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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 2013  
and Proposed New Appointment of Independent Non-executive Director**

**Financial Highlights**

The Board is pleased to announce that the Group maintained a growth in the revenue and the profit in spite of the complicated overseas and domestic economic situations in 2013.

- Revenue of the Group for the year 2013 amounted to RMB22,193 million, representing an increase of 20.82% as compared with that in the corresponding period of the preceding year.
- Profit attributable to the equity holders of the Company for the year 2013 amounted to RMB713 million, representing an increase of 7.38% as compared with that in the corresponding period of the preceding year.
- The Board recommended the payment of a final dividend for the year 2013 in an aggregate amount of RMB109,488,583.34, representing a dividend of RMB0.02 per share (RMB0.02 per share for the year 2012), calculated based on the existing number of the total issued shares of 5,474,429,167 shares as at the date of this announcement.

## ANNUAL RESULTS

The board of directors (the “**Board**”) of AviChina Industry & Technology Company Limited (the “**Company**”) 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 2013, together with the comparative figures for the year 2012, as follows:

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Group	
		2013 RMB'000	2012 RMB'000 (Restated)
Revenue	3	22,192,749	18,368,204
Cost of sales		(17,885,023)	(14,444,274)
Gross profit		4,307,726	3,923,930
General and administrative expenses		(2,386,380)	(2,164,627)
Selling and distribution expenses		(414,669)	(368,864)
Other income	4	57,776	77,501
Other gains, net	5	193,434	81,243
Operating profit		1,757,887	1,549,183
Finance income	7	226,173	177,941
Finance costs	7	(300,049)	(243,670)
Finance costs, net		(73,876)	(65,729)
Share of profit/(loss) of a joint venture		3,574	(893)
Share of profits of associates		73,135	57,689
Profit before income tax		1,760,720	1,540,250
Income tax expense	8	(249,686)	(234,879)
<b>Profit for the year</b>		<b>1,511,034</b>	<b>1,305,371</b>
<b>Attributable to:</b>			
Equity holders of the Company		712,623	664,168
Non-controlling interests		798,411	641,203
		<b>1,511,034</b>	<b>1,305,371</b>
<b>Earnings per share for profit attributable to equity holders of the Company during the year</b>			
<b>Basic</b>	10	RMB 0.131	RMB 0.124
<b>Diluted</b>	10	0.131	0.124
<b>Dividend</b>	11	RMB'000 109,489	RMB'000 109,489

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Group	
	2013	2012
	RMB'000	RMB'000 (Restated)
<b>Profit for the year</b>	1,511,034	1,305,371
	-----	-----
<b>Other comprehensive losses, net of tax</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Change in fair value of available-for-sale financial assets	79,766	(73,890)
Transfer from available-for-sale financial assets reserve to income statement upon disposal of available-for-sale financial assets	(29,134)	11,084
Currency translation differences	1,903	125
	-----	-----
	52,535	(62,681)
	-----	-----
<b>Total comprehensive income for the year</b>	1,563,569	1,242,690
	=====	=====
<b>Attributable to:</b>		
Equity holders of the Company	737,639	638,105
Non-controlling interests	825,930	604,585
	-----	-----
	1,563,569	1,242,690
	=====	=====

**BALANCE SHEETS**  
**AS AT 31 DECEMBER 2013**

		<u>Group</u>	
	Note	2013	2012
		RMB'000	RMB'000
			(Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		9,243,070	7,134,489
Investment properties		31,451	26,529
Land use rights		1,416,191	1,261,338
Intangible assets		112,117	63,585
Interests in a joint venture		37,681	34,107
Interests in associates		1,055,141	1,079,773
Available-for-sale financial assets		1,152,361	1,128,935
Deferred income tax assets		166,771	165,507
Accounts receivable	12	154,358	51,342
		<u>                    </u>	<u>                    </u>
<b>Total non-current assets</b>		13,369,201	10,945,605
		-----	-----
<b>Current assets</b>			
Accounts receivable	12	8,958,429	7,136,004
Advances to suppliers		1,219,315	812,238
Other receivables and prepayments		1,183,255	1,329,575
Inventories		14,780,402	11,757,145
Financial assets held for trading		247	557
Pledged deposits		1,313,240	683,874
Term deposits with initial term of over three months		3,378,697	3,394,290
Cash and cash equivalents		6,725,516	5,605,572
		<u>                    </u>	<u>                    </u>
<b>Total current assets</b>		37,559,101	30,719,255
		-----	-----
<b>Total assets</b>		<u><u>50,928,302</u></u>	<u><u>41,664,860</u></u>

**BALANCE SHEETS (CONTINUED)**  
**AS AT 31 DECEMBER 2013**

	Note	Group	
		2013 RMB'000	2012 RMB'000 (Restated)
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital		5,474,429	5,474,429
Reserves		4,648,396	4,681,998
		<u>10,122,825</u>	<u>10,156,427</u>
Non-controlling interests		11,684,072	9,051,850
		<u>21,806,897</u>	<u>19,208,277</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings		1,910,696	771,677
Deferred income from government grants		747,122	478,476
Deferred income tax liabilities		20,036	7,718
Other payables and accruals		15,634	-
		<u>2,693,488</u>	<u>1,257,871</u>
<b>Current liabilities</b>			
Accounts payable	13	14,031,733	10,796,028
Advances from customers		3,802,493	3,028,293
Other payables and accruals		3,739,745	2,923,813
Amounts payable to ultimate holding company		462,737	466,379
Current portion of long-term borrowings		255,080	665,320
Short-term borrowings		3,952,101	3,159,544
Current income tax liabilities		184,028	159,335
		<u>26,427,917</u>	<u>21,198,712</u>
<b>Total current liabilities</b>		<u>26,427,917</u>	<u>21,198,712</u>
<b>Total liabilities</b>		<u>29,121,405</u>	<u>22,456,583</u>
<b>Total equity and liabilities</b>		<u>50,928,302</u>	<u>41,664,860</u>
<b>Net current assets</b>		<u>11,131,184</u>	<u>9,520,543</u>
<b>Total assets less current liabilities</b>		<u>24,500,385</u>	<u>20,466,148</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1 Organisation and principal activities

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

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

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

These consolidated financial statements have been presented in thousands of Renminbi (“RMB’000”), unless otherwise stated, and is approved for issue by the Board of Directors on 25 March 2014.

#### Major changes of Group structure

a) On 3 April 2013, China Aviation Optical-Electrical Technology Co., Ltd. (“JONHON Optronics”, a subsidiary of the Company) issued approximately 62 million new shares (equivalent to approximately RMB 807 million) to six subscription targets including the Company.

