



AviChina

AviChina Industry & Technology Company Limited

中国航空科技工业股份有限公司

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

(Stock Code : 2357)



2015

Annual Report

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Company Profile

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

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

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

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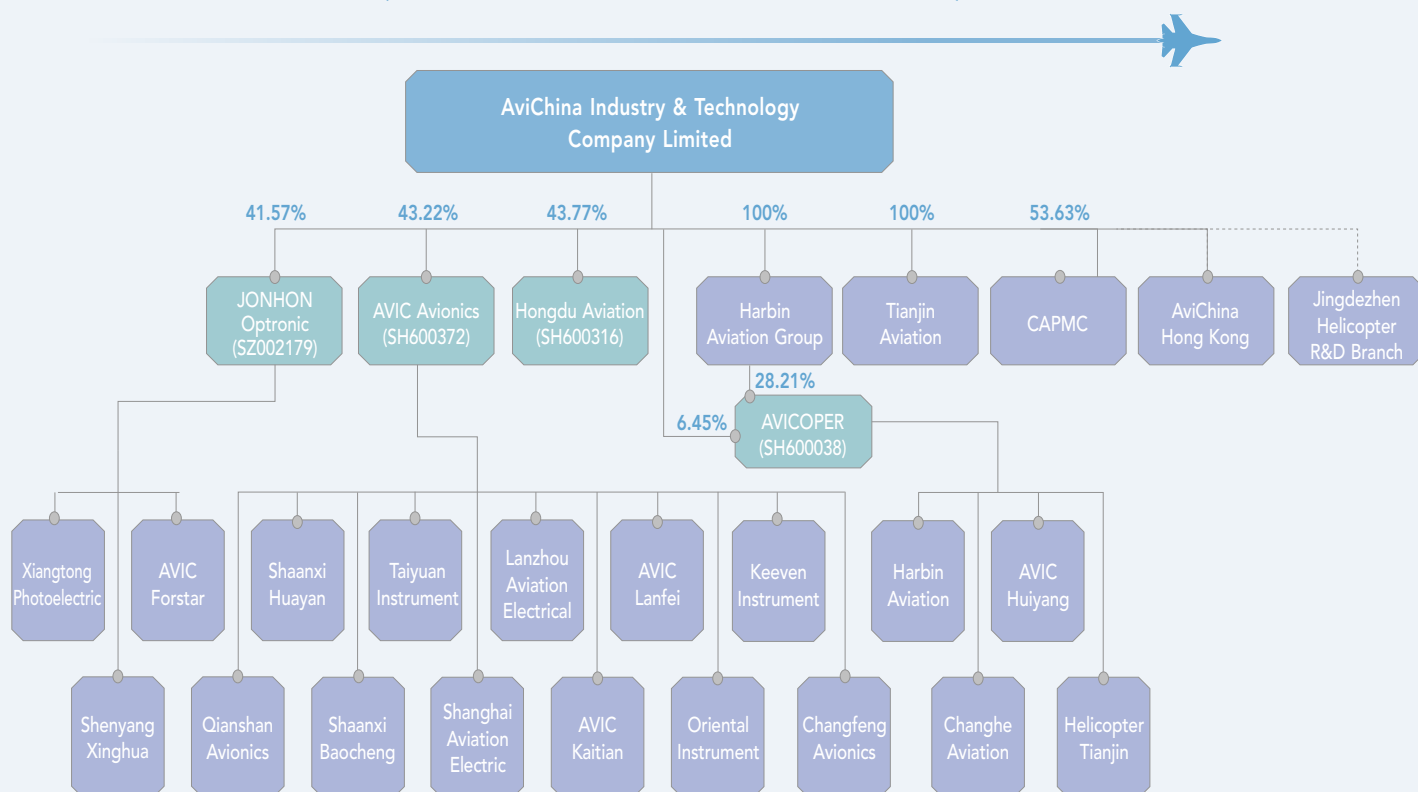


Company Profile

PRINCIPAL PRODUCTS OF THE GROUP

The Z-8, Z-9, Z-11 helicopters series (including AC series); L15, K8 and CJ-6 trainers series; Y-12 multi-purpose aeroplanes series and the N-5 agricultural aeroplanes series; EC-120 helicopters jointly produced by the Group and Airbus Helicopters; CA109 helicopters jointly produced by the Group and Agusta; and Legacy executive series jets jointly produced by the Group and Embraer-Empresa Brasileira de Aeronautica S.A.; aviation parts and components, avionics and electrical products and accessories.

