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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 2014, Proposed Re-election and New Appointment of Directors and Shareholder Representative Supervisors, and Change of External Auditors

**Financial Highlights**

- Revenue of the Group for the year 2014 amounted to RMB25,710 million, representing an increase of 15.85% as compared with that in the corresponding period of the preceding year.

- Profit attributable to the equity holders of the Company for the year 2014 amounted to RMB781 million, representing an increase of 9.54% as compared with that in the corresponding period of the preceding year.

- The Board recommended the payment of a final dividend for the year 2014 in an aggregate amount of RMB109,488,583.34, representing a dividend of RMB0.02 per share (RMB0.02 per share for the year 2013), 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 2014, together with the comparative figures for the year 2013, as follows:

## CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2014

| | Note | Group 2014 RMB'000 | Group 2013 RMB'000 |
|---|---|---|---|
| **Revenue** | 3 | 25,710,377 | 22,192,749 |
| Cost of sales | | (20,811,590) | (17,885,023) |
| **Gross profit** | | 4,898,787 | 4,307,726 |
| General and administrative expenses | | (2,749,702) | (2,386,380) |
| Selling and distribution expenses | | (470,346) | (414,669) |
| Other income | 4 | 113,125 | 57,776 |
| Other gains, net | 5 | 203,188 | 193,434 |
| **Operating profit** | | 1,995,052 | 1,757,887 |
| Finance income | 7 | 233,385 | 226,173 |
| Finance costs | 7 | (369,131) | (300,049) |
| Finance costs, net | | (135,746) | (73,876) |
| Share of profit of a joint venture | | 15,792 | 3,574 |
| Share of profits of associates | | 127,921 | 73,135 |
| Profit before income tax | | 2,003,019 | 1,760,720 |
| Income tax expense | 8 | (267,298) | (249,686) |
| **Profit for the year** | | 1,735,721 | 1,511,034 |
| **Attributable to:** | | | |
| Equity holders of the Company | | 781,298 | 712,623 |
| Non-controlling interests | | 954,423 | 798,411 |
| | | 1,735,721 | 1,511,034 |
| **Earnings per share for profit attributable to equity holders of the Company during the year** | | RMB | RMB |
| Basic | 10 | 0.143 | 0.131 |
| Diluted | 10 | 0.143 | 0.131 |
| | | RMB'000 | RMB'000 |
| **Dividend** | 11 | 109,489 | 109,489 |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**FOR THE YEAR ENDED 31 DECEMBER 2014**

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | RMB’000 | RMB’000 |
| **Profit for the year** | 1,735,721 | 1,511,034 |
| **Other comprehensive income/(loss), net of tax** | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Change in fair value of available-for-sale financial assets | 185,419 | 79,766 |
| Transfer from available-for-sale financial assets reserve to income statement upon disposal of available-for-sale financial assets | (40,075) | (29,134) |
| Currency translation differences | (12,348) | 1,903 |
| | 132,996 | 52,535 |
| **Total comprehensive income for the year** | 1,868,717 | 1,563,569 |
| **Attributable to:** | | |
| Equity holders of the Company | 828,213 | 737,639 |
| Non-controlling interests | 1,040,504 | 825,930 |
| | 1,868,717 | 1,563,569 |

**BALANCE SHEETS**
**AS AT 31 DECEMBER 2014**

| | Note | Group 2014 RMB'000 | Group 2013 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 10,441,149 | 9,243,070 |
| Investment properties | | 39,406 | 31,451 |
| Land use rights | | 1,451,166 | 1,416,191 |
| Intangible assets | | 218,567 | 112,177 |
| Interests in a joint venture | | 52,508 | 37,681 |
| Interests in associates | | 823,955 | 1,055,141 |
| Available-for-sale financial assets | | 1,238,288 | 1,152,361 |
| Deferred income tax assets | | 169,839 | 166,771 |
| Accounts receivable | 12 | - | 154,358 |
| Other receivables and prepayments | | 251,851 | - |
| **Total non-current assets** | | 14,686,729 | 13,369,201 |
| **Current assets** | | | |
| Accounts receivable | 12 | 10,973,833 | 8,958,429 |
| Advances to suppliers | | 1,049,226 | 1,219,315 |
| Other receivables and prepayments | | 1,771,607 | 1,183,255 |
| Inventories | | 16,593,469 | 14,780,402 |
| Financial assets held for trading | | 307 | 247 |
| Pledged deposits | | 986,192 | 1,313,240 |
| Term deposits with initial term of over three months | | 2,862,484 | 3,378,697 |
| Cash and cash equivalents | | 5,797,986 | 6,725,516 |
| **Total current assets** | | 40,035,104 | 37,559,101 |
| **Total assets** | | 54,721,833 | 50,928,302 |

**BALANCE SHEETS (CONTINUED)**
**AS AT 31 DECEMBER 2014**

| | Note | Group 2014 RMB'000 | Group 2013 RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | | 5,474,429 | 5,474,429 |
| Reserves | | 5,341,005 | 4,648,396 |
| | | 10,815,434 | 10,122,825 |
| Non-controlling interests | | 12,485,925 | 11,684,072 |
| **Total equity** | | 23,301,359 | 21,806,897 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term borrowings | | 1,784,728 | 1,910,696 |
| Deferred income from government grants | | 831,608 | 747,122 |
| Deferred income tax liabilities | | 51,682 | 20,036 |
| Other payables and accruals | | 31,325 | 15,634 |
| **Total non-current liabilities** | | 2,699,343 | 2,693,488 |
| **Current liabilities** | | | |
| Accounts payable | 13 | 15,049,990 | 14,031,733 |
| Advances from customers | | 3,765,237 | 3,802,493 |
| Other payables and accruals | | 3,810,415 | 3,739,745 |
| Amounts payable to ultimate holding company | | 268,827 | 462,737 |
| Current portion of long-term borrowings | | 567,000 | 255,080 |
| Short-term borrowings | | 5,066,359 | 3,952,101 |
| Current income tax liabilities | | 193,303 | 184,028 |
| **Total current liabilities** | | 28,721,131 | 26,427,917 |
| **Total liabilities** | | 31,420,474 | 29,121,405 |
| **Total equity and liabilities** | | 54,721,833 | 50,928,302 |
| **Net current assets** | | 11,313,973 | 11,131,184 |
| **Total assets less current liabilities** | | 26,000,702 | 24,500,385 |

## 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 30 March 2015.

**Major changes of Group structure**

a) On 7 January 2014, China Aviation Optical-Electrical Technology Co., Ltd. ("JONHON Optronic", a subsidiary of the Company) made a capital injection in cash of RMB 110 million to AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. ("Shenyang Xinghua", a subsidiary of JONHON Optronic).

Upon this injection, the equity interests held by JONHON Optronic in Shenyang Xinghua increased from 51.00% to 62.87%.

b) On 24 April 2014, JONHON Optronic acquired an additional 10% equity interest in Xi'an Forstar S&T Co., Ltd. ("Xi'an Forstar") at a cash consideration of approximately RMB 27 million.