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

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

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

c) On 5 September 2013, the Company made a capital injection in cash of RMB 30 million to China Aviation Publishing & Media Co., Ltd. (“CAPMC”, a subsidiary of AVIC). Upon this injection, the Company holds 53.63% equity interests in CAPMC and thereby obtained its control which became a subsidiary of the Company since then.

d) On 30 September 2013, China AVIC Electronics Co., Ltd. (“AVIC Avionics”, a subsidiary of the Company) acquired from AVIC Avionics Systems Co., Ltd. (“AVIC Avionics Systems”, a subsidiary of AVIC) its 100% equity interests in each of Beijing Keeven Aviation Instrument Co., Ltd. (“Keeven Instrument”) and Suzhou Changfeng Avionics Co., Ltd. (“Changfeng Avionics”) at an aggregate cash consideration of approximately RMB 1,418 million which was recognised in the Group’s equity during the year.

e) On 30 September 2013, AVIC Avionics acquired from Hanzhong Aviation Industry Group Co., Ltd. (“Hanzhong Aviation”, a subsidiary of AVIC) its entire 100% equity interests in Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (“Oriental Instrument”) at a cash consideration of approximately RMB 176 million which was recognised in the Group’s equity during the year.

f) On 6 November 2013, Hafei Aviation Industry Co., Ltd. (“Hafei Aviation”, a subsidiary of the Company) issued and the Company subscribed approximately 38 million new shares of Hafei Aviation (equivalent to approximately RMB 642 million). The share issuance was satisfied by the Company by transferring its entire 100% equity interests in Jiangxi Changhe Aviation Industry Co., Ltd. (“Changhe Aviation”, a subsidiary of the Company), being valued at the same amount, to Hafei Aviation.

Upon this share issuance, the equity interests held by the Group in Hafei Aviation increased from 50.05% to 55.11% with the Group’s effective interests in Changhe Aviation being diluted to 55.11%.

g) On 6 November 2013, Hafei Aviation issued and AVIC Helicopter Limited (“AVIC Helicopter”, a subsidiary of AVIC) and Harbin Aircraft Industry Group Limited (“AVIC Hafei”, a subsidiary of AVIC) subscribed an aggregate of approximately 159 million new shares of Hafei Aviation (equivalent to approximately RMB 2,679 million). The share issuance was satisfied by AVIC Helicopter and AVIC Hafei by transferring their entire 100% equity interests in each of Jingdezhen Changfei Aviation Parts and Components Co., Ltd. (“Changfei Parts and Components”), Tianjin Helicopter Co., Ltd. (“Helicopter Tianjin”) and Huiyang Aviation Propeller Limited (“AVIC Huiyang”) respectively, as well as certain helicopter component manufacturing assets, being valued at the same aggregate amount, to Hafei Aviation.

Upon these share issuances, the equity interests held by the Group in Hafei Aviation was diluted from 55.11% to 38.73%

h) On 13 November 2013, Hafei Aviation issued approximately 55 million new shares (equivalent to approximately RMB 1,070 million) to certain independent investors.

Upon this share issuance, the equity interests held by the Group in Hafei Aviation was further diluted from 38.73% to 35.10%.

Notwithstanding the dilution of interests in Note 1(g) and 1(h) Hafei Aviation remains a subsidiary of the Group since the Company, AVIC Helicopter and AVIC Hafei had entered into an agreement that upon the abovementioned share issuances, AVIC Helicopter and AVIC Hafei would undertake to exercise their then entire 26.94% voting rights in Hafei Aviation in accordance with the instructions of the Company and as a result the Company has power over more than half of the voting rights in Hafei Aviation before and after these transactions.

i) On 20 November 2013, JONHON Optronics acquired 48.18% equity interests in Xi'an Forstar S&T Co., Ltd. ("Xi'an Forstar") from third parties with a cash consideration of approximately RMB 127 million. In connection with this transaction, JONHON Optronics had entered into an agreement with a non-controlling shareholder of Xi'an Forstar that he would undertake to exercise his entire 5.5% voting rights in Xi'an Forstar in accordance with the instructions of JONHON Optronics. As a result JONHON Optronics has power over more than half of the voting rights in Xi'an Forstar and thereby obtained its control since then.

## **2 Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets held for trading, as appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Group's accounting policies.

### **(a) Restatement of prior year's financial statements due to business combinations under common control**

Corresponding to Note 1(c), 1(d), 1(e) and 1(g), given that CAPMC, Keeven Instrument, Changfeng Avionics, Oriental Instrument, Changfei Parts and Components, Helicopter Tianjin and AVIC Huiyang are all under common control of AVIC immediately before and after the business combinations, the Company applies the principles of merger accounting in preparing these consolidated financial statements of the Company.



By applying the principles of merger accounting, these consolidated financial statements of the Company also includes the financial positions, results and cash flows of CAPMC, Keeven Instrument, Changfeng Avionics, Oriental Instrument, Changfei Parts and Components, Helicopter Tianjin and AVIC Huiyang as if they had been combined with the Group throughout the year ended 31 December 2013, and from earliest date presented comparative figures as at 31 December 2012 and for the year then ended have been restated as a result of such.

The following are reconciliations of the effects arising from the abovementioned common control combinations on the consolidated balance sheet as at 31 December 2012, consolidated income statement and consolidated statement of cash flows for the year ended 31 December 2012.

(i) The consolidated balance sheet as at 31 December 2012:

	Balances as previously reported RMB'000	Merger of CAPMC RMB'000	Merger of Keeven Instrument, Changfeng Avionics and Oriental Instrument RMB'000	Merger of Changfei Parts and Components, Helicopter Tianjin and AVIC Huiyang RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000
Total non-current assets	7,801,746	4,575	1,372,365	1,766,919	-	10,945,605
Total current assets	28,094,366	52,109	1,999,886	891,520	(318,626)	30,719,255
Total non-current liabilities	915,953	-	292,668	49,250	-	1,257,871
Total current liabilities	18,486,571	32,766	1,999,055	974,253	(293,933)	21,198,712
Total equity	16,493,588	23,918	1,080,528	1,634,936	(24,693)	19,208,277

(ii) The consolidated income statement for the year ended 31 December 2012:

	Amounts as previously reported RMB'000	Merger of CAPMC RMB'000	Merger of Keeven Instrument, Changfeng Avionics and Oriental Instrument RMB'000	Merger of Changfei Parts and Components, Helicopter Tianjin and AVIC Huiyang RMB'000	Elimination of inter-company balances RMB'000	Amounts as restated RMB'000
Revenues	16,800,189	94,792	1,283,624	506,865	(317,266)	18,368,204
Profit for the year	1,156,992	2,678	137,889	7,812	-	1,305,371

(iii) The consolidated statement of cash flow for the year ended 31 December 2012:

	Amounts as previously reported RMB'000	Merger of CAPMC RMB'000	Merger of Keeven Instrument, Changfeng Avionics and Oriental Instrument RMB'000	Merger of Changfei Parts and Components, Helicopter Tianjin and AVIC Huiyang RMB'000	Amounts as restated RMB'000
Net cash (used in)/generated from operating activities	(746,162)	10,014	43,436	(17,703)	(710,415)
Net cash used in investing activities	(2,166,807)	(1,461)	(176,179)	(388,923)	(2,733,370)
Net cash generated from financing activities	1,828,878	-	43,477	318,984	2,191,339

**(b) New/revised standards, amendments to standards and interpretations**

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

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

The adoption of the above does not have any significant impact to the results and financial position of the Group.

