponding period of the preceding year. The revenue of the aviation parts

and components business for the year 2017 accounted for 52.09% of the total revenue of the Group, representing an increase of 5.75 percentage points as compared with that in the corresponding period of the preceding year.

The revenue of the Group's aviation engineering services business for the year 2017 amounted to RMB5,212 million, representing a decrease of RMB3,405 million or 39.51% as compared with that of RMB8,617 million in the corresponding period of the preceding year. The main reason is that certain engineering projects slowed down and accordingly the revenue from engineering constructions decreased as affected by the macro environment. The revenue of the aviation engineering services business for the year 2017 accounted for 15.99% of the total revenue of the Group, representing a decrease of 7.40 percentage points as compared with that in the corresponding period of the preceding year.

The Group mainly conducts its business in Mainland China and its revenue is mainly generated from Mainland China as well.

## **2 Selling and Distribution Expenses**

The Group's selling and distribution expenses for the year 2017 amounted to RMB587 million, representing an increase of RMB14 million or 2.44% as compared with that of RMB573 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase in staff cost of sales person and after-sales service for the purpose of exploring the market by certain subsidiaries of the Company. In 2017, the selling and distribution expenses accounted for 1.80% of the revenue of the Group, representing an increase of 0.24 percentage point as compared with that in the corresponding period of the preceding year.

## **3 Administrative Expenses**

The Group's administrative expenses for the year 2017 amounted to RMB4,344 million, representing an increase of RMB352 million or 8.82% as compared with that of RMB3,992 million in the corresponding period of the preceding year. Such increase was mainly attributable to the enhanced investment in research and development ("R&D") by certain subsidiaries of the Company. In 2017, the administrative expenses accounted for 13.33% of the revenue of the Group, representing an increase of 2.49 percentage points as compared with that in the corresponding period of the preceding year.

## **4 Operating Profit**

The operating profit of the Group for the year 2017 amounted to RMB2,913 million, representing an increase of RMB85 million or 3.01% as compared with that of RMB2,828 million in the corresponding period of the preceding year. The Group had

been proactively implementing the initiative of “leaner and healthier” in 2017. Although the revenue recorded a decrease as compared with that of the preceding year, the gross profit margin increased and the gross profits went up accordingly. Furthermore, the gains from disposals of certain equity assets increased. All the above led to an increase in the operating profit as compared with that of the preceding year.

## **5 Finance Costs, Net**

The Group’s net finance costs in 2017 amounted to RMB330 million, representing an increase of RMB27 million or 8.91% as compared with that of RMB303 million in the corresponding period of the preceding year, which is mainly attributable to the decrease of interest income as compared with that of the corresponding period of the preceding year resulting from the decrease of average daily deposit balance and fluctuation of deposit earning rate. Please refer to note 6 to the financial statements for details.

## **6 Income Tax Expense**

The Group’s income tax expense in 2017 was RMB341 million, representing a decrease of RMB11 million or 3.13% as compared with that of RMB352 million in the corresponding period of the preceding year. Please refer to note 7 to the financial statements for details.

## **7 Profit Attributable to Equity Holders of the Company**

The profit attributable to equity holders of the Company for the year 2017 amounted to RMB1,222 million in 2017, representing an increase of RMB62 million or 5.34% as compared with that of RMB1,160 million in the corresponding period of the preceding year. The operating profit of the Group for the year 2017 represented an increase of 3.01% as compared with that in the corresponding period of the preceding year, and the investment returns from associated companies recorded an increase of RMB54 million as compared with that in the corresponding period of the preceding year, resulting in an increase of the profit attributable to equity holders of the Company during the reporting period as compared with that in the corresponding period of the preceding year.