Upon this acquisition, the equity interests held by JONHON Optronic in Xi'an Forstar increased from 48.18% to 58.18%. JONHON Optronic had been controlling Xi'an

Forstar before this transaction by virtue of an agreement conferring the power over more than half of the voting rights in Xi'an Forstar.

c) On 31 October 2014, JONHON Optronic acquired 51% equity interests in Shenzhen Xiangtong Photoelectric Technology Co., Ltd. ("Xiangtong Photoelectric") from third parties with a cash consideration of approximately RMB 122 million..

## 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.

These consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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.

**New standards, amendments to standards and interpretations**

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2014:

| | |
|---|---|
| IFRS 10, IFRS 12, IAS 27 (Amendment) | Consolidation for investment entities |
| IAS 32 (Amendment) | Financial instruments: Presentation on asset and liability offsetting |
| IAS 36 (Amendment) | Impairment of assets |
| IAS 39 (Amendment) | Novation of derivatives |
| IFRIC 21 | Levies |

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

The following new standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1 January 2014 and have not been early adopted:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| Annual Improvements 2012 | Annual improvements 2010-2012 cycle | 1 July 2014 |
| Annual Improvements 2013 | Annual improvements 2011-2013 cycle | 1 July 2014 |
| IAS 19 (Amendment) | Employee benefits | 1 July 2014 |
| Annual Improvements 2014 | Annual improvements 2012-2014cycle | 1 January 2016 |
| IAS 1 (Amendment) | The disclosure initiative | 1 January 2016 |
| IAS 16 and IAS 38 (Amendments) | Clarification of acceptable methods of depreciation and amortisation | 1 January 2016 |
| IAS 16 and IAS 41 (Amendments) | Agriculture: bearer plants | 1 January 2016 |
| IAS 27 (Amendment) | Separate financial statements regarding the equity method | 1 January 2016 |
| IAS 28 and IFRS 10 (Amendments) | Sale or contribution of assets between an investor and its associate or joint venture | 1 January 2016 |
| IFRS 11 (Amendment) | Accounting for acquisitions of interests in joint operation | 1 January 2016 |
| IFRS 14 | Regulatory deferral accounts | 1 January 2016 |
| IFRS 10, IFRS 12 and IAS 28(Amendment) | Investment entities: applying the consolidation exception | 1 January 2016 |
| IFRS 15 | Revenue from contracts with customers | 1 January 2017 |
| IFRS 9 | Financial instruments | 1 January 2018 |

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

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

## 3 Segment information

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

The Executive Directors classify the business into two reportable segments:

- Manufacturing, assembly, sales and servicing of helicopters, trainers and other aircraft ("**Aviation entire aircraft**")

- Manufacturing and sales of aviation parts and components ("**Aviation parts & components**")

The revenue from external parties reported to the Executive Directors is measured in a manner consistent with that in the consolidated income statement. Segment results are defined based on profit before income tax excluding corporate overheads.

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

| | Aviation entire aircraft RMB'000 | Aviation parts &components RMB'000 | Total RMB'000 |
|---|---|---|---|
| **For the year ended 31 December 2014** | | | |
| Total segment revenue | 11,274,859 | 15,847,047 | 27,121,906 |
| Inter-segment revenue | - | (1,411,529) | (1,411,529) |
| Revenue (from external customers) | 11,274,859 | 14,435,518 | 25,710,377 |
| Segment results | 368,378 | 1,680,301 | 2,048,679 |
| **Other profit & loss disclosures:** | | | |
| Depreciation and amortisation | 355,732 | 463,781 | 819,513 |
| Provision for impairments on receivables and inventories | 25,847 | 103,792 | 129,639 |
| Finance costs, net | 24,363 | 111,383 | 135,746 |
| Share of profit of a joint venture | - | (15,792) | (15,792) |
| Share of losses/(profits) of associates | 10,241 | (138,162) | (127,921) |
| Income tax expense | 65,090 | 202,208 | 267,298 |
| **For the year ended 31 December 2013** | | | |
| Total segment revenue | 10,197,905 | 13,285,103 | 23,483,008 |
| Inter-segment revenue | - | (1,290,259) | (1,290,259) |
| Revenue (from external customers) | 10,197,905 | 11,994,844 | 22,192,749 |
| Segment results | 340,159 | 1,476,786 | 1,816,945 |
| **Other profit & loss disclosures:** | | | |
| 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 |

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

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Segment result for aviation entire aircraft and aviation parts & components | 2,048,679 | 1,816,945 |
| Corporate overheads | (45,660) | (56,225) |
| Profit before income tax | 2,003,019 | 1,760,720 |
| Income tax expense | (267,298) | (249,686) |
| Profit for the year | 1,735,721 | 1,511,034 |

Revenues from customers amounting to 10 percent or more of the Group's revenue are as follows and reported in all segments:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Customer A | 6,853,014 | 6,269,028 |
| Customer B | 2,882,376 | 2,290,368 |
| | 9,735,390 | 8,559,396 |

## 4 Other income

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Rental income | 12,562 | 9,894 |
| Income from sale of materials | 259,271 | 235,868 |
| Cost from sale of materials | (202,976) | (225,845) |
| Profit from sale of materials | 56,295 | 10,023 |
| Income from rendering of maintenance and other services | 4,278 | 7,788 |
| Dividend income from available-for-sale financial assets and financial assets held for trading | 39,990 | 30,071 |
| | 113,125 | 57,776 |

## 5 Other gains, net

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Fair value gain on financial assets held for trading | 60 | 38 |
| (Loss)/gain on disposals of: | | |
| - property, plant and equipment | (3,038) | 7,287 |
| - investment properties | 83,321 | 83,579 |
| - interests in associates | 25,615 | 45,495 |
| - available-for-sale financial assets | 92,033 | 55,826 |
| - financial assets held for trading | 5,197 | 1,209 |
| | 203,188 | 193,434 |

## 6 Expenses by nature

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Advertising costs | 6,580 | 7,018 |
| Amortisation on: | | |
| - Intangible assets | 22,207 | 6,278 |
| - Land use rights | 33,845 | 27,655 |
| Auditors' remuneration | 10,368 | 9,586 |
| Raw materials and consumables used | 8,019,621 | 7,855,511 |
| Changes in inventories of finished goods and work-in-progress | (1,248,694) | (1,915,104) |
| Contract costs incurred | 9,444,759 | 7,994,183 |
| Depreciation on: | | |
| - Investment properties | 881 | 1,674 |
| - Property, plant and equipment | 762,580 | 699,890 |
| Less: amortisation of deferred income from government grants | (37,050) | (39,931) |
| | 726,411 | 661,633 |
| Fuel | 402,960 | 318,770 |
| Insurance | 15,558 | 12,077 |
| Operating lease rentals | 106,928 | 91,326 |
| Provision/(reversal of provision) for impairment on: | | |
| - Inventories | 86,130 | 52,092 |
| - Receivables | 43,509 | (35,372) |
| Repairs and maintenance expense | 230,036 | 208,923 |
| Research expenditures and development costs | 981,146 | 801,522 |
| Staff costs, including directors' emoluments | 3,428,727 | 3,127,048 |
| Sub-contracting charges | 591,228 | 373,370 |
| Sundries | 858,722 | 847,759 |
| Transportation expenses | 121,425 | 92,370 |
| Travelling | 150,172 | 149,427 |
| Total cost of sales, general and administrative expenses, and selling and distribution expenses | 24,031,638 | 20,686,072 |