BUSINESS STRUCTURE OF THE GROUP (AS AT THE DATE OF THIS REPORT)



Financial Highlights

CONSOLIDATED PROFIT OR LOSS

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

For the year ended 31 December

	2015	2014	Changes
Revenue	26,408	25,710	2.71%
Profit before tax	2,327	2,003	16.18%
Profit attributable to equity holders of the Company	863	781	10.50%
Gross profit margin	22.72%	19.05%	3.67%
Earnings per share for profit attributable to equity holders of the Company (RMB)			
– Basic	0.158	0.143	10.49%
– Diluted	0.158	0.143	10.49%

CONSOLIDATED ASSETS AND LIABILITIES

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

As at 31 December

	2015	2014	Changes
Total assets	60,650	54,722	10.83%
Total liabilities	34,891	31,421	11.04%
Non-controlling interests	13,758	12,486	10.19%
Equity attributable to equity holders of the Company	12,001	10,815	10.97%

Financial Highlights

Financial information on the Group's comprehensive business in the recent five years starting from 1 January 2011 is summarized as follows:

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

As at 31 December/For the year ended 31 December

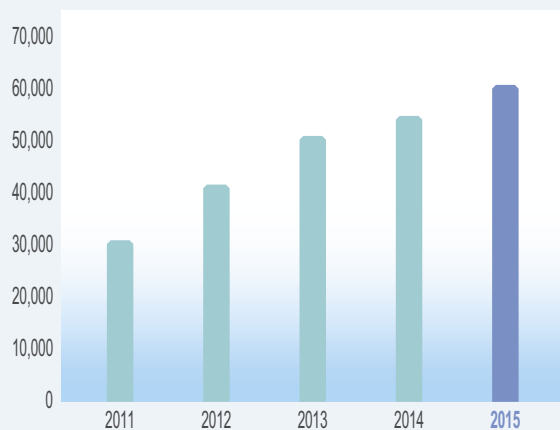
	2015	2014	2013	2012 (restated)	2011 (restated)
Total assets	60,650	54,722	50,928	41,665	30,973
Total liabilities	34,891	31,421	29,121	22,457	16,855
Non-controlling interests	13,758	12,486	11,684	9,052	6,573
Equity attributable to equity holders of the Company	12,001	10,815	10,123	10,156	7,545
Revenue	26,408	25,710	22,193	18,368	14,136
Profit before tax	2,327	2,003	1,761	1,540	1,223
Profit attributable to equity holders of the Company	863	781	713	664	499
Gross profit margin	22.72%	19.05%	19.41%	21.36%	20.28%
Earnings per share for profit attributable to equity holders of the Company (RMB)					
– Basic	0.158	0.143	0.131	0.124	0.101
– Diluted	0.158	0.143	0.131	0.124	0.101

Financial Highlights

AVIC

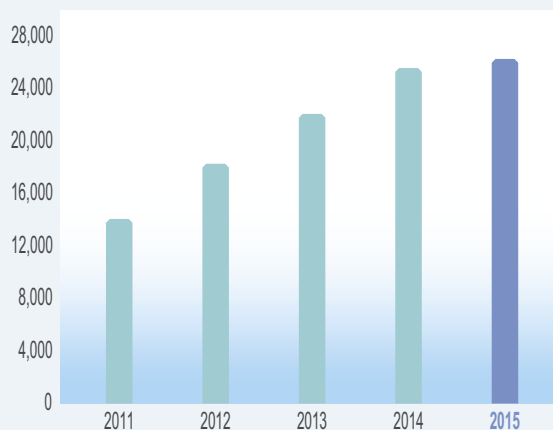
TOTAL ASSETS

(RMB million)