## **SEGMENT INFORMATION**

The Group's principal businesses 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 the year 2017 was RMB10,405 million, representing a decrease of 6.67% 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 amounted to RMB8,945 million, representing a decrease of RMB982 million or 9.89% as compared with that in the corresponding period of the preceding year, and accounted for 85.97% of the total revenue of the aviation entire aircraft business (as certain helicopter products were in the process of upgrading, the sales volume decreased to some extent); (2) the revenue from the trainer aircraft business which amounted to RMB1,435 million, representing an increase of RMB447 million or 45.24% as compared with that in the corresponding period of the preceding year, and accounted for 13.79% of the total revenue of the aviation entire aircraft business; (3) the revenue derived from the general purpose aircraft business which amounted to RMB25 million, representing a decrease of RMB209 million or 89.32% as compared with that in the corresponding period of the preceding year, and accounted for 0.24% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group for the year 2017 accounted for 31.92% of the Group's total revenue, representing an increase of 1.65 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 the year 2017 was 11.11%, representing an increase of 1.61 percentage points as compared with that in the corresponding period of the preceding year. Such increase is mainly attributable to the increase of the price of certain entire aircraft sold during the year 2017.



## **THE AVIATION PARTS AND COMPONENTS BUSINESS**

### **Revenue**

The Group's revenue derived from the aviation parts and components business for the year 2017 was RMB16,980 million, representing substantially the same level as compared with that in the corresponding period of the preceding year. The above revenue includes the revenue derived from the avionics business, which amounted to RMB12,341 million, representing an increase of RMB684 million or 5.87% as compared with that in the corresponding period of the preceding year, and accounted for 72.68% of the total revenue of the aviation parts and components business.

The revenue derived from the aviation parts and components business for the year 2017 accounted for 52.09% of the Group's total revenue, representing an increase of 5.75 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 parts and components business for the year 2017 was 32.18%, representing an increase of 1.81 percentage points as compared with that in the corresponding period of the preceding year, which was mainly attributable to the variation of the structure and types of the aviation parts and components products.

## **THE AVIATION ENGINEERING SERVICES BUSINESS**

### **Revenue**

The Group's revenue derived from the aviation engineering services business for the year 2017 was RMB5,212 million, representing a decrease of 39.51% as compared with that in the corresponding period of the preceding year. The main reason is that certain engineering projects slowed down and accordingly the revenue from engineering constructions decreased as affected by the macro environment. Such revenue accounted for 15.99% of the Group's total revenue, representing a decrease of 7.40 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 the year 2017 was 15.79%, representing an increase of 6.57 percentage points as compared with that in the corresponding period of the preceding year. The main reason for such increase is that the proportion of aviation engineering planning, consulting and designing business with relatively higher gross profit margin in the aviation engineering services business of the Group increased which then improved the comprehensive gross profit margin of this segment.

## BUSINESS REVIEW AND OUTLOOK

In 2017, the overall growth rate of the world economy accelerated comprehensively for the first time in the past decade. Along with the stronger recovery trend of the global economy, China's economy has been steadily improving. The initiatives of the "Belt and Road" and the "Strategy of Civil-Military Integration Development" are widely supported. Confronted with the national strategic opportunities, under a new round of global development trend of science and technology and industrial revolution, Aviation Industry Corporation of China, Ltd. \* (中國航空工業集團有限公司) ("AVIC"), the controlling shareholder of the Company, never forgets its original aspiration to carry forward patriotic spirit for aviation industry. After several years of reforms and innovations, the product quality and economic benefits of AVIC have been improved. Achievements have been made in the delivery of major models, the implementation of the strategy of civil-military integration, the technological innovation and the upgrading reform.

In line with the strategic positioning of building up a platform of aviation high-tech industry and related high-tech industries in China, the Group kept on deepening its understanding of "the New Normal" of the economic development, and implemented the new development concept of innovation, coordination, green, openness and sharing. The initiatives of "leaner and healthier" were proactively pushed forward, the requirements of the supply-side structural reform were duly implemented and the development scale of aviation major industry was enhanced in order to improve the core competitiveness of the Group. Following the strategy of civil-military integration in aviation industry, the Group created new model of industry development to set the business of civil-military integration as a new strategic growth pole of the Company.

