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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 ability)*

**(Stock Code: 2357)**

**Announcement on the annual results for the year ended 31 December 2012**

**Financial Highlights**

The Board of the Company is pleased to announce that the Group achieved a rapid growth in the revenue and the profit in 2012.

- Revenue of the Group for the year 2012 amounted to RMB16,800 million, representing an increase of 26.59% as compared with that from the continuing operations in the corresponding period of the preceding year.
- Profit attributable to the equity holders of the Company for the year 2012 amounted to RMB600 million, representing an increase of 35.14% as compared with that from the continuing operations in the corresponding period of the preceding year.
- The Board recommended the payment of a final dividend for the year 2012 in an aggregate amount of RMB109,488,583.34, representing a dividend of RMB0.02 per share (RMB0.01 per share for the year 2011), 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 2012, together with the comparative figures for the year 2011, as follows:

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

		Group	
	Note	2012 RMB'000	2011 RMB'000 (Restated)
<b>Continuing operations</b>			
Revenue	3	16,800,189	13,271,415
Cost of sales		(13,530,434)	(10,618,903)
Gross profit		3,269,755	2,652,512
General and administrative expenses		(1,832,737)	(1,529,921)
Selling and distribution expenses		(323,719)	(275,962)
Other income	4	74,200	67,754
Other gains, net	5	82,134	64,683
Operating profit		1,269,633	979,066
Finance income	7	173,207	126,900
Finance costs	7	(160,400)	(145,581)
Finance income/(costs), net		12,807	(18,681)
Share of loss of a joint venture		(893)	-
Share of profit of associates		57,165	91,528
Profit before income tax		1,338,712	1,051,913
Income tax expense	8	(181,720)	(143,108)
Profit for the year from continuing operations		1,156,992	908,805
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	9	-	145,317
<b>Profit for the year</b>		<b>1,156,992</b>	<b>1,054,122</b>
<b>Attributable to:</b>			
Equity holders of the Company		600,394	498,967
Non-controlling interests		556,598	555,155
		<b>1,156,992</b>	<b>1,054,122</b>

**CONSOLIDATED INCOME STATEMENT  
(CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	Group	
		2012 RMB'000	2011 RMB'000 (Restated)
<b>Profit attributable to equity holders of the Company from:</b>			
- continuing operations		600,394	444,190
- discontinued operations		-	54,777
		<u>600,394</u>	<u>498,967</u>
<b>Earnings per share for profit attributable to equity holders of the Company during the year</b>		RMB	RMB
Basic			
- continuing operations	11	0.112	0.090
- discontinued operations	11	-	0.011
		<u>0.112</u>	<u>0.090</u>
Diluted			
- continuing operations	11	0.112	0.090
- discontinued operations	11	-	0.011
		<u>0.112</u>	<u>0.090</u>
		RMB'000	RMB'000
Dividend	12	109,489	54,744
		<u>109,489</u>	<u>54,744</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Group	
	2012	2011
	RMB'000	RMB'000 (Restated)
<b>Profit for the year</b>	1,156,992	1,054,122
	-----	-----
<b>Other comprehensive losses, net of tax</b>		
Change in fair value of available-for-sale financial assets	(73,890)	(118,286)
Transfer from available-for-sale financial assets reserve to income statement upon disposal of available-for-sale financial assets	11,084	(28,896)
	-----	-----
	(62,806)	(147,182)
	-----	-----
<b>Total comprehensive income for the year</b>	1,094,186	906,940
	=====	=====
<b>Attributable to:</b>		
Equity holders of the Company	574,206	436,691
Non-controlling interests	519,980	470,249
	-----	-----
	1,094,186	906,940
	=====	=====
<b>Total comprehensive income attributable to equity holders of the Company from:</b>		
- continuing operations	574,206	381,914
- discontinued operations	-	54,777
	-----	-----
	574,206	436,691
	=====	=====

**BALANCE SHEETS**  
**AS AT 31 DECEMBER 2012**

		Group	
	Note	2012	2011
		RMB'000	RMB'000 (Restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		4,856,146	4,483,458
Investment properties		26,529	28,046
Land use rights		557,910	590,429
Intangible assets		51,042	52,694
Interests in a joint venture		34,107	-
Interests in associates		1,059,579	1,052,664
Available-for-sale financial assets		1,095,772	632,368
Deferred income tax assets		69,319	66,851
Accounts receivable		51,342	-
		7,801,746	6,906,510
<b>Total non-current assets</b>			
<b>Current assets</b>			
Accounts receivable	13	5,957,238	4,387,540
Advances to suppliers		728,945	840,211
Other receivables and prepayments		1,081,522	1,355,061
Inventories		11,226,205	8,196,727
Financial assets held for trading		557	530
Pledged deposits		652,598	635,252
Term deposits with initial term of over three months		3,227,980	2,347,969
Cash and cash equivalents		5,219,321	6,303,412
		28,094,366	24,066,702
<b>Total current assets</b>			
		35,896,112	30,973,212
<b>Total assets</b>			

**BALANCE SHEETS (CONTINUED)  
AS AT 31 DECEMBER 2012**

		Group	
	Note	2012 RMB'000	2011 RMB'000 (Restated)
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital		5,474,429	4,949,025
Reserves		3,652,057	2,596,369
		<hr/>	<hr/>
		9,126,486	7,545,394
Non-controlling interests		7,367,102	6,572,866
		<hr/>	<hr/>
<b>Total equity</b>		16,493,588	14,118,260
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings		696,080	1,171,080
Deferred income from government grants		210,751	252,632
Deferred income tax liabilities		9,122	10,221
		<hr/>	<hr/>
<b>Total non-current liabilities</b>		915,953	1,433,933
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Current liabilities</b>			
Accounts payable	14	10,042,566	6,913,854
Advances from customers		3,017,033	3,964,371
Other payables and accruals		2,175,869	2,021,419
Amounts payable to ultimate holding company		466,379	466,379
Current portion of long-term borrowings		658,000	251,000
Short-term borrowings		1,994,010	1,636,304
Current income tax liabilities		132,714	167,692
		<hr/>	<hr/>
<b>Total current liabilities</b>		18,486,571	15,421,019
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total liabilities</b>		19,402,524	16,854,952
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total equity and liabilities</b>		35,896,112	30,973,212
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<b>Net current assets</b>		9,607,795	8,645,683
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
<b>Total assets less current liabilities</b>		17,409,541	15,552,193
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## 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 AVIC became the holding company of the Company onwards. 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 2013.

#### Major changes of Group structure

(a) On 18 January 2012, the Company acquired from AVIC Mechanical & Electrical Systems Co., Ltd. (“AMES”, a subsidiary of AVIC) its entire 100% equity interests in Tianjin Aviation Mechanical and Electrical Co., Ltd. (“**Tianjin Aviation**”).