## 7 Finance costs, net

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Finance income: | | |
| Interest income on bank balances and deposits | 233,385 | 226,173 |
| Finance costs: | | |
| Interest expense on bank borrowings | | |
| - Wholly repayable within 5 years | 239,687 | 169,850 |
| - Not wholly repayable within 5 years | 5,991 | 2,294 |
| Interest expense on other borrowings | | |
| - Wholly repayable within 5 years | 146,235 | 131,506 |
| - Not wholly repayable within 5 years | - | 16,345 |
| | 391,913 | 319,995 |
| Less: Amount capitalised in property, plant and equipment | (39,525) | (40,670) |
| | 352,388 | 279,325 |
| Other finance costs | 16,743 | 20,724 |
| | 369,131 | 300,049 |
| Finance costs, net | (135,746) | (73,876) |

## 8 Income tax expense

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Current income tax | 266,162 | 244,857 |
| Deferred income tax | 1,136 | 4,829 |
| | 267,298 | 249,686 |

Notes:

(a) Except for certain subsidiaries which are taxed at a preferential rate of 15% (2013:15%) during the period from 2012 to 2016, 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% (2013: 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:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Profit before income tax | 2,003,019 | 1,760,720 |
| Tax calculated at the statutory tax rate of 25% | 500,755 | 440,180 |
| Preferential tax rates on the income of certain subsidiaries | (229,085) | (159,915) |
| Non-taxable income(note(i)) | (45,923) | (55,900) |
| Expenses not deductible for tax purposes | 17,691 | 24,104 |
| Utilisation of previously unrecognised tax losses | (2,851) | (9,256) |
| Tax loss for which no deferred income tax asset was recognised | 26,711 | 20,060 |
| Others | - | (9,587) |
| Tax charge | 267,298 | 249,686 |

Note (i):Non-taxable income mainly includes share of profits of a joint venture and associates and dividend from available-for-sale financial assets and financial assets held for trading.

## 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 146,553,000 (2013: RMB 207,417,000).

## 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:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Profit attributable to equity holders of the Company | 781,298 | 712,623 |
| Weighted average number of ordinary shares in issue less shares held for restricted share scheme for calculating basic earnings per share (thousands) | 5,459,988 | 5,447,626 |
| Potential dilutive effect arising from restricted shares (thousands) | 7,084 | 9,197 |
| Weighted average number of ordinary shares in issue for calculating diluted earnings per share (thousands) | 5,467,072 | 5,456,823 |

## 11 Dividend

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Final dividend, proposed of RMB0.02 (2013: RMB0.02) 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 2015.

## 12 Accounts receivable

| | Group | |
|---|---|---|
| | 2014<br>RMB'000 | 2013<br>RMB'000 |
| Trade receivables, gross (note (a)) | | |
| - Fellow subsidiaries | 4,742,931 | 4,676,688 |
| - A joint venture | 164 | 485 |
| - Associates | 3,886 | 17,043 |
| - Other related party | 6,059 | 12,033 |
| - Others | 4,168,716 | 2,738,880 |
| | 8,921,756 | 7,445,129 |
| Less: provision for impairment of receivables | (290,650) | (247,966) |
| | 8,631,106 | 7,197,163 |
| Notes receivable (note (b)) | | |
| - Fellow subsidiaries | 1,421,873 | 1,333,416 |
| - Others | 920,854 | 582,208 |
| | 2,342,727 | 1,915,624 |
| | 10,973,833 | 9,112,787 |
| Less: non-current portion | - | (154,358) |
| Current portion | 10,973,833 | 8,958,429 |

Notes:

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

| | Group | |
|---|---|---|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Current to 1 year | 7,778,126 | 6,012,460 |
| 1 year to 2 years | 721,893 | 990,769 |
| Over 2 years | 421,737 | 441,900 |
| | 8,921,756 | 7,445,129 |

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 | |
|---|---|---|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Trade payables (note (a)) | | |
| - Fellow subsidiaries | 2,495,861 | 2,095,018 |
| - Others | 7,894,358 | 8,090,975 |
| | 10,390,219 | 10,185,993 |
| Notes payable (note (b)) | | |
| - Fellow subsidiaries | 2,649,640 | 2,899,868 |
| - Others | 2,010,131 | 945,872 |
| | 4,659,771 | 3,845,740 |
| | 15,049,990 | 14,031,733 |

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 | |
|---|---|---|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Current to 1 year | 9,124,298 | 7,030,113 |
| 1 year to 2 years | 879,629 | 1,335,667 |
| 2 years to 3 years | 214,708 | 1,418,780 |
| Over 3 years | 171,584 | 401,433 |
| | 10,390,219 | 10,185,993 |

(b) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months. As at 31 December 2014, notes payable of RMB 2,938,413,000 (2013: RMB 3,288,767,000) were secured by pledged deposits to the extent of RMB 986,192,000 (2013: RMB 1,313,240,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2014, the Group recorded a revenue of RMB25,710 million, representing an increase of 15.85% as compared with that of RMB22,193 million in the corresponding period of the preceding year. Profit attributable to the equity holders of the Company amounted to RMB781 million, representing an increase of 9.54% as compared with that of RMB713 million in the corresponding period of the preceding year.

## CONSOLIDATED OPERATING RESULTS

### 1 Composition of revenue

The revenue of the Group for 2014 was RMB25,710 million, representing an increase of 15.85% as compared with a revenue of RMB22,193 million in the corresponding period of the preceding year. Both the entire aircraft business and the aviation parts and components business presented growth at different rates.

The revenue of the Group's aviation entire aircraft business for 2014 amounted to RMB11,275 million, representing an increase of RMB1,077 million, or 10.56% as compared with that of RMB10,198 million in the corresponding period of the preceding year, accounting for 43.85% of the total revenue and representing a decrease of 2.10 percentage points as compared with that of the preceding year. Among the entire aircraft business, the helicopter business realized an increase of 5.70%, the general aircraft business represented an increase of 61.90 % and the trainer aircraft business represented an increase of 68.32% as compared with those in the corresponding period of the preceding year.

The revenue of the Group's aviation parts and components business amounted to RMB14,435 million, representing an increase of RMB2,440 million, or 20.34% as compared with that of RMB11,995 million in the corresponding period of the preceding year, accounting for 56.15% of the total revenue and representing an increase of 2.10 percentage points as compared with that in the corresponding period of the preceding year.