In 2017, the Group executed in depth the "Strategy of Civil-Military Integration Development" with the guidance of "homologous technologies, conjugate industries and synclastic values" so as to advance the development of civil-military sharing technologies and expand the layout on civil-military integrating industry. The Company participated in the capital increase of AVIC Guizhou Anji Aviation Investment Casting Co., Ltd.\* (貴州安吉航空精密鑄造有限責任公司) ("**Anji Casting**"), which was a significant step for the Company to realize the civil-military integration and the combination of production, study and research. The Company also participated in the capital increase of AVIC Gyro (Beijing) Photoelectricity Co., Ltd.\* (中航捷銳(北京)光電技術有限公司) ("**AVIC Gyro**"), for the purpose of the layout on aviation high-tech industry. The Group invested in AVIC Guohua (Shanghai) Laser Display Technology Co., Ltd.\* (中航國畫(上海)激光顯示科技有限責任公司) ("**AVIC Laser**"), whose Guohua Series laser projectors, being civilian laser projection products created through the spillover of military technologies, became China's self-brand projectors designated for China pavilion for the first time in 2017

Kazakhstan Astana World Expo and won the “2017 Astana World Expo Outstanding Contribution to Corporate Awards”.

In 2017, the Group continued to focus on the construction of systems in helicopter business, so as to build up the product brand and establish and improve the product R&D system, the marketing system and the customer services system. In 2017, the Group continued to strengthen the R&D capabilities for helicopters. The 2-ton AC311A helicopter products, upon the grant of the civil aviation certification and the completion of AEG (Aircraft Evaluation Group) review, have been officially delivered to the customers for the first time. The AC311A helicopter equipped with agricultural and forestry spraying devices succeeded in its maiden flight and its airworthiness certification was underway. The AC311 police helicopter products have been delivered successfully. The retrofit project of the AC311 helicopter equipped with medical rescue devices has obtained a supplementary model certificate issued by CAAC East China Regional Administration and will be used in the air medical rescue service industry. The 4-ton civilian helicopter AC312E, which is independently developed by the Group, was the first model with excellent plateau performance in China, and has made test flights on plateaus, which will provide strong support for the development of navigation operations in plateau regions. The 13-ton AC313 firefighting helicopters equipped with water cannons, being the “Excellent Aerial Firefighter”, was released attracting high attention at the Fourth Tianjin Helicopter Exposition (第四屆天津直博會) and filled in the blank of domestic helicopters used in urban fire safety.

In 2017, the Group proactively expanded the overseas market for its trainer aircraft. The foreign-trade Cj-6 primary trainer realized rolling production and was delivered to customers in batch. The upgraded foreign-trade L15 advanced trainer aircraft completed coating and commenced its maiden flight, which further enhanced the competitiveness of the Group's products and has positive significance for expanding overseas markets.

In 2017, the Group steadily carried out works for airworthiness certification and market development of the general aircraft for the layout of general aviation market. The Y-12F aircraft successfully completed the natural icing airworthiness test in Canada. The Group conducted a roadshow for it for the first time in the United States. Upon obtaining CAAC and FAA model certificates, the work for obtaining EASA airworthiness certification for Y-12F aircraft was officially launched so as to create necessary conditions for entering into the European market.

In 2017, the R&D innovation of the aviation parts and components business of the Group achieved good progress. China Aviation Optical-Electrical Technology Co., Ltd.\* (中航光電科技股份有限公司) (“**JONHON Optronic**”) stepped up efforts to

conduct product innovation and technical research. A series of product technologies such as the TS Series Quick Plug Fluid connectors independently developed by JONHON Optronic have reached advanced international standard, and the successful R&D of automated pressure-relief fluid connectors and pressure quick-disconnect connectors has filled in the blank of domestic technology. The establishment program of lean manufacturing model in aviation circuit breakers undertaken by Tianjin Aviation Mechanical and Electrical Co., Ltd.\* (天津航空機電有限公司) (“**Tianjin Aviation**”) won the “Excellent Project in Lean Management of Quality and Technology Award” granted by China Association for Quality. The establishment of such lean manufacturing model has important guiding significance to improve the products with the same characteristics. China Avionics Systems Co., Ltd.\* (中航航空電子系統股份有限公司) (“**AVIC Avionics**”) made a breakthrough in key systematic technologies such as air data systems, finished the upgrading of the ELT control panel which since then, has been applied to most of the military and civilian aircraft, and successfully explored non-aviation defence market such as boats and ships, weapons and equipment, aerospace and electrical industry etc. with differentiated high-end products as the starting point. After AVIC Hubei Ali-Jiatai Aircraft Equipment Co., Ltd.\* (湖北航宇嘉泰飛機設備有限公司), in which the Company made investment, became a supplier for seats to Boeing 737 aircraft, its self-developed seats for commercial aircraft business class and economy class has been officially included in the potential product catalog of Airbus BFE.