The consideration of RMB 772,745,000 was satisfied by the Company by:

- (i) issuing 183,404,667 new shares with par value of RMB 1 each to AMES; and
- (ii) settling the remaining RMB193,186,000 in cash.

Accordingly deemed distribution of approximately RMB 376,591,000 consisting of the above share issuance and cash settlement were recognized in the Group’s equity during the year.

(b) On 24 October 2012, China AVIC Avionics Equipment Co., Ltd. (“**AVIC Avionics**”, a subsidiary of the Company) issued approximately 38 million new shares (equivalent to approximately RMB 621 million) to certain independent investors.

Upon this share issuance, the equity interests held by the Company in AVIC Avionics was diluted from 44.49% to 43.22%. AVIC Avionics remains a subsidiary of the Company since the Company had entered into an agreement that AVIC and certain of AVIC’s other subsidiaries would undertake to exercise their entire voting rights in AVIC Avionics 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 AVIC Avionics before and after the transaction.

## **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(a), given that the Company and Tianjin Aviation are both 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 Group.

By applying the principles of merger accounting, these consolidated financial statements of the Group also includes the financial positions, results and cash flows of Tianjin Aviation as if they had been combined with the Group throughout the year ended 31 December 2012. Comparative figures as at 31 December 2011 and for the year then ended have been restated as a result of such.

The following are reconciliations of the effects arising from the above mentioned common control combinations on the consolidated balance sheet as at 31 December 2011, consolidated income statement and consolidated statement of cash flow for the year ended 31 December 2011.



(i) The consolidated balance sheet as at 31 December 2011:

	Balances as previously reported RMB'000	Merger of Tianjin Aviation RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000
Total non-current assets	6,446,445	460,065	-	6,906,510
Total current assets	23,131,615	949,564	(14,477)	24,066,702
Total non-current liabilities	1,433,933	-	-	1,433,933
Total current liabilities	14,966,804	468,692	(14,477)	15,421,019
Total equity	13,177,323	940,937	-	14,118,260

(ii) The consolidated income statement for the year ended 31 December 2011:

	Balances as previously reported RMB'000	Merger of Tianjin Aviation RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000
<b>Continuing operations</b>				
Revenues	12,900,623	396,429	(25,637)	13,271,415
Profit for the year from continuing operations	782,190	126,615	-	908,805
<b>Discontinued operations</b>				
Profit for the year from discontinued operations	145,317	-	-	145,317
Profit for the year	927,507	126,615	-	1,054,122

(iii) The consolidated statement of cash flow for the year ended 31 December 2011:

	Balances as previously reported RMB'000	Merger of Tianjin Aviation RMB'000	Balances as restated RMB'000
Net cash generated from operating activities	93,201	4,020	97,221
Net cash (used in)/generated from investing activities	(604,188)	70,164	(534,024)
Net cash (used in) financing activities	(200,583)	(31,900)	(232,483)
	<u>                    </u>	<u>                    </u>	<u>                    </u>

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

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012:

IAS 12 (Amendment)	Deferred tax: Recovery of underlying assets
IFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters
IFRS 7 (Amendment)	Disclosures – Transfers of financial assets

The adoption of the above does not have any significant impact to the results and financial position of the Group for the year ended 31 December 2012.

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 2012 and have not been early adopted:

<b>Effective for accounting periods beginning on or after</b>		
IAS 1 (Amendment)	Presentation of financial statements – Other comprehensive income	1 July 2012
IAS 19 (Amendment)	Employee benefits	1 January 2013
IAS 27 (revised 2011)	Separate financial statements	1 January 2013
IAS 28 (revised 2011)	Associates and joint ventures	1 January 2013
IAS 32 (Amendment)	Financial instruments: Presentation - Offsetting financial assets and financial liabilities	1 January 2014
IFRS 1 (Amendment)	First-time adoption – Government loans	1 January 2013
IFRS 7 (Amendment)	Financial instruments: Disclosures - Offsetting financial assets and financial liabilities	1 January 2013
IFRS 7 and IFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015
IFRS 9	Financial instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurements	1 January 2013
IFRIC 20	Stripping costs in the production phase of a surface mine	1 January 2013

Under IFRS 10, there is a single approach for determining control for the purpose of consolidation of subsidiaries by an entity based on the concept of power, variability of returns and the ability to use power to affect the amount of returns. This replaces the previous approach which emphasised legal control under IAS 27 (Revised) (for companies) or exposure to risks and rewards under SIC 12 (for special purpose entities). The adoption of IFRS 10 does not have any financial impact on the Group as all subsidiaries within the Group satisfy the requirements for control under IFRS 10 and there are no new subsidiaries identified under the new guidance.

Management is in the process of assessing the related impacts of other new/revised standards, amendments to standards and interpretation 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 considers the business from a product perspective:

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

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.

	(Continuing operations)			(Discontinued operations)
	Aviation-entire aircrafts RMB'000	Aviation-parts & components RMB'000	Total RMB'000	Automobiles RMB'000
<b>For the year ended 31 December 2012</b>				
Total segment revenue	8,273,277	9,414,179	17,687,456	-
Inter-segment revenue	-	(887,267)	(887,267)	-
Revenue (from external customers)	8,273,277	8,526,912	16,800,189	-
Segment results	<u>305,600</u>	<u>1,095,861</u>	<u>1,401,461</u>	<u>-</u>
<b>Other profit &amp; loss disclosures</b>				
Depreciation and amortisation	165,724	281,673	447,397	-
Provision for impairments on receivables and inventories	18,210	38,013	56,223	-
Finance (cost)/income, net	(15,181)	27,988	12,807	-
Share of results of a joint venture	-	(893)	(893)	-
Share of results of associates	(39,742)	96,907	57,165	-
Income tax expense	<u>51,527</u>	<u>130,193</u>	<u>181,720</u>	<u>-</u>
<b>For the year ended 31 December 2011 (restated)</b>				
Total segment revenue	6,555,030	7,549,186	14,104,216	864,457
Inter-segment revenue	-	(832,801)	(832,801)	-
Revenue (from external customers)	6,555,030	6,716,385	13,271,415	864,457
Segment results	<u>189,453</u>	<u>928,068</u>	<u>1,117,521</u>	<u>170,846</u>
<b>Other profit &amp; loss disclosures</b>				
Depreciation and amortisation	185,098	274,095	459,193	-
Provision for impairments on receivables and inventories	1,539	15,983	17,522	8,372
Finance (cost)/income, net	(29,809)	11,128	(18,681)	1,985
Share of results of associates	(28,720)	120,248	91,528	4,061
Income tax expense	<u>38,620</u>	<u>104,488</u>	<u>143,108</u>	<u>25,529</u>