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 2014 amounted to RMB2,750 million, representing an increase of RMB364 million, or 15.26% as compared with that of RMB2,386 million in the corresponding period of the preceding year. This was mainly attributable to the increase in research and development expenses and staff costs. In 2014, the general and administrative expenses accounted for 10.70% of the revenue, and remained almost the same as that in the corresponding period of the preceding year.

### 3 Selling and distribution expenses

The Group's selling and distribution expenses for 2014 amounted to RMB470 million, representing an increase of RMB55 million, or 13.25% as compared with that of RMB415 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase of the labour costs of sales staff caused by the increase in the sales volume. In 2014, the selling and distribution expenses accounted for 1.83% of the revenue, representing a slight decrease as compared with that in the corresponding period of the preceding year.

### 4 Operating profit

The operating profit of the Group for 2014 amounted to RMB1,995 million, representing an increase of RMB237 million, or 13.48% as compared to that of RMB1,758 million in the corresponding period of the preceding year. This was mainly attributable to the increase of revenue, and the increase of gains from external investment as compared with that in the corresponding period of the preceding year.

### 5 Finance costs, net

The Group's net finance costs in 2014 amounted to RMB136 million, representing an increase of RMB62 million as compared with that of RMB74 million in the corresponding period of the preceding year. This was mainly attributable to the increase in interest expenses as a result of the increased borrowings of certain subsidiaries.

### 6 Income tax expense

The Group's income tax in 2014 was RMB267 million, representing an increase of RMB17 million, or 6.80% as compared with that of RMB250 million in the corresponding period of the preceding year, which was mainly attributable 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 RMB781 million in 2014, representing an increase of RMB68 million as compared with that of RMB713 million in the corresponding period of the preceding year. This was mainly attributable to the increase in revenue, and the increase in gains from external investment as compared with that in the corresponding period of the preceding year.

## SEGMENT INFORMATION

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

## THE AVIATION ENTIRE AIRCRAFT BUSINESS

### Revenue

The Group's revenue derived from the aviation entire aircraft business for 2014 was RMB11,275 million, representing an increase of 10.56% as compared with that in the corresponding period of the preceding year. The above revenue includes: (1) the revenue derived from the helicopter business which represented a stable increase in helicopter sales volume and amounted to RMB9,916 million, representing an increase of RMB535 million, or 5.70% as compared with that in the corresponding period of the preceding year and accounting for 87.95% of the total revenue of the aviation entire aircraft business; (2) the revenue from a relatively rapid increase in sales of general purpose aircraft, which amounted to RMB408 million, representing an increase of RMB156 million, or 61.90% as compared with that in the corresponding period of the preceding year and accounting for 3.62% of the total revenue of the aviation entire aircraft business; (3) the revenue of the trainer aircraft business amounted to RMB951 million, representing an increase of RMB386 million or 68.32% as compared with that in the corresponding period of the preceding year, and accounting for 8.43% of the total revenue of the aviation entire aircraft business.

The revenue of the entire aircraft business of the Group in 2014 accounted for 43.85% of the Group's total revenue, representing a decrease of 2.10 percentage points as compared with that in the corresponding period of the preceding year.

### Gross Profit Margin

The gross profit margin of the Group's entire aircraft business for 2014 was 8.03%, representing an increase of 0.12 percentage points as compared with that in the corresponding period of the preceding year, mainly due to the growth in gross profit margin of the helicopter business.

## AVIATION PARTS AND COMPONENTS BUSINESS

### Revenue

The Group's revenue derived from the aviation parts and components business for 2014 was RMB14,435 million, representing an increase of 20.34% as compared with that in the corresponding period of the preceding year, which was mainly attributable to the increase in sales volume of avionics products and other aviation parts. The revenue derived from avionics products during the reporting period amounted to RMB8,926 million, representing an increase of RMB1,238 million, or 16.10% as compared with that in the corresponding period of the preceding year and accounting for 61.84% of the total revenue of the aviation parts and components business.

The revenue derived from the aviation parts and components business for 2014 accounted for 56.15% of the Group's total revenue, representing an increase of 2.10 percentage points as compared with that in the corresponding period of the preceding year.

**Gross Profit Margin**

The gross profit margin of the Group's aviation parts and components business for 2014 was 27.67%, representing a decrease of 1.52 percentage points as compared with that in the corresponding period of the preceding year. This was mainly attributable to the decline in the consolidated gross profit margin due to the change in the products composition in the aviation parts and components business, and the increased testing costs of some products.

## BUSINESS REVIEW AND OUTLOOK

In 2014, China maintained a stable macro-economy and its economic growth rate showed a moderate slow down, showing signs of "new normal" in the development of the national economy. In face of the challenges and opportunities in the international and domestic economy, Aviation Industry Corporation of China ("**AVIC**"), the controlling shareholder of the Company, deepened its reform, improved its management and continued with its innovations. It was listed in the Fortune Global 500 for the sixth consecutive year, representing an cumulative advance of 248 places over the past five years from 426$^{th}$ to 178$^{th}$, and ranking the 6$^{th}$ in the aerospace and defense industry segment of the Fortune Global 500. It was elected as China's 500 Most Valuable Brands, ranking the 25$^{th}$, with a brand value of RMB90.6 billion.

Driven by the steady development of the aviation industry of China, the Group proactively implemented its strategies, actively developed creative and innovative ideas, and improved its capabilities for value creation, thus realizing stable growth of the results.

In 2014, the Group further explored the market by participating and displaying a number of its products in various international air shows, thereby expanding the market influence of the Group's aviation products. Meanwhile, the Company has achieved proactive enhancement in its corporate governance by engaging professional institution in business process reengineering, thereby steadily increasing the Group's market value and evidently improving its market image and brand recognition. Mr. Lin Zuoming, Chairman of the Board, was listed as one of the "China's Most Influential Business Leaders" for the fourth time. Following the award of "2013 Asia's Most Promising Company on Corporate Governance" by the Asia Corporate Governance Magazine for the very first time, the Company was awarded as the "Asia's Outstanding Company on Corporate Governance" in 2014. The Company was also included in the Hang Seng Composite Mid Cap Index for the first time, and became an eligible stock of Shanghai-Hong Kong Stock Connect.

The Company's revenue from its existing aviation business recorded a significant increase. After the reorganization of its helicopter business, the Group has formed a relatively complete helicopter products composition. The Group entered into a project cooperation agreement with Airbus Helicopters; the co-development of the middle-sized helicopter with France marked a smooth progress, and EC175 obtained the airworthiness certificate from the European Aviation Safety Agency and commenced sales delivery; the newly developed 3-ton grade helicopter was unveiled at the 10$^{th}$ Zhuhai Airshow; the 2-ton, 4-ton and 13-ton grade newly developed helicopters all obtained the airworthiness certificates and manufacturing certificates from the Civil Aviation Administration of China, and started batch production. During the reporting period, the 2-ton grade helicopters with high plateau adaptability successfully completed test flights in areas with high altitude and cold climate; delivery of the 2-ton grade helicopters for police services to customers in Sichuan and Yunnan provinces was successful completed, which will play an important role in local police patrol and emergency rescue.