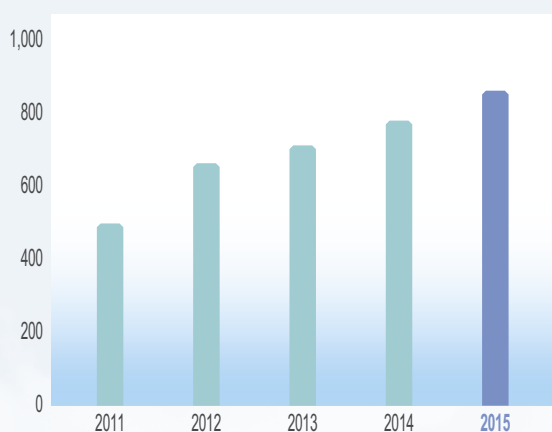
REVENUE

(RMB million)



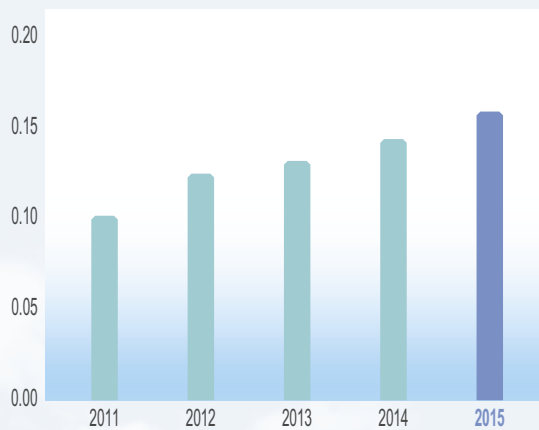
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(RMB million)



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

(RMB)



Chairman's Statement



To all shareholders,

I, on behalf of the Board, am pleased to announce the annual results of the Company for the year of 2015.

2015 is the last year for the "Outline of the Twelfth Five-Year Plan for National Economic and Social Development of China" (the "12th Five-Year Plan"). The past five years is a crucial period for the national strategic emerging industries to lay a solid development foundation and improve core competence. During such period, the Chinese aviation industry has been gathering strength to sail forward and has made historical achievements, successfully ascending into few countries with capabilities to research and manufacture advanced aviation equipment in series by itself. By leveraging such favorable situation and with its own explicit strategies, AviChina has been focusing on aviation business, integrating business segments, rebuilding internal management and seeking value creation to achieve a good development with constant expansion in scale and steady improvement in results.

Chairman
Mr. Lin Zuoming

ANNUAL RESULTS

For the year ended 31 December 2015, the Group recorded a revenue of RMB26,408 million and the profit attributable to equity holders of the Company amounted to RMB863 million, realizing a steady growth in its results.

BUSINESS REVIEW

In 2015, the Chinese economy took the initiative to adapt to the development of the "New Normal", achieving an overall steady improvement. AVIC, the controlling shareholder of the Company, proactively faced with difficulties and challenges, and realized a steady development. It was listed in the Fortune Global 500 for the seventh consecutive year with ranking rising to the 159th. It was elected by World Brand Lab as China's 500 Most Valuable Brands, ranking the 25th, with a brand value over one hundred billion RMB.

During the year, the Company also enhanced its investment in major aviation business, launched the acquisition of AVIC Planning, strengthened research and development, continuously improved products system and upgraded system management. The Group has gradually developed a relatively complete helicopter products composition. Progress in obtaining certificate of general purpose aircraft was made smoothly. The assembling of the large scale passenger aircraft, C919, has been successful completed with assembled components delivered smoothly. The Group proactively participated in the world aviation industry chain, gradually becoming an important supplier and a risk cooperation partner of the world civil aviation manufacturers. By sharing the same resources in respect of industry and technology, the non-aviation business of the Company has boosted and interacted with its aviation business. The Company has been continuously committed to improving its corporate governance. As the Company's impact on the international capital market has been continuously increased, the Company won the "Best Investment Value Award" for "2015 China Financial Market Award

Chairman's Statement

for Listed Companies". Meanwhile, the Company also focused on performing social responsibilities, advocating national aviation awareness, promoting green aviation, actively assisting on the launch of national policies on supporting the development of the general aviation industry, and has built an image as a proactive listed company.