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

	2012	2011
	RMB'000	RMB'000
		(Restated)
Segment result for entire aircrafts and aviation parts & components	1,401,461	1,117,521
Corporate overheads	(62,749)	(65,608)
	<hr/>	<hr/>
Profit before income tax for continuing operations	1,338,712	1,051,913
Income tax expense	(181,720)	(143,108)
	<hr/>	<hr/>
Profit for the year from continuing operations	1,156,992	908,805
	<hr/> <hr/>	<hr/> <hr/>
Segment result for automobiles	-	170,846
Income tax expense	-	(25,529)
	<hr/>	<hr/>
Profit for the year from discontinued operations	-	145,317
	<hr/> <hr/>	<hr/> <hr/>

#### 4 Other income

	2012 RMB'000	2011 RMB'000 (Restated)
Rental income	17,687	22,909
Profit from sale of scrap materials	6,818	10,282
Income from rendering of maintenance and other services	25,185	12,668
Dividend income from available-for-sale financial assets and financial assets held for trading	24,510	21,895
	<u>74,200</u>	<u>67,754</u>

#### 5 Other gains, net

	2012 RMB'000	2011 RMB'000 (Restated)
Fair value gain/(loss) on financial assets held for trading	27	(296)
(Loss)/gain on disposal of:		
- property, plant and equipment	(742)	26,157
- investment properties	49,465	-
- interests in subsidiaries	7,779	-
- interests in associates	(1,618)	-
- available-for-sale financial assets	27,086	30,482
- financial assets held for trading	137	8,340
	<u>82,134</u>	<u>64,683</u>

## 6 Expenses by nature

	2012 RMB'000	2011 RMB'000 (Restated)
Advertising costs	7,931	8,116
Amortisation on:		
- Intangible assets	4,308	3,834
- Land use rights	12,370	13,247
Auditors' remuneration	10,441	11,763
Raw materials and consumables used	7,824,334	4,310,660
Changes in inventories of finished goods and work-in-progress	(2,253,356)	(1,245,935)
Contract costs incurred	4,548,647	4,326,669
Depreciation on:		
- Investment properties	1,206	1,430
- Property, plant and equipment	429,513	440,682
Less: amortisation of deferred income from government grants	(19,793)	(20,437)
	<u>410,926</u>	<u>421,675</u>
Fuel	262,319	259,385
Insurance	13,556	19,843
Operating lease rentals	105,091	67,964
Provision for impairment:		
- Inventories	19,523	2,858
- Receivables	36,700	14,664
Repairs and maintenance expense	157,460	172,434
Research expenditures and development costs	757,192	561,128
Staff costs, including directors' emoluments	2,439,195	2,380,044
Sub-contracting charges	365,805	307,934
Sundries	779,168	623,501
Transportation expenses	70,882	66,249
Travelling	114,398	98,753
	<u>15,686,890</u>	<u>12,424,786</u>
Total cost of sales, selling and distribution expenses, and general and administrative expenses	<u><u>15,686,890</u></u>	<u><u>12,424,786</u></u>



## 7 Finance income/ (costs), net

	2012 RMB'000	2011 RMB'000 (Restated)
Finance income:		
Interest income on bank balances and deposits	173,207	126,900
Finance costs:		
Interest expense on bank borrowings		
- Wholly repayable within 5 years	114,278	95,775
- Not wholly repayable within 5 years	-	6,295
Interest expense on other borrowings		
- Wholly repayable within 5 years	27,458	32,710
- Not wholly repayable within 5 years	31,651	16,035
	173,387	150,815
Less: Amount capitalised in property, plant and equipment	(22,726)	(19,452)
	150,661	131,363
Other finance costs	9,739	14,218
	160,400	145,581
	12,807	(18,681)

## 8 Income tax expense

	2012 RMB'000	2011 RMB'000 (Restated)
Current income tax	174,203	184,350
Deferred income tax	7,517	(41,242)
	181,720	143,108

Notes:

(a) Except for certain subsidiaries which are taxed at a preferential rate of 15% (2011:15%), 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% (2011: 25%) on the assessable income of 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:

	2012 RMB'000	2011 RMB'000 (Restated)
Profit before income tax from continuing operations	1,338,712	1,051,913
Tax calculated at the statutory tax rate of 25%	334,678	262,978
Preferential tax rates on the income of certain subsidiaries	(110,482)	(86,899)
Non-taxable income	(44,602)	(44,750)
Expenses not deductible for tax purposes	21,932	21,296
Utilisation of previously unrecognised tax losses	(6,775)	-
Others	(13,031)	(9,517)
Tax charge	181,720	143,108

## 9 Discontinued operations

The aggregate results and cash flows of the discontinued operations related to Harbin Dongan Auto Engine Co., Ltd. ("**Dongan Motor**") were as follows:

	2012 RMB'000	2011 RMB'000
Revenue	-	864,457
Expenses	-	(693,611)
Profit before income tax	-	170,846
Income tax expense	-	(25,529)
Profit from discontinued operations	-	145,317
Net cash used in operating activities	-	(136,176)
Net cash generated from investing activities	-	47,990
Net cash used in financing activities	-	(50,480)
Net cash outflows	-	(138,666)

## 10 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 RMB203,985,000 (2011: RMB 54,671,000).

## 11 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:

	2012 RMB'000	2011 RMB'000 (Restated)
Profit attributable to equity holders of the Company from		
- continuing operations	600,394	444,190
- discontinued operations	-	54,777
	<u>600,394</u>	<u>498,967</u>
Weighted average number of ordinary shares in issue less shares held for restricted share scheme for calculating basic earnings per share (thousands)	5,372,773	4,921,265
Potential dilutive effect arising from restricted shares (thousands)	3,763	9,620
	<u>5,376,536</u>	<u>4,930,885</u>

## 12 Dividend

	2012	2011
	RMB'000	RMB'000
Final dividend, proposed of RMB0.02(2011: RMB0.01) per share	109,489	54,744

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 2013.

## 13 Accounts receivable

	Group	
	2012	2011
	RMB'000	RMB'000 (Restated)
Trade receivables, gross (note (a))		
- Fellow subsidiaries	2,677,206	2,570,031
- Others	2,093,295	1,334,400
	<u>4,770,501</u>	<u>3,904,431</u>
Less: provision for impairment of receivables	(216,158)	(182,393)
	<u>4,554,343</u>	<u>3,722,038</u>
	-----	-----
Notes receivable (note (b))		
- Fellow subsidiaries	964,938	392,411
- Others	489,299	273,091
	<u>1,454,237</u>	<u>665,502</u>
	<u>6,008,580</u>	<u>4,387,540</u>
	-----	-----
Less: non-current portion	(51,342)	-
Current portion	<u>5,957,238</u>	<u>4,387,540</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:

	<u>Group</u>	
	2012	2011
	RMB'000	RMB'000 (Restated)
Current to 1 year	4,131,765	3,478,382
1 year to 2 years	478,460	256,779
Over 2 years	160,276	169,270
	<u>4,770,501</u>	<u>3,904,431</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.