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

		<b>Effective for accounting periods beginning on or after</b>
IAS 32 (Amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
IAS 36 (Amendment)	Impairment of assets: recoverable amount disclosures	1 January 2014
IAS 39 (Amendments)	Financial instruments: Recognition and Measurement - Novation of derivatives	1 January 2014
IFRS 9	Financial instruments	1 January 2015
IFRS 10, IFRS 12 and IAS 27 (revised 2011) (Amendment)	Consolidation for investment entities	1 January 2014
IFRIC 21	Levies	1 January 2014

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

### 3 Segment information

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

The Board of Directors classifies the business into two reportable segments:

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

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

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

	<b>Aviation Entire aircrafts RMB'000</b>	<b>Aviation parts &amp; components RMB'000</b>	<b>Total RMB'000</b>
<b>For the year ended 31 December 2013</b>			
Total segment revenue	10,197,905	13,285,103	23,483,008
Inter-segment revenue	-	(1,290,259)	(1,290,259)
	<hr/>	<hr/>	<hr/>
Revenue (from external customers)	10,197,905	11,994,844	22,192,749
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Segment results	340,159	1,476,786	1,816,945
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Other profit &amp; loss disclosures:</b>			
Depreciation and amortisation	301,274	434,223	735,497
Provision/(reversal of provision) for impairments on receivables and inventories	19,908	(3,188)	16,720
Finance costs, net	5,688	68,188	73,876
Share of profit of a joint venture	-	(3,574)	(3,574)
Share of losses/(profits) of associates	23,975	(97,110)	(73,135)
Income tax expense	53,558	196,128	249,686
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>For the year ended 31 December 2012 (restated)</b>			
Total segment revenue	8,273,277	11,253,991	19,527,268
Inter-segment revenue	-	(1,159,064)	(1,159,064)
	<hr/>	<hr/>	<hr/>
Revenue (from external customers)	8,273,277	10,094,927	18,368,204
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Segment results	273,737	1,329,262	1,602,999
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Other profit &amp; loss disclosures:</b>			
Depreciation and amortisation	223,341	417,805	641,146
Provision for impairments on receivables and inventories	19,789	62,560	82,349
Finance costs, net	15,076	50,653	65,729
Share of loss of a joint venture	-	893	893
Share of losses/(profits) of associates	28,611	(86,300)	(57,689)
Income tax expense	52,762	182,117	234,879
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**Reconciliation of segment results to profit for the year:**

	2013	2012
	RMB'000	RMB'000
		(Restated)
Segment result for entire aircrafts and aviation parts & components	1,816,945	1,602,999
Corporate overheads	(56,225)	(62,749)
Profit before income tax	1,760,720	1,540,250
Income tax expense	(249,686)	(234,879)
Profit for the year	<u>1,511,034</u>	<u>1,305,371</u>

**4 Other income**

	2013	2012
	RMB'000	RMB'000
		(Restated)
Rental income	9,894	18,475
Profit from sale of scrap materials	10,023	6,818
Income from rendering of maintenance and other services	7,788	27,486
Dividend income from available-for-sale financial assets and financial assets held for trading	30,071	24,722
	<u>57,776</u>	<u>77,501</u>

**5 Other gains, net**

	2013	2012
	RMB'000	RMB'000
		(Restated)
Fair value gain on financial assets held for trading	38	27
Gain/(loss) on disposal of:		
- property, plant and equipment	7,287	(1,633)
- investment properties	83,579	49,465
- interests in subsidiaries	-	7,779
- interests in associates	45,495	(1,618)
- available-for-sale financial assets	55,826	27,086
- financial assets held for trading	1,209	137
	<u>193,434</u>	<u>81,243</u>

## 6 Expenses by nature

	2013 RMB'000	2012 RMB'000 (Restated)
Advertising costs	7,018	7,942
Amortisation on:		
- Intangible assets	6,278	6,037
- Land use rights	27,655	27,478
Auditors' remuneration	9,586	10,978
Raw materials and consumables used	7,855,511	8,338,768
Changes in inventories of finished goods and work-in-progress	(1,915,104)	(2,301,547)
Contract costs incurred	7,994,183	4,548,647
Depreciation on:		
- Investment properties	1,674	1,206
- Property, plant and equipment	699,890	606,425
Less: amortisation of deferred income from government grants	(39,931)	(25,499)
	661,633	582,132
Fuel	318,770	315,938
Insurance	12,077	18,321
Operating lease rentals	91,326	73,365
Provision/(reversal of provision) for impairment on:		
- Inventories	52,092	34,244
- Receivables	(35,372)	48,105
Repairs and maintenance expense	208,923	175,810
Research expenditures and development costs	801,522	798,466
Staff costs, including directors' emoluments	3,127,048	2,831,893
Sub-contracting charges	373,370	407,790
Sundries	847,759	841,094
Transportation expenses	92,370	78,139
Travelling	149,427	134,165
	20,686,072	16,977,765
Total cost of sales, general and administrative expenses, and selling and distribution expenses	20,686,072	16,977,765

## 7 Finance costs, net

	2013 RMB'000	2012 RMB'000 (Restated)
Finance income:		
Interest income on bank balances and deposits	226,173	177,941
	-----	-----
Finance costs:		
Interest expense on bank borrowings		
- Wholly repayable within 5 years	169,850	188,740
- Not wholly repayable within 5 years	2,294	-
Interest expense on other borrowings		
- Wholly repayable within 5 years	131,506	38,556
- Not wholly repayable within 5 years	16,345	31,651
	-----	-----
	319,995	258,947
Less: Amount capitalised in property, plant and equipment	(40,670)	(27,987)
	-----	-----
	279,325	230,960
Other finance costs	20,724	12,710
	-----	-----
	300,049	243,670
	-----	-----
	(73,876)	(65,729)
	=====	=====



## 8 Income tax expense

	2013 RMB'000	2012 RMB'000 (Restated)
Current income tax	244,857	239,969
Deferred income tax	4,829	(5,090)
	<u>249,686</u>	<u>234,879</u>

Notes:

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

(b) 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:

	2013 RMB'000	2012 RMB'000 (Restated)
Profit before income tax	1,760,720	1,540,250
Tax calculated at the statutory tax rate of 25%	440,180	385,063
Preferential tax rates on the income of certain subsidiaries	(139,855)	(115,316)
Non-taxable income	(55,900)	(48,091)
Expenses not deductible for tax purposes	24,104	23,793
Utilisation of previously unrecognised tax losses	(9,256)	(6,775)
Others	(9,587)	(3,795)
Tax charge	<u>249,686</u>	<u>234,879</u>

## 9 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB 207,417,000 (2012: RMB 203,985,000).

## 10 Earnings per share

### Basic

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

### Diluted

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

	2013 RMB'000	2012 RMB'000 (Restated)
Profit attributable to equity holders of the Company	712,623	664,168
Weighted average number of ordinary shares in issue less shares held for restricted share scheme for calculating basic earnings per share (thousands)	5,447,626	5,372,773
Potential dilutive effect arising from restricted shares (thousands)	9,197	3,763
Weighted average number of ordinary shares in issue for calculating diluted earnings per share (thousands)	5,456,823	5,376,536

## 11 Dividend

	2013 RMB'000	2012 RMB'000
Final dividend, proposed of RMB 0.02 (2012: RMB 0.02) per share	109,489	109,489

This final dividend is proposed by the directors at a meeting held on the date of approval of these financial statements, which is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2014.