By using Y-12 series aircraft as a platform, the Company focused on customized upgrading and remodeling, and emphasized the exploration of both domestic and international markets. During the reporting period, the Group signed a sales agreement with AVIC International Aero-Development Corporation for six Y-12 series aircraft, an agreement of intent with an American aviation company relating to the sales of twenty Y-12 series aircraft, and an agreement of intent with a Russian aviation company in relation to the sales of four Y-12 series aircraft. Y-12 aircraft became the first ever China-made civil aircraft to be exported to developed countries. The new model Y-12F has completed the test flight organized by both Chinese and American airworthiness authorities. The test flights for entire aircraft of N5B have also been successfully completed.

The research, manufacture and sales of trainers have achieved positive progress. K8 trainers continued to keep its leading position in the exporting; L15 advanced trainers received international orders; the development of new model of primary trainer underwent smoothly. The forward fuselage and mid-after fuselage parts manufactured by Jiangxi Hongdu Aviation Industry Co., Ltd., a non-wholly owned subsidiary of the Company, for C919 have been successfully completed and delivered.

The Company's avionics and electro-mechanical businesses also achieved good results. China Aviation Optical-Electrical Technology Co., Ltd. ("**JONHON Optronic**", a non-wholly owned subsidiary of the Company) completed the verification appraisal for five of its civil technological achievements, among which three have been appraised to have reached as internationally advanced level for similar products. Meanwhile, by implementing the strategy of differentiated marketing, JONHON Optronic made rapid progress in new energy products and 4G communications accessories products, with a significant increase in the orders from international market. It has also started the strategic cooperation with a leading American company in avionics business, thereby speeding up the integration into the global industry chain. China AVIC Electronics Co., Ltd. ("**AVIC Avionics**", a non-wholly owned subsidiary of the Company) and Commercial Aircraft Corporation of China, Ltd. completed the signing of the supporting contracts for the C919 project. Meanwhile, AVIC Avionics, by exploring the markets in general aviation, defense, international subcontracting, etc., obtained the working package and researching assignments for projects such as MA700, TA 600, etc. Its commercial innovation center made steady progress, and actively explored new patterns for business development, with the projects for a batch of new products with high-end technology and high added value having been approved and their initial design being completed. Tianjin Aviation Mechanical and Electrical Co., Ltd., a wholly owned subsidiary of the Company, successfully obtained the contract for the power distribution system to be used in the new models of general purpose aircraft and helicopter, achieving a leapfrogging advancement from product development to system development.

The Company's international cooperation projects also made steady progress. Harbin Hafei Airbus Composite Materials Manufacture Center Co., Ltd. successfully delivered the first rudder for Airbus A350XWB wide-body aircraft, following the successful delivery of the first elevator for Airbus A350XWB wide-body aircraft. Harbin Embraer Aircraft Industry Co., Ltd. also successfully delivered the large executive jet Legacy 650.

Meanwhile, the Company proactively launched its investment projects. The Company has commenced the feasibility studies of several investment projects in the segment of electro-mechanical system with a view to proactively extend the Company's industry chain and explore the aviation business. JONHON Optronic increased its shareholding in Xi'an Forstar S&T Co., Ltd. ("**Xi'an Forstar**") to 58.182%, and acquired 51% equity interest in Shenzhen Xiangtong Photoelectric Technology Co., Ltd. ("**Xiangtong Photoelectric**"), extending the industrial layout for high-end optical devices.

In 2015, there is insufficient drive for recovery of global economy, the Chinese economy has entered a "new normal" period but still provides significant strategic opportunities for development. The 2015 Government Work Report put forward the deepening of the reform of state-owned enterprises and assets and to incubate and develop a series of new emerging industries as the leading industries for future. The "one belt and one road" strategy has entered into an important construction phase, and the exploration and development of regional economy and international market will lead to an increase in demand for aviation transportation volume and the need for transportation aircraft; policies which further open up low-altitude airspace and delegation of approval authorization for general aviation airport to lower levels, will facilitate the development of the general aviation market of China into a new stage.

To face new opportunities and challenges, the Company will further improve its development strategies, further deepen its reforms, and launch innovative management to maintain a steady and rapid growth trend by the following strategies:

1. enforce institutional construction, govern the company according to the strategy of "Rule of Law", and operate by rules;
2. proactively promote domestic and international mergers and acquisitions, extend the aviation industry chain, and realize synergetic development with existing

businesses;

3. promote and implement several electromechanical system investment projects;
4. reinforce equities operation and improve value creation capability;
5. promote the integration of traditional industry with creative economy and realize transformation from investment-driven model to innovation-driven model;
6. seize opportunities arising from the policies relating to the opening up of low-altitude airspace and enlarge the sales volume of general aviation products;
7. strengthen brand building and the building-up of an internationally competitive brand;
8. complete the talent incentive scheme, carry out the leadership model in the aviation industry, and vitalize the Company's human resources;
9. fulfill social responsibilities, create green economy, promote development of corporate culture, and build a trust worthy listed company image.

## CASH FLOW AND FINANCIAL RESOURCES

### 1. Liquidity and capital resources

As at 31 December 2014, the Group's net cash and cash equivalents amounted to RMB5,798 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 2014 and 2013 were as follows:

Unit: RMB million (except percentage)

| Main items of cash flow | 2014 | 2013 | Changes (amount) | Changes (percentage) |
|---|---|---|---|---|
| Net cash (used in)/generated from operating activities | (392) | 572 | (964) | N/A |
| Net cash used in investing activities | (1,470) | (3,409) | 1,939 | -56.88% |
| Net cash generated from financing activities | 907 | 3,976 | (3,069) | -77.19% |

## 2. Operating, investing and financing activities

Net cash outflows used in operating activities of the Group for the year 2014 amounted to RMB392 million, representing a decrease of RMB964 million as compared with the net cash inflows in the corresponding period of the preceding year. The net cash outflows was mainly due to the increase in receivables as at the end of the reporting period and in inventories purchased as at the end of the reporting period to be used for next year.

Net cash outflows used in investing activities of the Group for the year 2014 decrease by RMB1,939 million or 56.88% as compared with that in the corresponding period of the preceding year, which was mainly attributable to the decrease in purchases of fixed assets by its subsidiaries and decrease of term deposits with initial term of over three months.

Net cash inflows generated from financing activities of the Group for the year 2014 decreased by RMB3,069 million or 77.19% as compared with that in the corresponding period of the preceding year, which was mainly attributable to the refinancing by certain subsidiaries in 2013 as compared to none in the reporting period.

As at 31 December 2014, the Group's total borrowings amounted to RMB7,418 million, of which the short-term borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB5,066 million, RMB567 million and RMB1,785 million, respectively.