## 14 Accounts payable

	Group	
	2012 RMB'000	2011 RMB'000 (Restated)
Trade payables (note (a))		
- Fellow subsidiaries	1,826,662	1,305,969
- Others	5,583,154	3,817,493
	<u>7,409,816</u>	<u>5,123,462</u>
Notes payables (note (b))		
- Fellow subsidiaries	1,411,954	880,474
- Others	1,220,796	909,918
	<u>2,632,750</u>	<u>1,790,392</u>
	<u><u>10,042,566</u></u>	<u><u>6,913,854</u></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	
	2012 RMB'000	2011 RMB'000 (Restated)
Current to 1 year	5,386,693	4,345,657
1 year to 2 years	1,495,635	423,823
2 years to 3 years	265,108	91,082
Over 3 years	262,380	262,900
	<u>7,409,816</u>	<u>5,123,462</u>

(b) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months. As at 31 December 2012, notes payable of RMB 1,695,119,000 (2011: RMB 1,676,068,000 as restated) were secured by pledged deposits to the extent of RMB 652,598,000 (2011: RMB635, 252,000 as restated).

## MANAGEMENT DISCUSSION AND ANALYSIS SUMMARY

During the year of 2012, the Group continued to carry out business reorganization and extend the new scope of aviation manufacture business according to its established strategic objectives. The acquisition of the entire interest in Tianjin Aviation Mechanical and Electrical Co., Ltd. (“**Tianjin Aviation**”) had been completed and the operating results of Tianjin Aviation had been consolidated into the Company’s financial results for the period, which brings new profit contribution to the Company. The acquisition has enhanced the Company’s manufacturing capabilities in aviation products and assemblies, and further perfected the aviation business system of the Company. Hafei Aviation Industry Co., Ltd. (“**Hafei Aviation**”) launched the reorganization of its helicopter business; and L15 advanced trainer achieved sales for the first time. The development of all businesses of the Company was accelerated during the year.

For the year ended 31 December 2012, the Group recorded a revenue of RMB16,800 million, representing an increase of 26.59% as compared with RMB 13,271 million from the continuing operations in the corresponding period of the preceding year. Profit attributable to the equity holders of the Company amounted to RMB600 million, representing an increase of 35.14% as compared with RMB444 million of the profit from the continuing operations attributable to the equity holders of the Company in the corresponding period of the preceding year.

## CONSOLIDATED OPERATING RESULTS

### 1 Composition of revenue

The revenue of the Group for 2012 was RMB16,800 million, representing an increase of 26.59% as compared with a revenue of RMB13,271 million from the Group’s continuing operations in the corresponding period of the preceding year. This is mainly attributable to the increase in the helicopter and avionics businesses, among which, the revenue derived from the helicopter business amounted to RMB7,217 million, representing an increase of RMB1,660 million, or 29.87% as compared with that of the corresponding period of the preceding year and the revenue derived from the avionics business amounted to RMB5,758 million, representing an increase of RMB947 million, or 19.68% as compared with that of the corresponding period of the preceding year.

The revenue of the Group’s entire aircraft business amounted to RMB8,273 million, representing an increase of RMB1,718 million, or 26.21% as compared with RMB6,555 million in the preceding year and accounting for 49.24% of the total revenue of the Group. Such increase is mainly due to the rapid growth in the helicopter

business. The revenue of the Group's aviation parts and components business amounted to RMB8,527 million, representing an increase of RMB1,811 million, or 26.97% as compared with RMB6,716 million in the preceding year and accounting for 50.76% of the total revenue of the Group. Such increase is mainly due 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 2012 amounted to RMB1,833 million, representing an increase of RMB303 million, or 19.80% as compared with RMB1,530 million of the general and administrative expenses for the continuing operations in the corresponding period of the preceding year. This is mainly attributable to the increase in labor costs and research and development expenses. In 2012, the Group continued to enhance management and reduce expenses, therefore the increase of general and administrative expenses was lower than the increase in revenue. In 2012, general and administrative expenses accounted for 10.91% of the revenue for the year 2012, representing 0.62 percentage points lower than the same for the continuing operations in the corresponding period of the preceding year.

## **3 Sales and distribution expenses**

The Group's sales and distribution expenses for 2012 amounted to RMB324 million, representing an increase of RMB48 million, or 17.39% as compared with RMB276 million of the sales and distribution expenses for the continuing operations in the corresponding period of the preceding year. Such increase was mainly attributable to the increase of market exploring expenses and remuneration of sales personnel. In 2012, the Group continued to enhance management and reduce expenses, therefore the increase of sales and distribution expenses was lower than the increase in revenue. In 2012, sales and distribution expenses accounted for 1.93% of the revenue for the year 2012, representing 0.15 percentage points lower than the same for the continuing operations in the corresponding period of the preceding year.

## **4 Operating profit**

The operating profit of the Group for 2012 amounted to RMB1,270 million, representing an increase of RMB291 million, or 29.72% as compared to RMB979 million from the continuing operations in the corresponding period of the preceding year. This was mainly attributable to the increase of RMB617 million, or 23.26% as compared with that in the corresponding period of the preceding year in gross margin resulting from the rapid development and increase in the revenue of the helicopter and avionics business.



## **5 Finance income/(costs),net**

The Group's net finance income amounted to RMB13 million, representing an increase in net income of RMB32 million as compared with RMB19 million of net finance costs for its continuing operations in the corresponding period of the preceding year. This was mainly attributable to the increase in interest income as compared with that in the corresponding period of the preceding year as a result of optimization in deposit structure during the year.

## **6 Income tax expense**

The Group's income tax in 2012 was RMB182 million, representing an increase of RMB39 million, or 27.27% as compared with RMB143 million for its continuing operations in the corresponding period of the preceding year which was mainly due to the increase in the profit of this year.

## **7 Net profit attributable to equity holders of the Company**

The profit attributable to the equity holders of the Company amounted to RMB600 million in 2012, representing an increase of RMB156 million as compared with RMB444 million from its continuing operations from the corresponding period of the preceding year. The main reason was the increase in operation profits and net finance income.