In 2017, C919 large scale passenger aircraft successfully made its first flight. Several subsidiaries of the Group participated in the subcontracting manufacture, equipment technology R&D and assembly test, providing solid support for the first flight of C919. Jiangxi Hongdu Aviation Industry Co., Ltd.\* (江西洪都航空工業股份有限公司) and Harbin Hafei Aviation Industry Limited Liability Company\* (哈爾濱哈飛航空工業有限責任公司) are both major suppliers of the aircraft body of C919. JONHON Optronic successfully supplied products in pairing parts of front and middle electronic compartment and rear cargo compartment of the first aircraft. AVIC Avionics undertook the independent development of two work packages of C919 large passenger aircraft control panel assembly and dimming control system (CPAs & DCS) and integrated circuit breaker panel (ICBP) and supplied air data heater controllers for C919. Tianjin Aviation provided products for the power systems, fire protection system, and environmental control systems of C919.

In 2017, in terms of aviation engineering services, AVIC Planning enhanced its efforts in market development, especially the general aviation airport construction and engineering development of the “Belt and Road”. AVIC Planning also acquired 69.30% of the equity interest in AVIC Renewable Energy, so as to create a whole industry chain in new energy industry and further expand and develop the advanced engineering techniques in aerospace engineering into civil area.

In 2018, it is expected that the global economy will maintain its growth trend and it will enter into the acceleration phase, which will provide an ideal opportunity for China's economy to shift from high-speed growth to high-quality development. The acceleration of supply-side structural reforms and the implementation of innovation-driven development strategy will also create new growth momentum for China's economic development. Faced with the new opportunities brought by the strategy to build a strong aviation country at the new age of economy development, and in accordance with the objective of creating a flagship company of aviation high-tech civil-military integration products and services, the Group will enhance its industry development, international merger & acquisition and equity operation, and pull together with shareholders in times of difficulties for the purpose of promoting glorious development of the Company:

1. The Company will further implement the strategy of "Civil-Military Integration" to carry out multi-dimensional and mutually beneficial cooperation, promote open sharing and structural upgrading, and build an aviation supply chain system with international competitiveness;
2. The Company will actively carry out the "Belt and Road" initiatives, increase international cooperation, and initiate an international merger and acquisition fund of AVIC, so as to boost the construction of "Silk Road in the Sky", and the goal of enhancing the core competitiveness, market share and brand influence of its products;
3. In accordance with the strategy of becoming a strong aviation country in the new age, the Company will strengthen the technology driven innovation strategy, push forward innovation breakthrough in the frontiers of the new aviation industry, exert its function as a high-tech industry platform, and improve the supporting function of the new emerging industry;
4. The Company will establish and manage civil-military integration fund and execute significant driving force for the major business development of aviation industry;
5. The Company will actively adapt to the development policies of the national general aviation industry and promote the industrialization development of general aviation in places with mature conditions;
6. The Company will make vigorous efforts in investment and financing, equity operation, value management and capital integration, and keep on perfecting the capital structure; and
7. The Company will focus on its principal businesses, improve quality and efficiency, and optimize the governance and control mode of the Group.

## CASH FLOW AND FINANCIAL RESOURCES

### 1 Liquidity and Capital Resources

As at 31 December 2017, the Group's cash and cash equivalents amounted to RMB11,063 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 2017 and 2016 were as follows:

*Unit: RMB million (except for percentage)*

<b>Main items of cash flow</b>	<b>2017</b>	<b>2016</b>	<b>Changes</b>	<b>Changes rate</b>
		(as restated)	(amount)	(percentage)
Net cash flows (used in) /from operating activities	<b>1,588</b>	(928)	2,516	/
Net cash flows (used in) investing activities	<b>(1,843)</b>	(751)	(1,092)	145.41%
Net cash flows from financing activities	<b>2,443</b>	912	1,531	167.87%

### 2 Operating, Investing and Financing Activities

Net cash inflows from operating activities of the Group for the year 2017 amounted to RMB1,588 million, representing an increase of RMB2,516 million net inflows as compared with the net cash outflows of RMB928 million in the corresponding period of the preceding year, which was mainly because certain product funds were pre-paid to certain subsidiaries of the Company during the reporting period and brought cash inflows accordingly.