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

| Maturity | RMB million |
|---|---|
| Within one year | 567 |
| In the second year | 564 |
| In the third to fifth year | 1,163 |
| After the fifth year | 58 |
| Total | 2,352 |

As at 31 December 2014, the Group's bank borrowings amounted to RMB3,475 million with a weighted average interest rate of 5% per annum, accounting for 46.85% of the total borrowings. Other borrowings amounted to RMB3,943 million with a weighted average interest rate of 5%, accounting for 53.15% of the total borrowings.

As at 31 December 2014, there were no borrowings denominated in foreign currencies.

## GEARING RATIO

As at 31 December 2014, the Group's gearing ratio was 13.56% (31 December 2013: 12.01%), which was arrived at by dividing the total borrowings by the total assets as at 31 December 2014.

## CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2014, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

## DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2014, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

## GUARANTEED AND SECURED LOANS

As at 31 December 2014, the Group's total borrowings amounted to RMB7,418 million, of which RMB747 million was secured by buildings, notes receivable and trade receivables with a net book value of approximately RMB911 million.

Borrowings placed under guarantees amounted to RMB1,659 million, of which RMB1,179 million represented guarantees amongst the members of the Group and RMB474 million represented guarantees provided by fellow subsidiaries.

## EXCHANGE RATE RISKS

The Group mainly operates in the PRC with most of its transactions settled in RMB. The exposure to foreign currencies exchange risks mainly 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 are 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 2014, a total of RMB3,371 million of the proceeds raised by the Company 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 investment. The remaining balance was deposited in banks in the PRC as short term deposits.

## EMPLOYEES

As at 31 December 2014, the Group had 44,925 employees. The Group has provided appropriate emoluments, benefits and training to its employees.

**Employees breakdown (by business segments)**

| | Number of employees | Percentage to total number of employees (%) |
|---|---|---|
| Aviation | 44,751 | 99.61 |
| Entire aircraft business | 20,619 | 45.89 |
| Parts and components business | 24,132 | 53.72 |
| Other businesses | 174 | 0.39 |
| Total： | 44,925 | 100 |

For the year ended 31 December 2014, total staff costs of the Group amounted to RMB3,429 million, representing an increase of RMB302 million or 9.66% as compared with that of RMB3,127 million in the corresponding period of the preceding year.

## PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares for the year ended 31 December 2014.

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

1. On 24 April 2014, JONHON Optronic entered into the Equity Transfer Agreements with Shaanxi State-Owned Assets Management Co., Ltd. and other related parties, all being independent third parties. Pursuant to which, JONHON Optronic has agreed to acquire an additional 10% equity interest in Xi'an Forstar at a consideration of RMB26.752 million. Upon completion of the equity transfer, JONHON Optronic would hold 58.182% equity interest in aggregate in Xi'an Forstar. For details, please refer to the announcements of the Company dated 24 October 2013, 13 November 2013 and 25 April 2014, respectively, and the overseas regulatory announcement dated 9 January 2014.

2. On 16 May 2014, the Company and AVIC Avionics, entered into the Share Subscription Agreements with Sichuan Chengfei Integration Co., Ltd. ("CITC") respectively. Pursuant to which, the Company conditionally agreed to subscribe for not more than 100,301,200 new CITC A shares for a total consideration of not more than RMB 1,665 million in cash; and AVIC Avionics conditionally agreed to subscribe for 33,132,500 new CITC A shares for a total consideration of not more than RMB550 million in cash. Upon completion of the share subscription, the Group would in aggregate hold approximately 8.45% equity interest in CITC. The share subscription constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules, and was subject to the reporting, announcement and independent shareholders' approval requirements. On 14 November 2014, each of the Company and AVIC Avionics entered into a supplementary agreement of the Share Subscription Agreement with CITC, respectively. Pursuant to which, the Company adjusted the number of shares to be subscribed based on the appraisal of the underlying assets of CITC. On 12 December 2014, the Company received a notice from CITC in relation to the termination of the major assets reorganization and accordingly the Company and AVIC Avionics terminated their subscriptions of new CITC A shares. For details, please refer to the announcements of the Company dated 16 May 2014, 22 July 2014, 14 November 2014, 12 December 2014 respectively, and the circular published on 9 June 2014.

3. On 18 June 2014, the Board of Directors of AVIC Avionics resolved to accept the entrustment from AVIC on managing its equity interest in AVIC Avionics Systems Co., Ltd. ("**AVIC Avionics Systems**"). Pursuant to the resolution, AVIC would, during the term of the entrusted management, only retain the relevant shareholders' rights including right to profit distribution, right to distribution and disposition of residual property and shareholders' rights of the 18.15% equity interest held by AVIC Avionics Systems in AVIC Avionics. AVIC Avionics would be entitled to exercise the remaining shareholder's rights and exert full decision rights on the manufacture and operation of the entrusted AVIC Avionics Systems. On 29 December 2014, AVIC Avionics entered into an Entrusted Management Agreement with AVIC in relation to the above Entrustment. Pursuant to Chapter 14A of the Hong Kong Listing Rules, the entering into of the Entrusted Management Agreement constituted a continuing transaction of the Company. As the services provided under the Entrusted Management Agreement fall within the enterprise management trust services under the Mutual Provision of Services Agreement between the Company and AVIC, which was approved by the Board of Directors of Company and complied with the reporting and announcement requirements according to its then applicable size tests percentage ratios (i.e. more than 0.1% but less than 5%), the Entrusted Management Agreement accordingly was not required to comply with the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules. For details, please refer to the announcements of the Company dated 18 June 2014 and 29 December 2014.

4. On 10 October 2014, JONHON Optronic entered into an Equity Transfer Agreement with Wang Guanghui and Tan Li, two shareholders of Xiangtong Photoelectric and both being independent third parties of the Company, pursuant to which, JONHON Optronic proposed to acquire 51% equity interest in Xiangtong Photoelectric, with its internal funds of no more than RMB 122,400,000 in cash. Upon the completion of the acquisition, Xiangtong Photoelectric would become a subsidiary of JONHON Optronic. For details, please refer to the announcements of the Company dated 10 October 2014.

5. On 19 December 2014, Chengdu CAIC Electronics Co., Ltd. ("**AVIC Kaitian**") and other subscribers entered into a Share Subscription Agreement with AVIC Capital Co., Ltd. ("**AVIC Capital**"), pursuant to which, AVIC Kaitian conditionally agreed to subscribe for approximately 8,882,864 A shares issued by AVIC Capital, for a consideration to be satisfied by transferring its 2.16% equity interest in AVIC Leasing Co., Ltd. to AVIC Capital. Upon the completion of the Share Subscription of AVIC Kaitian, AVIC Kaitian would hold 0.5% equity interest in AVIC Capital. The final number of shares to be subscribed for and the consideration to be paid by AVIC Kaitian respectively had to be subject to the shareholders' approval of AVIC Capital at its general meeting after the same have been approved by the competent governmental authorities. Pursuant to Chapter 14A of the Hong Kong Listing Rules, the entering into of the Share Subscription Agreement constituted a connected transaction of the Company. The transactions contemplated under the Share Subscription Agreement were only subject to reporting and announcement requirements, but were exempt from the independent shareholders' approval requirement. For details, please refer to the announcement of the Company dated 19 December 2014.