## **SEGMENT INFORMATION**

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

### **AVIATION SEGMENT**

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

##### **Revenue**

The Group's revenue derived from entire aircraft products for 2012 was RMB8,273 million, representing an increase of 26.21% as compared with that of the corresponding period of the preceding year which was mainly attributable to the rapid increase in the helicopter business. The revenue derived from the helicopter business amounted to RMB7,217 million, representing an increase of RMB1,660 million, or 29.87% as compared with that of the corresponding period of the preceding year and accounting for 87.24% of the total revenue of the entire aircraft business.

The revenue of the entire aircraft products of the Group in 2012 accounted for 49.24% of the total revenue, representing a decrease of 0.15 percentage points as compared with that in the corresponding period of the preceding year.

##### **Gross Margin**

Gross margin of the Group's entire aircraft business for 2012 was 8.10%, which is similar to that of last year.

## **AVIATION PARTS AND COMPONENTS BUSINESS**

### **Revenue**

The Group's revenue derived from aviation parts and components for 2012 was RMB8,527 million, representing an increase of 26.97% as compared with that of the corresponding period of the preceding year which was mainly attributable to the increase in sales of avionics products. Among the revenue derived from aviation parts and components, revenue derived from avionics products amounted to RMB5,758 million, representing an increase of RMB947 million, or 19.68% as compared with that of the corresponding period of the preceding year and accounting for 67.53% of the total revenue of aviation parts and components business.

The revenue derived from aviation parts and components products for 2012 accounted for 50.76% of the total revenue, representing an increase of 0.15 percentage points higher than that in the corresponding period of the preceding year.

### **Gross Margin**

Gross margin of the Group's aviation parts and components business for 2012 was 30.49%, which is slightly lower than that in 2011.

## **Business Review and Outlook**

In the year of 2012, global economy generally slowed down with an increased downward risk. The overall national economic performance was getting stabilized in a slow advancement, and the economic and social development realized a stabilized yet advancing development. Faced with the complicated situation at home and abroad, China aviation industry, as a strategic emerging industry listed in the 12<sup>th</sup> Five Year Plan for National Economic and Social Development of China (the “**Twelfth Five-year Plan**”), actively implemented the development strategy and improved the quality and efficiency to lay a good foundation for overall revitalization of the industry. In 2012, AVIC, the controlling shareholder of the Company, was listed on the Fortune Global 500 for the fourth consecutive year with an accumulated advance in ranking of 116. It was also elected into the 500 Most Valued Brand in China for the first time.

Driving by a strong force of development of China aviation industry, the Group continued to push forward the established strategy, vigorously developed the aviation core business of the Group in the first year upon completion of the automobile business disposal and integration to realize a rapid growth of the business of the Group in 2012.

In 2012, the Group further improved its industry chain. The acquisition of Tianjin Aviation from the Company’s controlling shareholder was completed and the operating results of Tianjin Aviation have been consolidated into the Company’s financial results for the period, which brings new profit contribution to the Company. The acquisition has also enhanced the Company’s manufacturing capabilities in aviation products and assemblies, and further completed the system of aviation business of the Company. Meanwhile, to actively put forward the reorganization and integration of the current aviation business, Hafei Aviation launched its helicopter business reorganization.

In 2012, the Company also completed its H shares placing and domestic shares issuance. In addition, AVIC Avionics smoothly completed its non-public offering of A shares. The non-public offering of A shares of China Aviation Optical-Electrical Technology Co., Ltd. (“**JONHON Optronic**”) has also received the approval of China Securities Regulatory Commission (“**CSRC**”) as of the date of this announcement.

In 2012, market influence and social concentration of the Group was significantly improved. Products of the Group made a successful show in the ninth Zhuhai Airshow and other international aviation exhibitions during the year. Mr. Lin Zuoming, chairman of the Board was rewarded the Most Influential Business Leader in China.

In 2012, the Group actively developed its helicopter products with remarkable

achievement in market development. In December, Hafei Aviation signed sales agreements on Z-9 and fixed-wing aircraft which are expected to be delivered before mid-2014. EC175, which is jointly researched and developed by Hafei Aviation and Eurocopter of French, has completed the research stage and has started volume production. The Group is also proactively exploring the market development of other new helicopter products was also promoted.

In November 2012, Jiangxi Hongdu Aviation Industry Co., Ltd. (“**Hongdu Aviation**”) and China National Aero-Technology Import & Export Corporation signed a sales agreement on L15 advanced trainer in Zhuhai, pursuant to which, China National Aero-Technology Import & Export Corporation agreed to purchase 12 L15 trainer from Hongdu Aviation. The L15 pulse production line of Hongdu Aviation smoothly passed the test and evaluation.

In December 2012, Y-12F smoothly completed the plateau flight test successfully proving its good plateau performance. At present, Y-12 series aircraft have received new orders.

In June 2012, the assembling and manufacturing project for Legacy 600/650 Executive Jets by Harbin Embraer Aircraft Industry Co., Ltd. (“**Harbin Embraer**”), an associated company of the Group, received the approval from the National Development and Reform Commission. In the meantime, Harbin Embraer and ICBC Financial Leasing Co. limited signed a sales agreement for ten Legacy 650 Executive Jets in Rio de Janeiro, which included the confirmed order for 5 jets and the intended order for another 5 jets, with first executive jet expected to be delivered at the end of 2013. At the same time, Hafei Aviation signed a subcontracting agreement with Boeing Australia for the Boeing 737 aileron adjustment sheet project, which is the third related project between Hafei Aviation and Boeing indicating the continuing high degree of recognition of the Group by the partners in international cooperation.

During 2012, the Group continued to improve its technology research and development capabilities of its avionics products. AVIC Avionics and JONHON Optronics, as supporting units for the Shenzhou series, provided a strong support for the successful launch of Shenzhou-9. JONHON Optronics has completed the appraisal evaluations for 14 scientific and technological achievements, which are representatives of the latest research achievements on new product development of JONHON Optronics in the recent two years. Certain new scientific and technological products of AVIC Avionics also passed the airworthiness examination.

2013 is the tenth anniversary of the listing of AviChina. After several years’ efforts in reorganization and acquisition, the revenue scale of its aviation business of the

Company is constantly extended with a steady increase in profit and market share. The Chinese government has further clarified the strategy position of high-end manufacturing industry including aviation equipment. The progressive implementation of low altitude airspace reform brings a potential general aviation market. Good policy support and its stable market position will provide new room for the Company to explore a new market.

In this crucial period of realizing leapfrog development in the aviation industry, the Group will proactively face the opportunities and challenges, further improve the development strategies and fully promote a sustainable and steady growth in all its businesses.