Net cash outflows from investing activities of the Group for the year 2017 amounted to RMB1,843 million, representing an increase of RMB1,092 million net outflows as compared with the net cash outflows of RMB751 million in the corresponding period of the preceding year. The main reasons were that certain subsidiaries of the Company procured fixed assets, the Group acquired new subsidiaries and invested in associated companies in cash, and fixed deposit with terms of over three months increased according to the investment fund arrangement during the reporting period.

Net cash inflows from financing activities of the Group for the year 2017 amounted to RMB2,443 million, representing an increase of RMB1,531 million or 167.87% as compared with the net cash inflows of RMB912 million in the corresponding period

of the preceding year, which was mainly attributable to the issuance of convertible bonds by AVIC Avionics and the increase of bank loans of certain subsidiaries of the Company during the reporting period.

As at 31 December 2017, the Group's total borrowings and convertible bonds amounted to RMB11,920 million, of which the short-term borrowings, the current portion of long-term borrowings, the non-current portion of long-term borrowings and the convertible bonds amounted to RMB4,631 million, RMB715 million, RMB5,042 million and RMB1,532 million, respectively.

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

<b>Maturity</b>	<i>RMB million</i>
Within one year	715
In the second year	3,831
In the third to fifth year	227
After the fifth year	2,516
Total	7,289

As at 31 December 2017, the Group's bank borrowings amounted to RMB3,370 million with a weighted average interest rate of 4% per annum, accounting for 32.44% of the total borrowings. Other borrowings amounted to RMB7,018 million with a weighted average interest rate of 4% per annum, accounting for 67.56% of the total borrowings. The convertible bonds amounted to RMB1,532 million.

As at 31 December 2017, there was no significant balance of borrowings denominated in foreign currencies.

## **GEARING RATIO**

As at 31 December 2017, the Group's gearing ratio was 15.10% (as at 31 December 2016: 13.60%, as restated), which was arrived at by dividing the total borrowings and convertible bonds by the total assets as at 31 December 2017.

## **CONTINGENT LIABILITIES AND GUARANTEES**

As at 31 December 2017, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

## **DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS**

As at 31 December 2017, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

## GUARANTEED AND SECURED LOANS

As at 31 December 2017, the Group's total borrowings and convertible bonds amounted to RMB11,920 million, of which RMB684 million was secured by notes receivable and accounts receivable with a net book value of approximately RMB351 million.

Borrowings and convertible bonds placed under guarantees amounted to RMB2,684 million, of which RMB534 million represented guarantees amongst the members of the Group, RMB618 million represented guarantees provided by fellow subsidiaries and RMB1,532 million represented guarantees provided by AVIC.

## 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 arising from transactions involving assets, liabilities and operating activities of the Group are primarily associated with United States Dollar, Euro and Hong Kong Dollar. The directors of the Company (the "Directors") consider that the exchange rate risks to the Group will not have any material adverse impact on the Group's financial results.

## USE OF PROCEEDS

Up to 31 December 2017, a total of RMB4,086 million of the proceeds raised by the Company from the fund raising activities had been used in the manufacturing, and R&D of advanced trainer aircraft, helicopters and aviation composite materials as well as the acquisition of aviation assets and the equity investments. The remaining balance was deposited in the banks in the PRC as interest-bearing short term deposits.

## EMPLOYEES

As at 31 December 2017, the Group had 49,672 employees. The Group has provided appropriate emoluments, benefits and trainings to its employees.

### Employees Breakdown (by business segments)

	Number of employees	Percentage to total number of employees (%)
Aviation businesses	<b>49,626</b>	<b>99.91</b>
<i>Entire aircraft business</i>	19,503	39.27
<i>Parts and components business</i>	27,366	55.09
<i>Engineering services business</i>	2,757	5.55
Other businesses	<b>46</b>	<b>0.09</b>
Total :	<b>49,672</b>	<b>100</b>



For the year ended 31 December 2017, the total staff costs of the Group amounted to RMB6,741 million, representing an increase of RMB479 million or 7.65% as compared with those of RMB6,262 million in the corresponding period of the preceding year.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares for the year ended 31 December 2017.