OUTLOOK

In 2016, the global economy is struggling to recover and the external environment is becoming more complicated. The world is on the eve of a new round of technological and industrial revolution. The Chinese economy is facing with historical opportunities with great revolution value under the development of the "New Normal". "Made in China 2025" initiative becomes the guidance for implementing the strategy of building up a country with strong manufacturing power. "Supply-side Reform" injects vigor into the long-term and steady development of the Chinese economy. "Internet Plus" proposes completely new industry development model for manufacturing industry. The "Belt and Road" construction will enter into a substantial phase. Domestic public consumption will become a key driving force to economic development and a new upgrade in consumption is ready to start. The constructions of general aviation infrastructure has been accelerated, providing a great imaginable space for general aviation industry chain.

In 2016, facing with the great opportunities and challenges from technological revolution and industrial reform, as well as the change of trend and characteristics of "New Normal" of economic development, AviChina will, by leveraging its advanced aviation technology capabilities, follow the trend and gather the intelligence to actively interface with the guidance of the policies for stated-owned enterprises reform, adjust the structure, upgrade the industrial innovation, enhance the core competence and explore new development of innovation and transformation. The Group will deeply make core technological breakthrough and implement the launch of the intelligent manufacturing plan. Taking the opportunities of low-altitude airspace reform, the Group will actively expand the general aviation market. By leveraging the technological spillover effects of avionics, the interaction between aviation industry and non-aviation industry will be formed. The Group will also promote the commercial model and the industry innovation for its non-aviation industry. Benefiting from the "Belt and Road" strategy and international cooperation in respect of capacity, the Group will improve capabilities and scale of international cooperation to promote internationalized operation and globalized development. Taking the opportunities of the global economic downturn, the Group tenders to make cross-border merger and acquisition when appropriate. The Company will also promote the establishment and integration of comprehensive risk management and internal control system so as to enhance the risk response and control.

In 2016, the Board of the Company will, through adapting to the "New Normal" and leading the "New Normal", persist in driving the innovation and accelerating the industry upgrade to build up a listed company with sustainable development capability and investment value. Our staff and I have full confidence for the coming year. We will work with diligence together, stand as one and insist on industry spirit to strive to create values and return excellent results to our shareholders.

ACKNOWLEDGMENT

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



Lin Zuoming
Chairman
Beijing, 29 March 2016

Management Discussion and Analysis



For the year ended 31 December 2015, the Group recorded a revenue of RMB26,408 million, representing an increase of 2.71% as compared with that of RMB25,710 million in the corresponding period of the preceding year. Profit attributable to equity holders of the Company amounted to RMB863 million, representing an increase of 10.50% as compared with that of RMB781 million in the corresponding period of the preceding year.

General Manager
Mr. Tan Ruisong

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

The following shows the comparison between the consolidated operating results of the Company for the year ended 31 December 2015 and those for the year ended 31 December 2014:

CONSOLIDATED OPERATING RESULTS

1 Composition of revenue

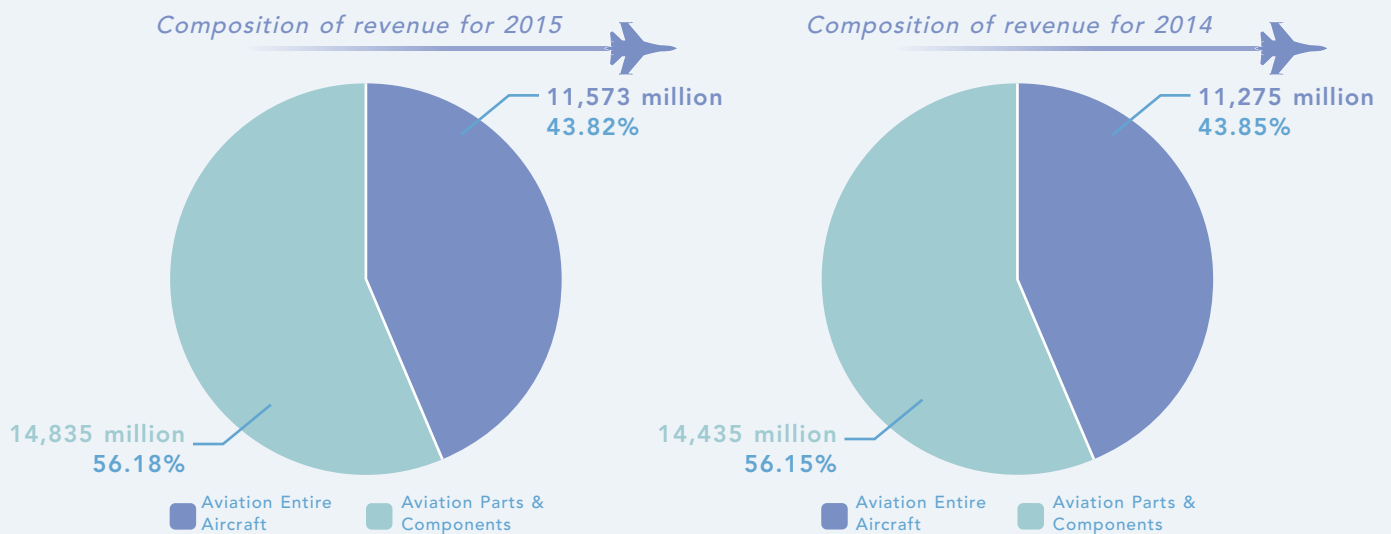
The revenue of the Group for 2015 was RMB26,408 million, representing an increase of 2.71% as compared with a revenue of RMB25,710 million in the corresponding period of the preceding year. Both the aviation entire aircraft business and the aviation parts and components business presented growth.

The revenue of the Group's aviation entire aircraft business for 2015 amounted to RMB11,573 million, representing an increase of RMB298 million, or 2.64% as compared with that of RMB11,275 million in the corresponding period of the preceding year. Such revenue accounted for 43.82% of the total revenue, representing a decrease of 0.03 percentage point as compared with that in the corresponding period of the preceding year.

Management Discussion and Analysis

The revenue of the Group's aviation parts and components business amounted to RMB14,835 million, representing an increase of RMB400 million, or 2.77% as compared with that of RMB14,435 million in the corresponding period of the preceding year. Such revenue accounted for 56.18% of the total revenue, representing an increase of 0.03 percentage point 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 from.



2. Selling and distribution expenses

The Group's selling and distribution expenses for 2015 amounted to RMB524 million, representing an increase of RMB54 million, or 11.49% as compared with that of RMB470 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase in sales commission and after-sale service expenses. In 2015, the selling and distribution expenses accounted for 1.98% of the revenue for the year 2015, representing an increase of 0.15 percentage point as compared with that in the corresponding period of the preceding year.

3 Administrative expenses

The Group's administrative expenses for 2015 amounted to RMB3,366 million, representing an increase of RMB616 million, or 22.40% as compared with that of RMB2,750 million in the corresponding period of the preceding year. This was mainly attributable to the increase in the investment in research and development and labor costs of certain management staff. In 2015, the administrative expenses accounted for 12.75% of the revenue, representing an increase of 2.05 percentage points as compared with that in the corresponding period of the preceding year.

4 Operating profit

The operating profit of the Group for 2015 amounted to RMB2,423 million, representing an increase of RMB428 million, or 21.45% as compared with that of RMB1,995 million in the corresponding period of the preceding year. This was mainly attributable to the increase in gross profit driven by the growth of comprehensive gross profit margin as compared with that in the corresponding period of the preceding year.