1. Actively exploring the market, increasing the market share, enhancing the communication with customers and improving the sales and after-sales network establishment.
2. Seeking support from the parent company to strengthen the investment in order to promote the scale operation of aviation industry and industrialization of high technology, and maintain a stronger and core industry competitiveness.
3. Improving qualities of the existing helicopter products and insisting on retrofitting and upgrading to improve the existing helicopter series and striving for more helicopter orders.
4. Capitalizing on the development of general aviation policies to greatly expand the general aviation industry chain.
5. Focusing on research and manufacturing of large scale passenger aircrafts to promote the industry development, transformation and upgrading of avionics equipment system and aviation material and parts.
6. Adopting various ways of expanding aviation subcontracting to continuously improve the scope and level of cooperation in subcontracting manufacture.
7. Exploring international merger and acquisitions to extend and form a complete industry chain.
8. Comprehensively improving the management level to establish a highly capable and efficient corporate governance structure.

## CASH FLOW AND FINANCIAL RESOURCES

### 1. Liquidity and capital resources

As at 31 December 2012, the Group's net cash and cash equivalents amounted to RMB5, 219 million which was mainly derived from the following sources:

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

The Group's cash flow for each of the year 2012 and 2011 were as follows:

Unit: RMB million (except percentage)

Main items of cash flow	2012	2011 (restated)	Changes (amount)	Changes (percentage)
Net cash (used in)/generated from operating activities	(746)	97	(843)	N/A
of which: Net cash (used in)/generated from continuing operations	(746)	233	(979)	N/A
Net cash used in investing activities	(2,167)	(534)	(1,633)	305.81%
of which: Net cash used in investing activities of continuing operations	(2,167)	(582)	(1,585)	272.34%
Net cash (used in)/generated from financing activities	1,829	(232)	2,061	N/A
of which: Net cash (used in)/generated from financing activities of continuing operation	1,829	(182)	2,011	N/A
Net (decrease)/increase in cash and cash equivalents	(1,084)	(669)	(415)	62.03%

### 2. Operating, investing and financing activities

Net cash inflows generated from operating activities of the Group for the year 2012 decreased by RMB843 million as compared with that of the corresponding period of the preceding year, among which, net cash inflows generated from the continuing operations for the year 2012 decreased by RMB979 million as compared with that of the corresponding period of the preceding year, which was mainly due to the significant increase in receivables as at the end of the reporting period and in inventories used for manufacture and operations next year.

Net cash outflows used in investing activities of the Group for the year 2012 increased by RMB1,633 million or 305.81% as compared with that of the corresponding period of the preceding year, among which, net cash outflows used in investing activities of continuing operations for the year 2012 increased by RMB1,585 million as compared with that of the corresponding period of the preceding year, which was mainly attributable to the increase of the term deposits with an initial term of over three months and use of raised funds in external investments in 2012.

Net cash inflows generated from financing activities of the Group for the year 2012 increased by RMB2,061 million as compared with that in the corresponding period of the preceding year, among which, net cash inflows generated from financing activities of continuing operations increased by RMB2,011 million as compared with that of the corresponding period of the preceding year. The main reason was the inflows from the placing of new shares by the Company and the proceeds raised by the non-public issuances of shares by subsidiaries of the Company in 2012.

As at 31 December 2012, the total borrowings of the Group amounted to RMB3,348 million, of which the short-term borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB1,994 million, RMB658 million and RMB696 million, respectively.

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

Maturity	RMB million
Within one year	658
In the second year	68
In the third to fifth year	128
After the fifth year	500
Total	1,354

As at 31 December 2012, the Group's bank borrowings amounted to RMB1,897 million with a weighted average interest rate of 6% per annum, accounting for 56.66% of the total borrowings. Other borrowings amounted to RMB1,451 million with a weighted average interest rate of 5%, accounting for 43.34% of the total borrowings.

As at 31 December 2012, there were no borrowings denominated in foreign currencies.

## **GEARING RATIO**

As at 31 December 2012, the Group's gearing ratio was 9.33% (31 December 2011:



9.87% as restated), which was arrived at by dividing the total borrowings by total assets as at 31 December 2012.

### **CONTINGENT LIABILITIES AND GUARANTEES**

As at 31 December 2012, 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 2012, 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 2012, the Group's total borrowings amounted to RMB3,348 million, of which RMB421 million was secured by receivables with a net book value of RMB469 million.

Borrowings placed under guarantees amounted to RMB693 million, of which RMB680 million represented guarantees amongst the members of the Group and RMB13 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 Renminbi. The exposure to foreign currencies exchange risks mainly arises from transactions involving assets, liabilities, and operating activities of the Group and are primarily associated with United States Dollar, Euro and Hong Kong Dollar.

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 are of the opinion that the exchange rate risks to the Group are low and will not have any material adverse impact on the Group's financial results.

### **USE OF PROCEEDS**

Up to 31 December 2012, a total of RMB2,449 million of the proceeds raised from the fund raising activities (including the proceeds raised from the placings conducted in 2010 and 2012) 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 investment. The remaining balance was deposited in banks in the PRC as short term deposits.

## **EMPLOYEES**

As of 31 December 2012, the Group had 36,824 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 fair and reasonableness and with reference to comparable market standards, which comprises basic salary, contribution to a 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. 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	36,750	99.80
Entire Aircraft business	17,601	47.80
Parts and components business	19,149	52.00
Other businesses	74	0.20
Total	36,824	100

For the year ended 31 December 2012, total staff costs amounted to RMB2,439 million, representing an increase of RMB59 million as compared with that of RMB2,380 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 has purchased, sold or redeemed any of the shares of the Company for the year ended 31 December 2012.

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

1. On 18 January 2012, the Company completed the issuance of 183,404,667 domestic shares to AVIC Electromechanical Systems Company Limited (“**AMES**”), a wholly-owned subsidiary of AVIC, as partial consideration for the acquisition of Tianjin Aviation. Upon completion of such issuance, the total number of domestic shares of the Company has increased from 2,934,590,598 domestic shares to 3,117,995,265 domestic shares. The total number of issued shares of the Company has increased from 4,949,024,500 shares to 5,132,429,167 shares. For details of the transaction, please refer to the announcement of the Company dated 25 January 2011 and the circular of the Company dated 21 February 2011 respectively, and the announcement of the Company dated 18 January 2012.

2. On 27 March 2012, Jiangxi Changhe Aviation Industry Co., Ltd. (“**Changhe Aviation**”), a wholly-owned subsidiary of the Company, entered into the Shares Transfer Agreement with Changhe Aircraft Industries Group Co., Ltd. (“**CAIG**”), pursuant to which Changhe Aviation has agreed to transfer, subject to certain conditions, 51% of the equity interest held by it in Jiujiang Changhe Automobile Co., Ltd. (“**Jiujiang Auto**”) to CAIG, for a consideration of approximately RMB 65,970,000 (“**Shares Transfer**”). The consideration will be satisfied by CAIG by way of cash. Upon completion of the Share Transfer, Jiujiang Auto will cease to be a subsidiary of the Company.