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

1. On 15 March 2017, AviChina Industrial Investment Co., Ltd.\* (中航科工產業投資有限責任公司) (“**AviChina Industrial Investment**”), a wholly-owned subsidiary of the Company, entered into the Joint Venture Agreement with Shanghai Aviation Electric Co., Ltd\* (上海航空電器有限公司) (“**Shanghai Aviation Electric**”), a subsidiary of the Company, AVIC Avionics Systems Co., Ltd\* (中航航空電子系統有限責任公司) (“**AVIC Avionics Systems**”), a subsidiary of AVIC, and Shanghai Jiliang Photoelectric Technology Co., Ltd.\* (上海激亮光電科技有限公司) (“**Shanghai Jiliang**”) in relation to the proposed establishment of AVIC Laser. Pursuant to the Joint Venture Agreement, the Company agreed to make indirect capital contributions of approximately RMB76.674 million in aggregate, including a contribution of approximately RMB55.324 million and RMB21.35 million through Shanghai Aviation Electric and AviChina Industrial Investment, respectively. Upon establishment of AVIC Laser, AVIC Laser became a subsidiary of the Company, which was owned as to 47.77% and 18.44% by Shanghai Aviation Electric and AviChina Industrial Investment, respectively. As at 15 March 2017, Shanghai Aviation Electric was a non-wholly-owned subsidiary of AVIC Avionics, a connected subsidiary of the Company. AVIC Avionics Systems was a subsidiary of AVIC, which was the controlling shareholder of the Company. Therefore, both Shanghai Aviation Electric and AVIC Avionics Systems were connected persons of the Company and the entering into of the Joint Venture Agreement of AviChina Industrial Investment, a wholly-owned subsidiary of the Company, with the above connected persons constituted a connected transaction of the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”). For details, please refer to the announcement of the Company dated 15 March 2017.

2. On 10 April 2017, the Company entered into the Investor Agreement with AVIC Xi'an Flight Automatic Control Research Institute\* (中國航空工業集團公司西安飛行自動控制研究所) (“**AVIC Automatic Control Institute**”), BUAA

Holdings Co., Ltd.\* (北京北航資產經營有限公司) (“**BUAA Holdings**”) and BUAA electrooptical technology team\* (北航光電團隊). Pursuant to the Investor Agreement, the Company agreed to contribute RMB60 million for participation in the capital increase of AVIC Gyro. Upon completion of the capital increase, the Company, AVIC Automatic Control Institute, BUAA Holdings and BUAA electrooptical technology team would hold 23.45%, 53.59%, 11.48% and 11.48% of the equity interest of AVIC Gyro, respectively. As at 10 April 2017, AVIC Automatic Control Institute was managed by AVIC, the controlling shareholder of the Company, as a trustee. Therefore, AVIC Automatic Control Institute was a connected person of the Company and the entering into of the Investor Agreement of the Company with the above connected person constituted a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 10 April 2017.

3. On 22 December 2017, the Company entered into the Capital Increase Agreement with AVIC, China National Guizhou Aviation Industry (Group) Co., Ltd.\* (中国贵州航空工业(集团)有限责任公司) (“**Guizhou Aviation Group**”), AVIC Heavy Machinery Co., Ltd.\* (中航重機股份有限公司) (“**AVIC Heavy Machinery**”), Anji Casting and the Shareholding Companies for Anji Casting Employees\* (安吉精鑄員工持股公司). Pursuant to the Capital Increase Agreement, the Company agreed to contribute RMB50 million for participation in the capital increase of Anji Casting. Upon completion of the capital increase, the Company, AVIC, Guizhou Aviation Group, AVIC Heavy Machinery and the Shareholding Companies for Anji Casting Employees would hold 14.83%, 31.63%, 14.96%, 29.67% and 8.90% of the equity interest of Anji Casting, respectively. As at 22 December 2017, AVIC was the controlling shareholder of the Company, and Guizhou Aviation Group and AVIC Heavy Machinery were the subsidiaries of AVIC. Therefore, AVIC, Guizhou Aviation Group and AVIC Heavy Machinery were connected persons of the Company and the entering into of the Capital Increase Agreement of the Company 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 22 December 2017.