## 12 Accounts receivable

	Group	
	2013	2012
	RMB'000	RMB'000 (Restated)
Trade receivables, gross (note (a))		
- Fellow subsidiaries	4,676,688	3,207,234
- A joint venture	485	-
- Associates	17,043	10,399
- A related company	12,033	-
- Others	2,738,880	2,663,755
	<u>7,445,129</u>	<u>5,881,388</u>
Less: provision for impairment of receivables	(247,966)	(285,290)
	<u>7,197,163</u>	<u>5,596,098</u>
	-----	-----
Notes receivable (note (b))		
- Fellow subsidiaries	1,333,416	1,079,271
- Others	582,208	511,977
	<u>1,915,624</u>	<u>1,591,248</u>
	-----	-----
	<u>9,112,787</u>	<u>7,187,346</u>
	-----	-----
Less: non-current portion	(154,358)	(51,342)
	<u>8,958,429</u>	<u>7,136,004</u>
Current portion	<u><u>8,958,429</u></u>	<u><u>7,136,004</u></u>

Notes:

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

	Group	
	2013	2012
	RMB'000	RMB'000 (Restated)
Current to 1 year	6,012,460	4,988,477
1 year to 2 years	990,769	617,156
Over 2 years	441,900	275,755
	<u>7,445,129</u>	<u>5,881,388</u>
	<u><u>7,445,129</u></u>	<u><u>5,881,388</u></u>

The credit quality of accounts receivable that are neither past due nor impaired can be assessed by reference to the historical information about counter parties default rates. The existing counter parties do not have significant default in the past.

(b) Substantially all of the notes receivable are bank acceptance notes with average maturity period of within six months.

### 13 Accounts payable

	Group	
	2013	2012
	RMB'000	RMB'000 (Restated)
Trade payables (note (a))		
- Fellow subsidiaries	2,095,018	2,094,267
- Others	8,090,975	5,948,346
	<u>10,185,993</u>	<u>8,042,613</u>
Notes payable (note (b))		
- Fellow subsidiaries	2,899,868	1,392,063
- Others	945,872	1,361,352
	<u>3,845,740</u>	<u>2,753,415</u>
	<u>14,031,733</u>	<u>10,796,028</u>

Notes:

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

	Group	
	2013	2012
	RMB'000	RMB'000 (Restated)
Current to 1 year	7,030,113	5,936,848
1 year to 2 years	1,335,667	1,559,210
2 years to 3 years	1,418,780	271,072
Over 3 years	401,433	275,483
	<u>10,185,993</u>	<u>8,042,613</u>

(b) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months. As at 31 December 2013, notes payable of RMB 3,288,767,000 (2012: RMB 2,333,819,000 as restated) were secured by pledged deposits to the extent of RMB 1,313,240,000 (2012: RMB 683,874,000 as restated).

## MANAGEMENT DISCUSSION AND ANALYSIS

In 2013, the Group continued to promote the reorganization of assets according to its established development strategies. Hafei Aviation Industry Co., Ltd. (“**Hafei Aviation**”) completed the acquisition of helicopter business related assets and raised funds by issuance of shares, thereby promoting the rapid development of helicopter business. China AVIC Electronics Co., Ltd. (“**AVIC Avionics**”) completed the acquisition of 100% equity interest in three avionics companies. The Company also participated in the capital increase of China Aviation Publishing & Media Co., Ltd. and held 53.63% of its equity interest. The operating results of the aforementioned acquired companies had been consolidated into that of the Company during the reporting period, which brought to the Company new profit contribution and was favorable for the continuous extension and development of the aviation industry chain.

For the year ended 31 December 2013, the Group recorded a sales revenue of RMB22,193 million, representing an increase of 20.82% as compared with that of RMB18,368 million in the corresponding period of the preceding year. Profit attributable to the equity holders of the Company amounted to RMB713 million, representing an increase of 7.38% as compared with that of RMB664 million in the corresponding period of the preceding year.

### CONSOLIDATED OPERATING RESULTS

#### 1 Composition of revenue

The revenue of the Group for 2013 was RMB22,193 million, representing an increase of 20.82% as compared with a revenue of RMB18,368 million in the corresponding period of the preceding year, which was mainly attributable to the increase in the revenue derived from the helicopter and avionics businesses during the reporting period. Among that, affected by the increase in helicopter sales volume, the revenue derived from the helicopter business amounted to RMB9,381 million, representing an increase of RMB2,164 million, or 29.98% as compared with that of the corresponding period of the preceding year. Due to the steady development of avionics business, the revenue derived from the avionics business amounted to RMB7,688 million, representing an increase of RMB785 million, or 11.37% as compared with that of the corresponding period of the preceding year.

The revenue of the Group’s aviation entire aircraft business for 2013 amounted to RMB10,198 million, representing an increase of RMB1,925 million, or 23.27% as compared with that of RMB8,273 million in the corresponding period of the preceding year, and accounting for 45.95% of the total revenue of the Group. Among the aviation entire aircraft business, the helicopter business realized a rapid increase

while the trainer aircraft business represented a decrease as compared with the corresponding period of the preceding year. The revenue of the Group's aviation parts and components business amounted to RMB11,995 million, representing an increase of RMB1,900 million, or 18.82% as compared with that of RMB10,095 million in the corresponding period of the preceding year and accounting for 54.05% of the total revenue of the Group. Such increase was mainly attributable to the growth in the avionics business.

The Group mainly conducts its business in the mainland China where its revenue is generated.

## **2 General and administrative expenses**

The Group's general and administrative expenses for 2013 amounted to RMB2,386 million, representing an increase of RMB221 million, or 10.21% as compared with that of RMB2,165 million in the corresponding period of the preceding year. This was mainly attributable to the increase in expenses such as staff costs. In 2013, the growth in general and administrative expenses was lower than that in the total revenue through the implementation of the comprehensive budget management and strict expenses control by the Group. In 2013, the general and administrative expenses accounted for 10.75% of the operating revenue, representing a decrease of 1.04 percentage points as compared with that in the corresponding period of the preceding year.

## **3 Sales and distribution expenses**

The Group's sales and distribution expenses for 2013 amounted to RMB415 million, representing an increase of RMB46 million, or 12.47% as compared with that of RMB369 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase of transportation and after-sales service expenses caused by the increase in the sales volume. In 2013, the sales and distribution expenses accounted for 1.87% of the revenue for the year 2013, representing a decrease of 0.14 percentage points as compared with that in the corresponding period of the preceding year. The growth of sales and distribution expenses was slower than the growth of the revenue.

## **4 Operating profit**

The operating profit of the Group for 2013 amounted to RMB1,758 million, representing an increase of RMB209 million, or 13.49% as compared to that of RMB1,549 million in the corresponding period of the preceding year. This was mainly attributable to the increase of RMB384 million, or 9.79% of the gross profit driven by the increase of revenue during the reporting period on one hand, and the increase of other gains from sales of part of non-major business assets by its subsidiaries such as the financial assets and long-term equity investment on the other hand.

## **5 Finance costs, net**

The Group's net finance costs in 2013 amounted to RMB74 million, representing an increase of RMB8 million as compared with that of RMB66 million in the corresponding period of the preceding year. This was mainly attributable to the increase in interest expenses as a result of the newly increased bank loans of AVIC Avionics and bonds issuances of China Aviation Optical-Electrical Technology Co., Ltd. ("JONHON Optronic").