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the Share Transfer constituted a connected transaction of the Company and was subject to announcement and reporting requirements but was exempt from the Company’s independent shareholders’ approval requirement. For details of the transaction, please refer to the announcement of the Company dated 27 March 2012.

3. On 2 May 2012, the board of directors of JONHON Optronic resolved to place not more than 68.5 million new JONHON Optronic A Shares for subscription by not more than 10 target investors including the Company (the “**JONHON Optronic Placing**”). The total proceeds raised from the JONHON Optronic Placing did not exceed RMB1 billion. All target investors subscribed for the new JONHON Optronic A Shares by cash. None of the remaining target investors was a connected person of the Company.

On 2 May 2012, the Company entered into the Subscription Agreement with JONHON Optronic for subscription, subject to certain conditions and adjustment (if any), of the new JONHON Optronic A Shares at the placing price of RMB14.63 (the “**Placing Price**”) by cash in an aggregate amount of RMB250 million. The Placing Price would be finally determined by the board of directors of JONHON Optronic

pursuant to the authorisation of its shareholders at the general meeting and after having been approved by the relevant PRC government authorities and taken into account the bidding prices offered by the target investors. Upon completion, such new JONHON Optronic A Shares will be listed on the Shenzhen Stock Exchange. The JONHON Optronic Placing was approved by the State-owned Assets Supervision and Administration Commission on 27 July 2012, and was passed at the general meeting of the shareholders of JONHON Optronic on 1 August 2012, and was approved by the CSRC on 25 February 2013. Upon completion, the equity interest held by the Company in JONHON Optronic will be diluted by approximately 2.68% from 43.34% to approximately 40.66% of the enlarged share capital of JONHON Optronic. JONHON Optronic will remain as a subsidiary of the Company after completion.

Pursuant to the Listing Rules, such dilution constituted a deemed disposal by the Company of 2.68% equity interest in JONHON Optronic, which was exempt from the announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. For details of the transaction, please refer to the announcements of the Company dated 17 April 2012, 4 May 2012 and 30 July 2012.

4. On 25 May 2012, the Board of the Company and the board of directors of Hafei Aviation respectively resolved to issue approximately 252,894,000 new Hafei Aviation A Shares for subscription by AVIC Helicopter Limited ("**AVIC Helicopter**"), Harbin Aircraft Industry Group Limited ("**AVIC Hafei**"), the Company and not more than ten independent qualified investors respectively (the "**Hafei Aviation Placing**"). On 25 May 2012, Hafei Aviation entered into the Subscription Agreement with AVIC Helicopter, AVIC Hafei and the Company respectively in relation to the Hafei Aviation Placing, as well as the Supplementary Agreement on 11 July 2012, pursuant to which Hafei Aviation will issue approximately 256,301,061 new Hafei Aviation A Shares for subscription by (i) AVIC Helicopter for approximately 107,510,979 new Hafei Aviation A Shares for a consideration to be satisfied by the transfer of the related interest held by AVIC Helicopter to Hafei Aviation ("**AVIC Helicopter Subscription**"); (ii) AVIC Hafei for approximately 47,341,165 new Hafei Aviation A Shares for a consideration to be satisfied by the transfer of the related assets held by AVIC Hafei to Hafei Aviation ("**AVIC Hafei Subscription**"); (iii) the Company for approximately 37,409,221 new Hafei Aviation A Shares for a consideration to be satisfied by the transfer of the Changhe Aviation Interest (as defined below) to Hafei Aviation ("**Company's Subscription**"); and (iv) not more than 10 independent qualified investors for an aggregate of approximately 64,039,696 new Hafei Aviation A Shares for a consideration to be satisfied by cash ("**Cash Subscription**"). The subscription price of AVIC Helicopter Subscription, AVIC Hafei Subscription and Company's Subscription is RMB17.13 per new Hafei Aviation A Share. The subscription price of the Cash Subscription shall be not less than RMB17.13 per new Hafei Aviation A Share.

Pursuant to Chapter 14A of the Listing Rules, the AVIC Helicopter Subscription and AVIC Hafei Subscription constituted connected transactions of the Company and were subject to the announcement, reporting and approval by the independent shareholders of the Company requirements under Chapter 14A of the Listing Rules and also constituted discloseable transactions of the Company.

In relation to the Company's Subscription, the Company would subscribe for the new Hafei Aviation A Shares for a consideration to be satisfied by the transfer of its equity interest in Changhe Aviation ("**Changhe Aviation Interest**") to Hafei Aviation. Following completion of the Hafei Aviation Placing, the Company will indirectly hold the equity interest in Changhe Aviation through its subsidiary, Hafei Aviation, and Changhe Aviation will continue to be a subsidiary of the Company, where the Company's equity interest in Changhe Aviation will be diluted accordingly. Pursuant to Chapter 14 of the Listing Rules, the transfer of Changhe Aviation Interest by the Company to Hafei Aviation as the consideration for the Company's Subscription constituted a discloseable transaction of the Company.

Upon completion of the Hafei Aviation Placing, the equity interest to be held directly and indirectly by the Company in Hafei Aviation will be diluted by approximately 15.30% from 50.05% to approximately 34.75%. Whereas Hafei Aviation will remain to be a subsidiary of the Company following completion of the Hafei Aviation Placing, such dilution constituted a deemed disposal by the Company of approximately 15.30% equity interest in Hafei Aviation. Pursuant to Chapter 14 of the Listing Rules, such deemed disposal constituted a discloseable transaction of the Company. For details of the transaction, please refer to the announcements of the Company dated 6 February 2012, 25 May 2012, 14 June 2012 and 11 July 2012 respectively and the circular of the Company dated 19 July 2012.

5. On 10 September 2012, the Company entered into the Capital Injection Agreement with (i) AVIC; (ii) Aviation Industry Information Centre; (iii) AVIC Economy and Technology Institute; (iv) China Aviation News and (v) China Aviation Publishing & Media Co., Ltd. pursuant to which the Company, AVIC Economy and Technology Institute and China Aviation News will inject a total of RMB33 million into China Aviation Publishing & Media Co., Ltd. by way of capital increase in cash (the "**Capital Injection**").

Pursuant to the Listing Rules, the Capital Injection constituted a connected transaction of the Company and was subject to reporting and announcement requirements but was exempt from the requirement of approval by the independent shareholders of the Company. For details of the transactions, please refer to the announcement of the Company dated 11 September 2012.