4. On 27 December 2017, AVIC Planning entered into the Equity Transfer Agreement with AVIC Heavy Machinery, pursuant to which, AVIC Heavy Machinery agreed to sell and AVIC Planning agreed to acquire, 69.30% of the equity interest in AVIC Renewable Energy. After completion of the Acquisition, AVIC Renewable Energy would become a subsidiary of AVIC Planning and thus a subsidiary of the Company, and the financial results of AVIC Renewable Energy would be consolidated into the consolidated financial statements of the Company. As at 27 December 2017, AVIC Planning was a wholly-owned subsidiary of the Company. AVIC Heavy Machinery was a subsidiary of AVIC, the controlling shareholder of the Company, and therefore was a connected person of the Company.

The entering into of the Equity Transfer Agreement between AVIC Planning and AVIC Heavy Machinery 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 13 December 2017 and 27 December 2017.

## **OTHER SIGNIFICANT EVENTS**

1 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 being 18 January 2017. The grant price under the initial grant (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 41.17%. For details, please refer to the announcements of the Company dated 27 October 2016 and 18 January 2017.

2 On 31 July 2017, AVIC Avionics, a subsidiary of the Company, convened a board meeting to consider and approve the proposed issuance of convertible corporate bonds (the “**Convertible Corporate Bonds**”), with a total amount of proceeds not exceeding RMB2.4 billion (including RMB2.4 billion). On 6 November 2017, the Issuance Appraisal Committee of China’s Securities Regulatory Commission reviewed and approved AVIC Avionics’ application for issuance of A Share Convertible Corporate Bonds. On 25 December 2017, AVIC Avionics exercised the issuance of the Convertible Corporate Bonds with a total amount of proceeds being RMB2.4 billion, and the Company, AVIC and AVIC Avionics Systems subscribed for RMB500,000,000, RMB188,470,000 and RMB431,719,000 of the Convertible Corporate Bonds, respectively, the amount of which were all within the amount entitled by their respective pre-emptive right. As at the date of such subscription, the Company held 43.22% of the equity interest in AVIC Avionics. Meanwhile, AVIC, AVIC Avionics Systems and Hanzhong Aviation Industry (Group) Co., Ltd.\* (漢中航空工業(集團)有限公司) held 7.85%, 17.99% and 6.23% of the equity interest in AVIC Avionics, respectively. Therefore, AVIC Avionics was a connected subsidiary of the Company. The subscription of the Company for the Convertible Corporate Bonds constituted the provision of financial assistance by the Company to its connected subsidiary, and thus 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 11 May 2017, 18 May 2017, 6 November 2017

and 26 December 2017.

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

In March 2017, Mr. Gu Huizhong and Mr. Gao Jianshe applied to the Board for resignation from their positions as the non-executive Directors and related duties due to age and other business commitment respectively. Mr. Wu Xiandong and Mr. Li Yao were nominated as the candidates for the new non-executive Directors.

In April 2017, Mr. Kiran Rao applied to the Board for resignation from his position as the non-executive Director and related duties due to other business commitment. Mr. Patrick de Castelbajac was nominated as the candidate for the new non-executive Director.

At the annual general meeting of the Company convened on 18 May 2017 (“**2016 AGM**”), Mr. Wu Xiandong, Mr. Li Yao and Mr. Patrick de Castelbajac were appointed as the new non-executive Directors of the Company, each with a term of office from the date of approval of the 2016 AGM to the date on which the resolution relating to the election of the sixth session of the Board will be approved at the annual general meeting to be convened in 2018.

Upon the conclusion of the 2016 AGM, Mr. Gu Huizhong ceased to be a non-executive Director and a member of the development and strategy committee and the audit committee of the Board, Mr. Gao Jianshe ceased to be a non-executive Director and a member of the remuneration committee and the nomination committee of the Board, and Mr. Kiran Rao ceased to be a non-executive Director and a member of the development and strategy committee of the Board.