6. On 30 December 2014, the Company entered into the Share Transfer Agreement with Changhe Aircraft Industries Group Co., Ltd. ("**CAIG**"), pursuant to which the Company agreed to transfer, subject to certain conditions, 49% of the equity interest in Jiujiang Changhe Automobile Co., Ltd. ("**Jiujiang Auto**") to CAIG, for a consideration of approximately RMB85,000,000 to be satisfied by CAIG in cash. Upon completion of the share transfer, the Company would no longer have any equity interest in Jiujiang Auto. Pursuant to Chapter 14A of the Hong Kong Listing Rules, the entering into of the Share Transfer Agreement constituted a connected transaction of the Company, which was 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 30 December 2014.

**OTHER SIGNIFICANT EVENT**

1. On 25 March 2014, the Board of Directors of the Company resolved, that the conditions for unlocking having been fulfilled by the Company and the Scheme Participants according to the Restricted Share Incentive Scheme (the "**Scheme**"),

another one-third of the Restricted Shares granted to the eligible Scheme Participants under the Initial Grant were unlocked on 31 March 2014. For details, please refer to the announcements of the Company dated 21 January 2011, 23 February 2011, 29 March 2011, 30 March 2011, 25 March 2013, 25 March 2014, and the circular dated 24 February 2011.

2. On 22 July 2014, in accordance with the Scheme of the Company and upon obtaining the approval of State-owned Assets Supervision and Administration Commission of the State Council of the PRC ("**SASAC**"), the Company would implement the Second Grant. On 9 October 2014, in accordance with requirements of the relevant PRC authorities, the Board of Directors of the Company proposed to make certain adjustments to the terms of the Scheme before implementing the Second Grant under the Scheme. On 20 November 2014, an extraordinary general meeting was held and approved the adjustments to certain terms of the Scheme. For details, please refer to the announcements of the Company dated 21 January 2011, 23 February 2011, 29 March 2011, 30 March 2011, 25 March 2013, 25 March 2014, 22 July 2014, 9 October 2014, 20 November 2014, and the circular dated 24 February 2011.

3. On 25 September 2014, Hafei Aviation Industry Co., Ltd. underwent a restructuring and established a wholly owned subsidiary named "Harbin Hafei Aviation Industry Limited Liability Company", and changed its company name into "AVIC Helicopter Company Limited". For details, please refer to the announcement of the Company dated 25 September 2014.

4. On 20 November 2014, the Board of Directors of the Company announce that the principal place of business of the Company in Hong Kong was changed to Unit 2202A, 22th floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong with effect from 21 November 2014.

**PROPOSED RE-ELECTION AND NEW APPOINTMENT OF DIRECTORS AND SHAREHOLDER REPRESENTATIVE SUPERVISORS**

Pursuant to the stipulations of the Articles of Association, a Director and Shareholder Representative Supervisors shall be elected at a general meeting of the Company for a term of office for three years. Directors and Supervisors are eligible for re-election upon the expiration of their respective terms. The appointment of a Director and Shareholder Representative Supervisors shall be approved by a resolution of more than half of the votes cast in favor by the shareholders of the Company (the "**Shareholders**")(or their proxies) at a general meeting of the Company.

In accordance with Articles of Association, the Board consists of nine Directors, including three independent non-executive directors. The Supervisory Committee consists of three supervisors, among which, there are two Shareholder Representative Supervisors and one Employee Representative Supervisor. The term of all Directors of the fourth session of the Board and all Supervisors of the fourth session of the Supervisory Committee will expire at the Annual General Meeting (**"AGM"**) to be held on 12 June 2015. Accordingly, members of the fifth session of the Board and the fifth session of the Supervisory Committee (with respect to Shareholder Representative Supervisors) shall be elected at the AGM. The term of the Directors of the fifth session of the Board and term of the Supervisors of the fifth session of the Supervisory Committee shall be for three years respectively to commence from the date of commencement of the fifth session of the Board and the Supervisory Committee (which shall be the date of conclusion of the AGM).

**Directors**

Certain members of the fourth session of the Board, namely Mr. Lin Zuoming (executive director) , Mr. Tan Ruisong (executive director), Mr. Gu Huizhong(non-executive director), Mr. Gao Jianshe(non-executive director), Mr. Maurice Savart(non-executive director), Mr. Guo Chongqing(independent non-executive director), Mr. Lau Chung Man, Louis(independent non-executive director) and Mr. Liu Renhuai(independent non-executive director), have been nominated as candidates for re-election as Directors of the fifth session of the Board for a term of three years commencing from the date on which the fifth session of the Board is established.

Mr. Yeung Jason Chi Wai has been nominated as a candidate for appointment as independent non-executive Director, for a term of three years commencing from the date on which the fifth session of the Board is established.

Mr. Sheng Mingchuan has confirmed that he will not stand for re-election as Director of the fifth session of the Board after expiration of his term and has confirmed in writing that there is no disagreement with the Board and that there is no matter that needs to be brought to the attention of the Shareholders. The Board takes this opportunity to express sincere gratitude for the contributions Mr. Sheng Mingchuan has made for the Company during his term of service.

The biographical details of Mr. Yeung Jason Chi Wai are as follows:

Mr. Yeung, aged 60, a master degree holder. Mr.Yeung was educated at the University of Hong Kong where he obtained a Bachelor's degree in social sciences. Mr. Yeung later graduated from The College of Law, United Kingdom and further obtained a Bachelor's degree in law and a Master's degree in business administration from the University of Western Ontario, Canada. Mr. Yeung used to serve at the Securities and Futures Commission in Hong Kong, and law firms in Canada and Hong Kong. Mr. Yeung joined BOC Hong Kong(Holdings) Limited(Stock Code:2388)as the board secretary in 2001. From 2011 to February 2015, he held the positions as the deputy chief executive and a member of the management committee of BOC Hong Kong (Holdings) Limited. He also concurrently acted as the board secretary of Bank of China Limited (Stock Code: 3988) from 2005 to 2008. Prior to joining BOC Hong Kong (Holdings) Limited, Mr. Yeung was the general counsel and director of China Ever bright Limited(Stock Code:0165), and before that, a partner of Woo, Kwan, Lee & Lo.

**Supervisors**

Mr. Chen Guanjun and Mr. Liu Fumin have been nominated as the candidates for Shareholder Representative Supervisors of the fifth session of the Supervisory Committee, each for a term of three years commencing from the date on which the fifth session of the Supervisory Committee is established.