## **6 Income tax expense**

The Group's income tax in 2013 was RMB250 million, representing an increase of RMB15 million, or 6.38% as compared with that of RMB235 million in the corresponding period of the preceding year, which was mainly due to the increase in the profit for the period.

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

The profit attributable to the equity holders of the Company amounted to RMB713 million in 2013, representing an increase of RMB49 million as compared with that of RMB664 million in the corresponding period of the preceding year. This was mainly attributable to the increase of gross profit driven by the increase of revenue during the period on one hand, and the increase of other gains resulted from sales of part of the non-major business assets by the Company's subsidiaries such as the financial assets and long-term equity investment on the other hand.

## **SEGMENT INFORMATION**

The Group's business can be divided into two segments: the aviation entire aircraft business and aviation parts and components business.

### **THE AVIATION ENTIRE AIRCRAFT BUSINESS**

#### **Revenue**

The Group's revenue derived from the aviation entire aircraft business for 2013 was RMB10,198 million, representing an increase of 23.27% as compared with that of the corresponding period of the preceding year. The above revenue includes: (1) the revenue derived from the helicopter business which represented a rapid increase in helicopter sales volume, amounted to RMB9,381 million, representing an increase of RMB2,164 million, or 29.98% as compared with that of the corresponding period of the preceding year and accounting for 91.99% of the total revenue of the aviation entire aircraft business; (2) the revenue of general purpose aircraft, which also represented an increase in its sales volume, amounted to RMB252 million, representing an increase of RMB76 million, or 43.18% as compared with that of the



corresponding period of the preceding year and accounting for 2.47% of the total revenue of the aviation entire aircraft business; (3) the revenue of the trainer aircraft business, which had a decreased sales volume, amounted to RMB565 million, representing a decrease of RMB315 million, and accounting for 5.54% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group in 2013 accounted for 45.95% of the Group's total revenue, representing an increase of 0.91 percentage points as compared with that in the corresponding period of the preceding year.

### **Gross Margin**

The gross margin of the Group's aviation entire aircraft business for 2013 was 7.91%, representing a decrease of 0.19 percentage points as compared with that of the corresponding period of the preceding year, mainly due to the decline in gross margin of trainer aircraft business.

## **AVIATION PARTS AND COMPONENTS BUSINESS**

### **Revenue**

The Group's revenue derived from aviation parts and components for 2013 was RMB11,995 million, representing an increase of 18.82% as compared with that of the corresponding period of the preceding year, which was mainly attributable to the increase in sales volume of avionics products. In particular, the revenue derived from avionics products amounted to RMB7,688 million, representing an increase of RMB785 million, or 11.37% as compared with that of the corresponding period of the preceding year and accounting for 64.09% of the total revenue of aviation parts and components business.

The revenue derived from aviation parts and components business for 2013 accounted for 54.05% of the Group's total revenue, representing a decrease of 0.91 percentage points as compared with that in the corresponding period of the preceding year.

### **Gross Margin**

The gross margin of the Group's aviation parts and components business for 2013 was 29.19%, representing a decrease of 3.04 percentage points as compared with that in the corresponding period of the preceding year. This was mainly attributable to the change in the products composition in aviation parts and components business and the increased costs such as testing costs of some products.

## **Business Review and Outlook**

In 2013, the global economy showed a slow recovery. Guided by the PRC government's macro-control, the national economy represented a trend of steady development with good progress. Notwithstanding the complicated overseas and domestic economic situations, China's aviation industry experienced a boom and the aviation technologies achieved historical breakthroughs, due to the government's policy encouragement and support to high-end equipment manufacturing industry. Aviation Industry Corporation of China ("AVIC"), the controlling shareholder of the Company, was listed in the Fortune Global 500 for five consecutive years with its ranking 214 places cumulatively up in the past five years from 426<sup>th</sup> to 212<sup>th</sup>, and ranked 6<sup>th</sup> in the segment of aviation, aerospace and defense. It also ranked 26<sup>th</sup> in the China's 500 Most Valuable Brands by the World Brand Laboratory, with a brand value of RMB76 billion.

Driven by the rapid development of China's aviation industry, the Group continuously pushed forward its established strategies, proactively explored the market of its products, promoted the assets reorganization, developed the aviation business, and achieved stable growth in its operating results.

The Company actively explored the market and enhanced its corporate governance, thereby significantly improving its image and brand influence in the market. During the reporting period, a number of the Group's products were displayed in various international air shows, expanding the market influence of our aviation products and further expanding our international market. Mr. Lin Zuoming, Chairman of the Board, was listed as one of the "China's Most Influential Business Leaders" for the third time and was named as the "14<sup>th</sup> China Economic Person of the Year". The Company was also, for the first time, awarded as "Asia's Most Promising Company on Corporate Governance in 2013" by Corporate Governance Asia Magazine.

The Company's asset reorganization was progressed smoothly and a high-efficient coordination platform was established through resources integration. The completion of assets reorganization in the helicopter business helped to form a comparatively complete civil helicopter industry chain. Meanwhile, the acquisition of three avionics companies was completed and the scale of avionics business was further expanded.

The existing aviation business of the Company recorded a significant increase. The helicopter business was promoted actively and realized remarkable achievements in marketing. Orders of helicopters were constantly received from home and abroad, and the Company entered into the new general aviation market for the first time. The upgraded and remodeled Z-9 has been widely used in public affairs, tourism, salvage and rescue, scientific investigation, police investigations and law enforcements domestically and overseas. The new model of helicopters developed by Airbus Helicopter, in which the Group participated, received the EASA airworthiness certificate.

The Group focused on the general aviation market of Y-12 based on its good market adaptabilities. During the reporting period, Y-12 was successfully delivered to new customers such as the State Sports General Administration and general aviation companies, and the Group obtained new export orders for Y-12. The research and development of new model of Y-12F were progressed smoothly and Y-12F was expected to obtain model certificates from China and the U.S. in 2014. In May 2013, Hafei Aviation signed a strategic cooperation agreement with Air Canada, pursuant to which, Air Canada would purchase at least 50 Y-12 series aircrafts within 5 years, signifying the first entry of Y-12 series aircrafts into the Canadian market.

The upgraded new model of L15 export-oriented aircraft made its maiden flight successfully. The Group actively explored international market for L15 trainer aircraft. N5B No.004 aircraft completed its adjustment test flight and proceeded to airworthiness test flight. The research and development of projects, such as new model of basic trainers, were also advanced steadily.

The Company's avionics and electromechanical business also achieved good operating results. JONHON Optronic and COMAC Shanghai Aircraft Manufacturing Co., Ltd. executed the master contract for C919 large aircraft project, making JONHON Optronic the sole supplier of integrated interconnection mounting platform. JONHON Optronic and National University of Defense Technology jointly designed the supercomputer project and provided batch support to Samsung of South Korea, which laid the foundation for its products to step into new areas and the international market. AVIC Avionics established a commercial innovation center to attract high-end talents of electronic communications, machinery and equipment industries, and focused on developing new product projects and creating new profit growth points. Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. ("**Oriental Instrument**"), a company newly acquired by the Group in 2013 became an important component supplier for Beidou satellite navigation system.