At the Board meeting convened following the 2016 AGM on the same date, Mr. Wu Xiandong was appointed as a member of the remuneration committee and the nomination committee of the Board, Mr. Li Yao was appointed as a member of the development and strategy committee and the audit committee of the Board, Mr. Patrick de Castelbajac was appointed as a member of the development and strategy committee of the Board, and Mr. He Zhiping was appointed as a member of the development and strategy committee and the remuneration committee of the Board.

After the conclusion of the 2016 AGM, the fifth session of the Board of the Company comprises executive Director Mr. Lin Zuoming, non-executive Directors Mr. Tan Ruisong, Mr. Wu Xiandong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai.

In May 2017, due to other business commitment, Mr. Chen Yuanxian and Mr. Chen

Guanjun applied for resignation to the Board as the general manager and chief financial officer of the Company, and the deputy general manager of the Company, respectively.

At the Board meeting convened on 18 May 2017, the Board considered and approved the resolution of changes in certain senior management of the Company that: Mr. Chen Yuanxian and Mr. Chen Guanjun were not appointed as the general manager and chief financial officer of the Company, and the deputy general manager of the Company, respectively; Mr. Qu Jingwen and Mr. Yu Feng were appointed as the general manager and chief financial officer of the Company, and the deputy general manager of the Company, respectively, both with a term of office from the date of approval of the resolution to the date on which the term of office of the fifth session of the Board expires or the Board removes their duties.

In February 2018, due to other work commitment, Mr. Yu Feng applied to the Board for resignation as the deputy general manager of the Company. At the Board meeting convened on 6 February 2018, the Board considered and approved the resolution in relation to the appointment of Mr. Yan Lingxi as the standing deputy general manager of the Company, with the term of office from the date of approval of such resolution to the date on which the Board removes his duty.

## **FINAL DIVIDEND**

The Board recommended the payment of a final dividend for the year 2017 in an aggregate amount of RMB178,983,655.08, representing a dividend of RMB0.03 per share (2016: RMB0.02 per share), calculated based on the existing number of total issued shares of 5,966,121,836 shares of the Company as at the date of this announcement, 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 Wednesday, 30 May 2018 (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 Friday, 25 May 2018 to Wednesday, 30 May 2018 (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 Thursday, 24 May 2018.

In accordance with Article 151 of the Articles of Association of the Company, 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 business days prior to the declaration of dividends at the annual general meeting of the Company to be held on Friday, 18 May 2018 (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 or before 18 August 2018.

The AGM will be held on Friday, 18 May 2018. The H share register of members of the Company will be closed from Saturday, 28 April 2018 to Friday, 18 May 2018 (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 Friday, 18 May 2018 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 Friday, 27 April 2018.

## **AUDIT COMMITTEE**

The Board has established an audit committee and set out 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 other regulations.

The audit committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2017.

## **CORPORATE GOVERNANCE**

The Company strictly complied with various applicable laws, rules and regulations as well as the Articles of Association of the Company to standardize its operation. The Board reviewed the corporate governance practices adopted by the Company for the year ended 31 December 2017 and was of the view that the Company had 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 Mr. Lin Zuoming, the chairman of the Board, was not able to attend the 2016 AGM of the Company held on 18 May 2017 due to health reason. Mr. Tan Ruisong, vice chairman of the Board, attended and was authorized to chair the 2016 AGM on his behalf and answered the

questions raised at that meeting.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Hong Kong Listing Rules and the Shares Trading Management Rules of the Company as its own guidelines for securities transactions by Directors, supervisors and relevant employees of the Company. Upon specific enquiries with Directors and supervisors, the Board confirms that all Directors and supervisors of the Company had complied with the Model Code under the Hong Kong Listing Rules for the year ended 31 December 2017.

## **THE ANNUAL REPORT**

The annual report of the Company for the year ended 31 December 2017 will be dispatched to the shareholders of the Company and will be published on the websites of The Stock Exchange of Hong Kong Limited and of the Company (<http://www.avichina.com>) in due course.

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

Beijing, 16 March 2018

*As at the date of this announcement, the Board comprises executive Director Mr. Lin Zuoming, non-executive Directors Mr. Tan Ruisong, Mr. Wu Xiandong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai.*

\* *For identification purposes only*