Ms. Bai Ping and Mr. Yu Guanghai have confirmed that they will not stand for re-election as Supervisors of the fifth session of the Supervisory Committee upon the expiration of their respective term, and have confirmed in writing that each of them has no disagreement with the Board and that there is no matter that needs to be brought to the attention of the Shareholders. The Board takes this opportunity to express sincere gratitude for the contributions Ms. Bai Ping and Mr. Yu Guanghai have made for the Company during their terms of service.

In addition, a general meeting of the employees will be held by the Company to elect the employee Supervisor.

The biographical details of Mr. Chen Guanjun and Mr. Liu Fumin are as follows:

Mr. Chen Guanjun, aged 53, a master degree holder and Researcher. Mr. Chen obtained his bachelor degree from Nanjing University of Aeronautics and Astronautics in 1984, majoring in High-Altitude Equipment; and received his master degree in business administration from Paris University of Engineering Management. He commenced his career in the aviation industry in 1984, having been the deputy director and director of the research department, director of the science & technology department, vice president, and deputy director of the Aviation Development and Research Institute; the deputy director of the mechanical equipment department of AVIC Ⅰ since July 2002; and the director of market and international cooperation department of AVIC Ⅰ since September 2006; Mr. Chen has been the director of the international affairs department of AVIC from September 2008 to March 2015.

Mr. Liu Fumin, aged 50, a bachelor degree holder and senior economist. Mr. Liu graduated from Harbin Finance University in 1985, majoring in finance, and graduated from Harbin Normal University in 1994, majoring in economic management. Mr. Liu commenced his career in banking in Heilongjiang Province since 1988, and was the officer, associate chief officer and chief officer of the financial research institute, the business credit department and the liquidity credit department of the Heilongjiang Branch of Industrial & Commercial Bank of China. Mr. Liu acted as the project manager, senior manager, assistant to the president and vice president of the equity management department, the assets management department and the business development department of the Harbin Branch of China Hua Rong Asset Management Corporation since February 2000. He was appointed as the deputy manager of the business review Department of China Huarong Asset Management Co., Ltd.(previously named as China Huarong Asset Management Corporation)in January 2010, and the vice president(in charge) of the Heilongjiang Branch of China Huarong Asset Management Co., Ltd. in January 2015.

As far as the Directors are aware and save as disclosed above, each of Mr. Yeung Jason Chi Wai, Mr. Chen Guanjun or Mr. Liu Fumin does not have any major appointment as a director or supervisor in other public listed companies in the last three years, and did not take any post in the Company or any subsidiary of the Group. Each of Mr. Yeung Jason Chi Wai, Mr. Chen Guanjun or Mr. Liu Fumin does not have any relationship with any other Directors, Supervisors, senior management, substantial Shareholders or controlling Shareholder of the Company. As at the date of this announcement, save for 100,507 H Shares (representing 0.002 % of the issued share capital of the Company as at the date of this announcement) held by Mr. Chen Guanjun, neither Mr. Yeung Jason Chi Wai nor Mr. Liu Fumin had any interests or short positions within the meaning of Part XV of the Securities and Futures Ordinance in the shares, underlying shares or debentures of the Company or its associated corporations.

Saved as disclosed above, there is no other material to be disclosed as required under item (h) to item (v) of Rule 13.51(2) of the Hong Kong Listing Rules, and there is no matter that needs to be brought to the attention of the Shareholders in respect of the proposed appointment of Mr. Yeung Jason Chi Wai, Mr.Chen Guanjun and Mr. Liu Fumin.

To help the Shareholders to make decisions to the best of their knowledge on re-election and new appointment of Directors of the fifth session of the Board and Shareholder Representative Supervisors of the fifth session of the Supervisory

Committee, a circular containing the details of, among others, the proposed re-election and new appointment of Directors and Supervisors will be despatched to the Shareholders as soon as possible.

## CHANGE OF EXTERNAL AUDITORS

According to the relevant regulations issued by the Ministry of Finance of the People's Republic of China and the SASAC, an accounting firm after providing a certain number of years of audit services shall be subject to rotation. Accordingly, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP will respectively retire as the international and PRC auditors of the Company with effect from the close of the AGM. The Board, as proposed by its audit committee, resolved to appoint Ernst & Young and Ernst & Young Hua Ming LLP as the external auditors of the Company for the year 2015. The proposal is subject to the approval by the Shareholders at the AGM.

Each of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP has confirmed that there are no matters in relation to their retirement which should be brought to the attention of the Shareholders. The Board is not aware of any matters in relation to the proposed change of auditors that need to be brought to the attention of the Shareholders. The Board and the audit committee have also confirmed that there are no disagreements or outstanding matters between the Company and PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP.

A circular containing detail of, among other things, the proposed change of external auditors, will be despatched to the Shareholders as soon as practicable.

The Board would like to express its appreciation for the professional services of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP provided to the Company in the past years.

## CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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. Mr. Liu Renhuai, a new independent non-executive director ,was elected at the annual general meeting of the Company held on 13 June 2014, in accordance with the requirements with respect to the composition of the Board as provided in the Company's Articles of Association, for a term of office commencing from the date on which his appointment was approved at the aforementioned annual general meeting on 13 June 2014, until the date on which the resolution relating to the re-election of the 5th Session of the Board is considered at the forthcoming annual general meeting . Mr. Li Xianzong's term of office was terminated upon the approval of the appointment of Mr. Liu Renhuai as a the new independent non-executive Director at the annual general meeting held on 13 June 2014. For further details, please refer to the announcements of the Company published on 6 January 2014, 25 March 2014, and 13 June 2014 respectively.

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 on 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 2014.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend for the year 2014 in an aggregate amount of RMB109,488,583.34, representing a dividend of RMB0.02 per share (2013: 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 report.

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 2015 (the "**Record Date**"). To determine the identities of the Shareholders entitled to receive the final dividend, the Company's register of members will be closed from 20 June 2015 to 25 June 2015 (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 2015.

In accordance with Article 151 of the Articles of Association, the dividend will be declared in RMB to the Shareholders. The dividend payable to Shareholders of the Domestic Shares will be paid in RMB within three months after the dividend declaration date. The dividend payable to H Shareholders is calculated and declared in RMB and will be paid in Hong Kong Dollars within three months after the dividend declaration date. The amount to be paid in Hong Kong Dollars will be converted based on the average closing exchange rate between RMB and Hong Kong Dollars issued by the People's Bank of China for the five working days prior to the declaration of dividends at the annual general meeting of the Company to be held on 12 June 2015.

## 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 31December 2014.

## 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 2014 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.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**") and the Shares Trading Management Rules of the Company as its own guidelines for securities transactions by its Directors and Supervisors and employees of the Company. The Board has also confirmed that, having made specific enquiries of all Directors and Supervisors, all the Directors and supervisors of the Company had complied with the required standards for securities transactions by Directors and Supervisors set out in the Model Code for the year ended 31 December 2014.

**THE ANNUAL REPORT**

The annual report of the Company for the year ended 31 December 2014 will be despatched to the Shareholders 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, 30 March 2015

*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. Lau Chung Man, Louis and Mr. Liu Renhuai..*

** For identification purpose only.*