The Company's international cooperation projects were developed at a steady pace. In September 2013, Harbin Hafei Airbus Composite Materials Manufacture Centre Co., Ltd. ("**Airbus Composite Materials**") successfully delivered the first elevator for Airbus A350XWB wide-body aircraft. Five percent of the body structure work of this model of Airbus will be completed in China. Airbus Composite Materials will gradually become the exclusive elevator supplier of wide-body aircraft A350XWB. Legacy650, the first large executive jet assembled in Harbin Embraer Aircraft Industry Co., Ltd. successfully completed the first flight.

Meanwhile, the Company proactively launched investment projects. The Company increased its contribution to the registered capital of Tianjin Aviation Mechanical and Electrical Co., Ltd. with an amount of RMB250 million and subscribed for 18,628,912 shares through a private placement of JONHON Optronic, and participated in the non-public issuance of shares by Zhonghang Electronic Measuring Instruments Co., Ltd. ("**ZEMIC**"). JONHON Optronic successfully acquired part of

the equity interest in Xi'an Forstar S&T Co., Ltd. ("**Xi'an Forstar**"). Tianjin Aviation Mechanical and Electrical Co., Ltd. ("**Tianjin Tianli**"), an indirect subsidiary of the Company, completed the acquisition of 5% equity interest in Schneider Shanghai Low Voltage Terminal Apparatus Co., Ltd. ("**Schneider Shanghai**").

In 2014, China's economy is faced with the great need of upgrading and transformation. After the *Outline of the Twelfth Five-Year Plan for the National Economic and Social Development of China* clarified the strategic position of the aviation industry as the high-end equipment manufacturing industry, the comprehensively deepening reform also provided State-owned enterprises with a series of opportunities, such as resources integration, global mergers and acquisitions and the change of incentive mechanisms. Various policies on the general aviation industry reform were promulgated by the PRC government successively. Meanwhile, the International Air Transport Association published the 2014 global air transportation industry forecast which predicted an optimistic future and a stronger demand for air transportation driven by the recovering economy conditions. The acceleration of opening up of low altitude space will promote a new economy increasing point general aviation air resources economy, which will lead to a rapid development in the related industries including general aviation manufacturing, maintenance, operation and investment and construction of general aviation airports.

The Company will, driven by the new policies and the new market, further improve the development strategies, comprehensively deepen the reforms, and launch innovative management to maintain a steady and rapidly increasing trend by the following strategies:

1. Continuously deepening internal reforms to promote the rapid development, upgrading and transformation of businesses;
2. Unceasingly improving management, enhancing economic efficiency and focusing on developing the Group's value creating capabilities;
3. Building an industry development platform with complementary advantages, and high efficiency and coordination through assets reorganization;
4. Actively integrating into the air resources economic industry chain and expanding the research and manufacture of general aviation products;
5. Strengthening the existing market, and tapping into new market and overseas market with innovative market exploring means and marketing strategies;
6. Following the guidance of the market, serving for the public needs, and refining the current products research and development system;
7. Improving manufacturing capabilities through subcontracting and participating in international cooperation to expand international market shares; and
8. Continuously enhancing its corporate governance and promoting internal control to establish a governance system with higher standards.

## CASH FLOW AND FINANCIAL RESOURCES

### 1. Liquidity and capital resources

As at 31 December 2013, the Group's net cash and cash equivalents amounted to RMB6,726 million which was mainly derived from the following sources:

- cash and bank deposits at the beginning of the year;
- proceeds raised from issuance of shares; and
- funds generated from its operations;

The Group's cash flow for each of the year 2013 and 2012 were as follows:

Unit: RMB million (except percentage)

Main items of cash flow	2013	2012 (restated)	Changes (amount)	Changes (percentage)
Net cash (used in)/ generated from operating activities	572	(710)	1,282	N/A
Net cash used in investing activities	(3,409)	(2,733)	(676)	24.73%
Net cash generated from financing activities	3,976	2,191	1,785	81.47%

### 2. Operating, investing and financing activities

Net cash inflows generated from operating activities of the Group for the year 2013 increased by RMB1,282 million as compared with that of the corresponding period of the preceding year, which was mainly due to the increase in sales revenue and improved conditions of some subsidiaries' collections of sales revenue during the reporting period.

Net cash outflows used in investing activities of the Group for the year 2013 increased by RMB676 million or 24.73% as compared with that of the corresponding period of the preceding year, which was mainly attributable to the purchase of properties, plants and equipment by its subsidiaries and payments of cash by AVIC Avionics and JONHON Optronics for the acquisition of companies during the reporting period.

Net cash inflows generated from financing activities of the Group for the year 2013 increased by RMB1,785 million as compared with that in the corresponding period of the preceding year, which was mainly attributable to the newly increased bank loans of AVIC Avionics and refinancing and issuance of bonds by JONHON Optronic.

As at 31 December 2013, the Group's total borrowings amounted to RMB6,118 million, of which the short-term borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB3,952 million, RMB255 million and RMB1,911 million, respectively.

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

Maturity	RMB million
Within one year	255
In the second year	358
In the third to fifth year	1,230
After the fifth year	323
Total	2,166

As at 31 December 2013, the Group's bank borrowings amounted to RMB3,540 million with a weighted average interest rate of 6% per annum, accounting for 57.86% of the total borrowings. Other borrowings amounted to RMB2,578 million with a weighted average interest rate of 5%, accounting for 42.14% of the total borrowings.

As at 31 December 2013, there were no borrowings denominated in foreign currencies.

### **GEARING RATIO**

As at 31 December 2013, the Group's gearing ratio was 12.01% (31 December 2012: 11.03% as restated), which was arrived at by dividing the total borrowings by the total assets as at 31 December 2013.

### **CONTINGENT LIABILITIES AND GUARANTEES**

As at 31 December 2013, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

## **DESIGNATED DEPOSITS AND OVERDUE BUT UNRECOVERABLE FIXED DEPOSITS**

As at 31 December 2013, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected upon maturity.

## **GUARANTEED AND SECURED LOANS**

As at 31 December 2013, the Group's total borrowings amounted to RMB6,118 million, of which RMB796 million was secured by receivables with a net book value of approximately RMB829 million.

Borrowings placed under guarantees amounted to RMB1,440 million, of which RMB1,045 million represented guarantees amongst the members of the Group and RMB390 million represented guarantees provided by AVIC and its 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 arise from transactions involving assets, liabilities, and operating activities of the Group and are primarily associated with United States Dollar, Euro and Hong Kong Dollar.

In addition, the Company has some deposits in Hong Kong Dollar, being part of the proceeds raised from the previous fund raising activities. The directors of the Company of the opinion 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 2013, a total of RMB3,239 million of the proceeds raised from the fund raising activities has been used in the manufacturing, research and development of advanced trainers, helicopters and aviation composite materials as well as the acquisition of aviation assets and equity investments. The remaining balance was deposited in banks in the PRC as short term deposits.

## **EMPLOYEES**

As at 31 December 2013, the Group had 40,339 employees. The Group has provided appropriate emoluments, benefits and training to its employees.

The remuneration of the employees of the Group is determined based on the principle of fairness and reasonableness and with reference to comparable market standards, which comprises basic salary, contributions to public housing fund and contributions

to pension plans. The Group also pays discretionary year-end bonus to its employees based on their individual performance. The Group also provided various professional skill and management skill trainings to various departments of the headquarters of the Group and those of the subsidiaries. Comprehensive new-joiner trainings which cover corporate culture, management concepts and standardized management are also provided to new employees.