6. On 20 September 2012, the Company entered into the Capital Contribution Agreement with AVIC, China Aviation Industry General Aircraft Co., Ltd. and Hebei Aviation Investment Group Co., Ltd., pursuant to which the Company, China Aviation Industry General Aircraft Co., Ltd. and Hebei Aviation Investment Group Co., Ltd. will establish AVIC Huabei Aircraft Industry Co., Ltd. Upon establishment of AVIC Huabei Aircraft Industry Co., Ltd., the Company, AVIC China Aviation Industry General Aircraft Co., Ltd. and Hebei Aviation Investment Group Co., Ltd. will own 12%, 53% and 35% of the equity interest in AVIC Huabei Aircraft Industry Co., Ltd., respectively.

Pursuant to the Listing Rules, the transaction constituted a connected transaction of the Company and was subject to reporting and announcement requirements but was exempt from the requirement of approval by the independent shareholders of the Company. For details of the transaction, please refer to the announcement of the Company dated 20 September 2012.

7. On 22 November 2012, Tianjin Tianli Aviation Electro-mechanical Co., Ltd., (75% of the equity interest of which is held by Tianjin Aviation, a subsidiary of the Company) entered into the Tianjin Merlin Gerin Co., Ltd. Equity Transfer Agreement and Schneider Electric Low Voltage (Tianjin) Co., Ltd. Equity Transfer Agreement with AVIC International Beijing Company Limited, pursuant to which AVIC International Beijing Company Limited agreed to sell and Tianjin Tianli Aviation Electro-mechanical Co., Ltd. agreed to purchase 5% equity interests in each of Tianjin Merlin Gerin Co., Ltd. and Schneider Electric Low Voltage (Tianjin) Co., Ltd. respectively (collectively, the “**Equity Transfers**”).

Pursuant to the Listing Rules, the Equity Transfers constituted connected transactions of the Company and were subject to reporting and announcement requirements but were exempt from the requirement of approval by the independent shareholders of the Company. For details of the transaction, please refer to the announcement of the Company dated 22 November 2012.

#### **SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD**

On 29 January 2013, the issuance of bonds by JONHON Optronics was completed and the final issue size is RMB500 million. For details of the issuance, please refer to the announcements of the Company dated 23 January 2013 and 29 January 2013 respectively.

## **SIGNIFICANT EVENTS DURING THE REPORTING PERIOD**

1. On 18 January 2012, all of the conditions precedent to the Tianjin Aviation Acquisition, as set out in the acquisition agreement were satisfied, and the consideration shares involving 183,404,667 new domestic shares of the Company had been issued to AMES by the Company. Upon completion of the above shares issuance, the total number of issued shares of the Company has increased from 4,949,024,500 shares to 5,132,429,167 shares. In particular, the total number of domestic shares has increased from 2,934,590,598 domestic shares to 3,117,995,265 domestic shares, and the total number of H Shares held by the public shareholders remains unchanged.
2. On 24 February 2012, the Company entered into the Placing Agreement with BOCI Asia Limited in relation to the placing, on a fully underwritten basis, of an aggregate of 342,000,000 H Shares (the “**Placing Shares**”) at the placing price of HK\$3.55 per placing share (the “**Placing**”). Completion of the Placing took place on 2 March 2012. The total number of issued shares of the Company has increased from 5,132,429,167 shares to 5,474,429,167 shares resulting from the issue of the Placing Shares. The total number of H Shares held by the public has increased from 2,014,433,902 H Shares to 2,356,433,902 H Shares upon completion of the Placing.

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

At the annual general meeting of the Company held on 25 May 2012, due to the expiry of the term of office of all the directors and supervisors of the Third Session of the Board and the Supervisory Committee, the Company elected the directors of the Fourth Session of the Board and the shareholder representative supervisors of the Fourth Session of the Supervisory Committee.

At the Board meeting held on 25 May 2012, Mr. Lin Zuoming was appointed as the chairman of the Fourth Session of the Board and Mr. Tan Ruisong was appointed as the vice chairman of the Fourth Session of the Board. After the annual general meeting and the Board meeting, the Fourth Session of the Board comprises the following members: Mr. Lin Zuoming (chairman and executive Director), Mr. Tan Ruisong (vice chairman, executive Director and general manager), Mr. Gu Huizhong (non-executive Director), Mr. Gao Jianshe (non-executive Director), Mr. Sheng Mingchuan (non-executive Director), Mr. Maurice Savart (non-executive Director), Mr. Guo Chongqing (independent non-executive Director), Mr. Li Xianzong (independent non-executive Director) and Mr. Lau Chung Man, Louis (independent non-executive Director).

At the Supervisory Committee meeting held on 25 May 2012, Ms. Bai Ping was appointed as the chairman of the Fourth Session of the Supervisory Committee. After the annual general meeting and the Supervisory Committee meeting, the Fourth Session of the Supervisory Committee comprises the following members: Ms. Bai Ping (chairman of the Supervisory Committee and shareholder representative Supervisor), Mr. Yu Guanghai (shareholder representative Supervisor) and Ms. Li Jing (employee representative Supervisor).

At the Board meeting held on 25 May 2012, Mr. Tan Ruisong was appointed as the general manager of the Company. Mr. Wang Jun, Mr. Ni Xianping, Mr. Zheng Qiang and Mr. Zhang Kunhui were appointed as the vice general managers of the Company. Mr. Wang Jun was appointed as the chief financial officer of the Company. Mr. Yan Lingxi was appointed as the Board secretary of the Company.

## **FINAL DIVIDEND**

The Board recommends the payment of a final dividend for the year 2012 in an aggregate amount of RMB109,488,583.34, representing a dividend of RMB0.02 per share (2011: RMB0.01 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, which is subject to adjustment based on the number of the total issued shares of the Company 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 26 June 2013 (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 21 June 2013 to 26 June 2013 (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 20 June 2013.

In accordance with Article 149 of the Articles of Association, the dividend will be declared in RMB to the shareholders. The dividend payable to holders of the domestic shares will be paid in RMB within three months after the dividend declaration date. The dividend payable to H shareholders is calculated and declared in RMB and will be paid in Hong Kong Dollars within three months after the dividend declaration date. The amount to be paid in Hong Kong Dollars will be converted based on the average closing exchange rate between RMB and Hong Kong Dollars issued by the People's Bank of China for the five working days prior to the declaration of dividends at the annual general meeting of the Company to be held on 14 June 2013.



## **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 2012.

## **CORPORATE GORVENANCE**

The Company has strictly complied with the applicable laws 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 2012 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 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 25 May 2012 for urgent business matters and Mr. Tan Ruisong, executive director of the Company, 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 have complied with the Model Code under the Hong Kong Listing Rules for the year ended 31 December 2012.

## **THE ANNUAL REPORT**

The annual report of the Company for the year ended 31 December 2012 will be dispatched 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 2013

*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.*