**Employees breakdown (by business segments)**

	<b>Number of employees</b>	<b>Percentage to total number of employees (%)</b>
Aviation	40,155	99.54
Entire Aircraft business	18,169	45.04
Parts and components business	21,986	54.50
Other businesses	184	0.46
Total	40,339	100

For the year ended 31 December 2013, total staff costs of the Group amounted to RMB3,127 million, representing an increase of RMB295 million as compared with that of RMB2,832 million (as restated) in the corresponding period of the preceding year.

**PURCHASE, SALE AND REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the shares of the Company for the year ended 31 December 2013.



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

1. On 16 April 2013, JONHON Optronic completed the issuance of new JONHON Optronic A Shares with 61,847,988 shares issued to six subscribers including the Company. Among that, 18,628,912 shares were subscribed by the Company. The net proceeds raised amounted to RMB807,332,365.72. Upon completion of the placing, the total issued share capital of JONHON Optronic increased from 401,625,000 shares to 463,472,988 shares, and the Company held 192,681,823 shares of JONHON Optronic, accounting for 41.75% of JONHON Optronic's total shares, and remained as the controlling shareholder of JONHON Optronic. For details, please refer to the announcements of the Company dated 17 April 2012, 4 May 2012, 30 July 2012 and 16 April 2013, respectively.

2. On 6 June 2013, the Company entered into the Share Subscription Agreement with ZEMIC (whose A shares are listed on the Shenzhen Stock Exchange), pursuant to which, the Company conditionally agreed to subscribe for approximately 4,579,700 A shares issued by ZEMIC for a total consideration of approximately RMB52.85 million. Upon completion of the subscription, the Company will directly hold approximately 2.28% equity interest in ZEMIC. The aforementioned number of shares to be subscribed and the consideration are subject to the approval of the competent government authorities.

Pursuant to Chapter 14A of the Rules (the “**Hong Kong Listing Rules**” ) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”), the entering into of the Share Subscription Agreement by the Company with ZEMIC constituted a connected transaction of the Company and was only subject to the reporting and announcement requirements, but was exempt from the independent shareholders' approval requirement. For details, please refer to the announcement of the Company dated 7 June 2013.

3. On 17 June 2013, the Company acquired 1.56% equity interest in Chengdu CAIC Electronics Co., Ltd. (“**AVIC Kaitian**”) from Chengdu Xiwu Technical Group Co., Ltd., an independent third party, through Beijing Equity Exchange at the listing price of RMB12,294,828 (the “**Share Acquisition**”). The transaction contemplated under the Share Acquisition was an exempted transaction under Chapter 14 of the Hong Kong Listing Rules. AVIC Kaitian is a subsidiary indirectly held by the Company, and was held as to 86.74% by AVIC Avionics. Upon completion of the Share Acquisition, the Company directly and indirectly held 88.30% equity interest in AVIC Kaitian. For details, please refer to the announcement of the Company dated 17 June 2013.

4. On 26 June 2013, AVIC Avionics entered into the acquisition agreement with AVIC Avionics Systems Co., Ltd. (“**AVIC Avonics Systems**”), pursuant to which, AVIC Avionics conditionally agreed to purchase the 100% equity interest in each of Beijing Keeven Aviation Instrument Co., Ltd. and Suzhou Changfeng Avionics Co., Ltd. from AVIC Avonics Systems for an aggregate consideration of RMB1,417,700,361 in cash.

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the transactions constituted discloseable and connected transactions of the Company and were therefore subject to the reporting, announcement and the independent shareholders’ approval requirements. For details, please refer to the announcements of the Company dated 9 December 2012, 14 June 2013, 26 June 2013, and 21 August 2013 respectively, and the circular of the Company dated 19 July 2013.

5. On 5 September 2013, AVIC Avionics entered into the acquisition agreement with Hanzhong Aviation Industry (Group) Co., Ltd. (“**Hanzhong Aviation**”), pursuant to which, AVIC Avionics conditionally agreed to purchase the 100% equity interest in Oriental Instrument from Hanzhong Aviation for an aggregate consideration of RMB176,044,942.15 in cash.

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the transaction constituted a connected transaction of the Company and was only subject to the reporting and announcement requirements, but was exempt from the independent shareholder’s approval requirement. For details, please refer to the announcement of the Company dated 5 September 2013.

6. On 13 November 2013, JONHON Optronics entered into equity transfer agreements with China-Belgium Direct Equity Investment Fund, Shaanxi Venture Capital Guiding Fund Centre and a few individual shareholders, respectively, all of which were third parties independent of the Company and its connected persons, pursuant to which, JONHON Optronics agreed to acquire 48.182% equity interest in Xi’an Forstar in aggregate, for a consideration of RMB126,881,609.40 in cash. For details, please refer to the announcements of the Company dated 24 October 2013 and 13 November 2013, respectively.

7. On 25 October 2013, JONHON Optronics convened a board meeting to consider and approve a capital injection of RMB110 million into AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (“**Shenyang Xinghua**”). Upon completion of the registered capital increase, the registered capital of Shenyang Xinghua increased from RMB61,265,300 to RMB80,856,400 and JONHON Optronics’ interest in Shenyang Xinghua increased from 51% to 62.87%. For details, please refer to the announcements of the Company dated 20 May 2013 and 27 October 2013,

respectively.

8. On 7 November 2013, Tianjin Tianli entered into the equity transfer agreement with AVIC International Beijing Co., Ltd. (“**AVIC International Beijing**”), pursuant to which AVIC International Beijing conditionally agreed to sell and Tianjin Tianli agreed to purchase 5% equity interest in Schneider Shanghai (the “**Equity Transfer Agreement**”), for a consideration of RMB49,230,000.

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the Equity Transfer Agreement constituted a connected transaction of the Company. The aggregation of the Equity Transfer Agreement and the equity transfer agreements entered into by the above two parties on 22 November 2012 in relation to the acquisition of 5% equity interest in each of Tianjin Merlin Gerin Co., Ltd. and Schneider Electric Low Voltage (Tianjin) Co., Ltd. was only subject to the reporting and announcement requirements, but was exempt from the independent shareholders’ approval requirement. For details, please refer to the announcements of the Company dated 22 November 2012 and 7 November 2013, respectively.

9. On 6 November 2013, the private placement of new Hafei Aviation A Shares to the Company, AVIC Helicopter Co., Ltd. and Harbin Aircraft Industry (Group) Co., Ltd. was completed and the relevant share registration formalities were also completed. In particular, the Company subscribed for 38,029,758 new Hafei Aviation A Shares, which was subject to a lock-up period of 36 months. On 13 November 2013, the cash subscription of 55,300,000 new Hafei Aviation A Shares under the Hafei Aviation Placing by independent qualified investors (subject to a lock-up period of 12 months) was all completed and raised RMB1,106 million funds. For details, please refer to the announcements of the Company dated 25 May 2012, 14 June 2012, 11 July 2012, 6 September 2012, 22 March 2013, 3 April 2013, 8 August 2013, 31 October 2013, 6 November 2013 and 13 November 2013, respectively, and circulars despatched by the Company to its shareholders dated 20 July 2012 and 13 May 2013, respectively.

## **OTHER SIGNIFICANT EVENTS**

1. On 29 January 2013, the issuance of corporate bonds by JONHON Optronic was completed with a final issuance size of RMB500 million and a maturity term of 5 years. The Company provided a full, unconditional and irrevocable joint liability guarantee in respect of the issuance of the corporate bonds. For details, please refer to the announcements of the Company dated 23 January 2013 and 29 January 2013, respectively.

2. On 25 March 2013, in order to enhance the competitive capabilities and to support the development of AVIC Avionics, the Company entered into the guarantee

agreement with AVIC Avionics, pursuant to which the Company agreed to provide a guarantee of RMB600 million to AVIC Avionics for the issuance of the corporate bonds in the aggregate principal amount of not more than RMB1.5 billion with a maturity term of not more than 5 years. For details, please refer to the announcement of the Company dated 25 March 2013.

3. On 25 March 2013, the Company and Aviation Industry Corporation Finance Company Limited (“**AVIC Finance**”) conditionally entered into the financial services framework agreement, pursuant to which AVIC Finance agreed to provide the Group with deposit services, loan services, settlement services, guarantee services and other financial services on a non-exclusive basis for a term of three years. For details, please refer to the announcements of the Company published on 25 March 2013, and 14 June 2013 respectively, and the circular of the Company dated 13 May 2013.

4. On 25 March 2013, the Board resolved that the conditions for unlocking of restricted shares were fulfilled in full by the Company and the scheme participants, according to the rules of the restricted share incentive scheme. Accordingly, one-third of the restricted shares granted to the eligible scheme participants under the initial grant were unlocked on 2 April 2013. For details, please refer to the announcement of the Company dated 25 March 2013.

5. In view of the latest regulatory environment of the PRC and to cater for the development of the Company, the Board approved the amendments to the Articles of Association in relation to the voting requirements for the transfer or conversion and listing of domestic invested shares issued by the Company and traded on overseas stock exchange(s). In the meantime, the means of corporate communication were adjusted to improve the operational efficiency of the Company. The amendments to the Articles of Association were approved by the shareholders by way of special resolution at the extraordinary general meeting and class meetings convened on 21 August 2013. For details, please refer to the announcements of the Company dated 14 June 2013, 5 July 2013, 19 July 2013, 24 July 2013, and 21 August 2013, respectively, and the circulars of the Company dated 5 July 2013 and 19 July 2013, respectively.

6. On 10 October 2013, the Company and the Beijing Dongdan Branch of the Bank of Communications Co., Ltd. entered into the entrusted loan agreement with AVIC Kaitian, pursuant to which the Company granted an entrusted loan of RMB50 million to AVIC Kaitian, with a term of three years to facilitate the construction project of a new production line of AVIC Kaitian. For details, please refer to the announcements of the Company dated 14 June 2013 and 10 October 2013 respectively.

7. On 18 December 2013, the Company entered into a products and services mutual supply and guarantee agreement with Hafei Aviation. The Company (for and on

behalf of the Group) agreed to provide aviation parts and components, raw materials and production and labour related services to Hafei Aviation and/or its associates, as well as provide continuing guarantees in relation to the bank loans obtained by them during their ordinary and usual course of business. Hafei Aviation (for and on behalf of Hafei Aviation and/or its associates) agreed to provide aviation parts and components, raw materials and production and labour related services to the Group. The term of this agreement is from 13 November 2013 to 31 December 2014. For details, please refer to the announcement of the Company dated 18 December 2013.

## **PROPOSED NEW APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR**

On 6 January 2014, due to other work commitments as required by his current employer, Mr. Li Xianzong applied to the Board for the resignation from his position as an independent non-executive director. According to Article 89 of the Articles of Association in relation to the composition of the Board, the Board consists of nine Directors, including three independent non-executive directors. Accordingly, the Company proposed that, a new independent non-executive director who would fill his vacancy shall be elected at the annual general meeting to be held on 13 June 2014 (the “AGM”), in accordance with the requirements with respect to the composition of the Board as provided in the Company’s Articles of Association. Mr. Li Xianzong’s term of office will not be terminated until the appointment of a candidate for the new independent non-executive director has been approved at the AGM. For further details, please refer to the announcement of the Company published on 6 January 2014.

Mr. Liu Renhuai has been nominated as the new independent non-executive Director with a term of office commencing from the date on which his proposed appointment is approved at the AGM until the date on which the resolution relating to the re-election of the 5<sup>th</sup> Session of the Board is considered at the annual general meeting in 2015. The proposed salary to be paid to Mr. Liu Renhuai as director’s fee is RMB170,000 per annum (pre-tax). The proposed salary was determined and recommended by the Remuneration Committee of the Company by reference to his qualifications and experience and the prevailing market conditions, subject to approval of AGM of the Company. No service contract has been entered into between Mr. Liu and the Company.

The biographical details of Mr. Liu Renhuai are set out as follows:

Mr. Liu Renhuai, aged 73, 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, 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).

As far as the directors of the Company are aware, save as disclosed herein, as at the date of this announcement, Mr. Liu Renhuai did not hold any directorships in other public listed companies nor did he hold any position with the Company or other members of the Group in the last three years. Mr. Liu Renhuai does not have any relationship with any Director, supervisor, senior management or substantial or controlling shareholders of the Company, and does not have any interests in the shares of the Company and its associated corporations within the meaning of Part XV of the SFO.

Save as disclosed above, there is no other information that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Hong Kong Listing Rules nor are there any matters that need to be brought to the attention of the shareholders in relation to the proposed appointment of Mr. Liu Renhuai.

#### **OTHER CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

At the Board meeting convened on 25 March 2014, Mr. Chen Yuanxian was appointed as the vice president and chief financial officer of the Company with effect from 25 March 2014. Mr. Wang Jun resigned as vice president and chief financial officer of the Company due to reaching the statutory retirement age with effect from 25 March 2014.

Saved as above, there was no change of the other directors, supervisors and senior management of the company for the year ended 31 December 2013.

## **FINAL DIVIDEND**

The Board recommends the payment of a final dividend for the year 2013 in an aggregate amount of RMB109,488,583.34, representing a dividend of RMB0.02 per share (2012: RMB0.02 per share), calculated based on the existing number of total issued shares of 5,474,429,167 shares as at the date of this announcement.

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 25 June 2014 (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 20 June 2014 to 25 June 2014 (both days inclusive), during which period no transfer of H Shares 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 19 June 2014.

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 AGM.

## **AUDIT COMMITTEE**

The Board has established an 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 other regulations.

The audit committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2013.

## **CORPORATE GOVERNANCE**

The Company has strictly complied with the applicable laws, rules and regulations and the Articles of Association to standardize its operation. The Board has reviewed

the corporate governance practices adopted by the Company for the year ended 31 December 2013 and is of the view that the Company has been in compliance 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 14 June 2013 for business matters 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 the 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 as its own guidelines for securities transactions by directors and supervisors 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 2013.

## **THE ANNUAL REPORT**

The annual report of the Company for the year ended 31 December 2013 will be despatched to the shareholders of the Company and published on the websites of the Hong Kong Stock Exchange and the Company (<http://www.avichina.com>) in due course.

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

Beijing, 25 March 2014

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

*\* For identification purpose only.*