5 Finance costs, net

The Group's net finance costs in 2015 amounted to RMB244 million, representing an increase of RMB108 million, or 79.41% as compared with that of RMB136 million in the corresponding period of the preceding year. This was mainly influenced by factors such as the increase in loans of certain subsidiaries and discount expenses of employee defined benefit scheme during the period. Please refer to note 7 to the financial statements for details.

6 Income tax expense

The Group's income tax expense in 2015 was RMB389 million, representing an increase of RMB122 million, or 45.69% as compared with that of RMB267 million in the corresponding period of the preceding year. This was mainly attributable to the increase in current income tax expense driven by the growth of the taxable profit. Please refer to note 10 to the financial statements for details.

7 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company amounted to RMB863 million in 2015, representing an increase of RMB82 million, or 10.50% as compared with that of RMB781 million in the corresponding period of the preceding year. This was mainly attributable to an increase of RMB1,102 million, or 22.49% in gross profit, which was resulted from the growth in comprehensive gross profit margin as compared with that in the corresponding period of the preceding year.

GUARANTEED AND SECURED LOANS

As at 31 December 2015, the Group's total borrowings amounted to RMB7,855 million, of which RMB649 million was secured by buildings, notes receivable and accounts receivable with a net book value of approximately RMB717 million.

Borrowings placed under guarantees amounted to RMB891 million, of which RMB500 million represented guarantees amongst the members of the Group and RMB391 million represented guarantees provided by fellow subsidiaries.

EXCHANGE RATE RISKS

The Group mainly operates in the PRC with most of its transactions settled in RMB. The exposure to foreign currencies exchange risks mainly arises from transactions involving assets, liabilities, and operating activities of the Group and are primarily associated with United States Dollar, Euro and Hong Kong Dollar. The directors 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.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2015, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

CASH FLOW AND FINANCIAL RESOURCES

1 Liquidity and capital resources

As at 31 December 2015, the Group's cash and cash equivalents amounted to RMB8,938 million which was mainly derived from the following sources:

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

The Group's cash flow for each of the years 2015 and 2014 were as follows:

Unit: RMB million (except for percentage)

Main items of cash flow	2015	2014	Changes (amount)	Changes (percentage)
Net cash flows from/(used in) operating activities	1,617	(392)	2,009	N/A
Net cash flows from/(used in) investing activities	1,368	(1,470)	2,838	N/A
Net cash flows from financing activities	156	907	(751)	-82.80%

2 Operating, investing and financing activities

Net cash inflows from operating activities of the Group for the year 2015 amounted to RMB1,617 million, representing an increase of RMB2,009 million as compared with the net cash outflows in the corresponding period of the preceding year. This was mainly due to the improved condition of fund collection in sales of products and rendering of services.

Net cash inflows from investing activities of the Group for the year 2015 amounted to RMB1,368 million, representing an increase of RMB2,838 million as compared with the net cash outflows in the corresponding period of the preceding year, which was mainly attributable to the significant decrease in term deposits with an initial term of over three months as a result of the investment funds arrangement during the period.

Net cash inflows from financing activities of the Group for the year 2015 amounted to RMB156 million, representing a decrease of RMB751 million or 82.80% as compared with that in the corresponding period of the preceding year, which was mainly attributable to the significant drop of net cash inflow of newly increased borrowings.

As at 31 December 2015, the Group's total borrowings amounted to RMB7,855 million, of which the short-term borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB4,175 million, RMB447 million and RMB3,233 million, respectively.

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

Maturity	RMB million
Within one year	447
In the second year	979
In the third to fifth year	1,786
After the fifth year	468
Total	3,680

As at 31 December 2015, the Group's bank borrowings amounted to RMB3,564 million with a weighted average interest rate of 4% per annum, accounting for 45.37% of the total borrowings. Other borrowings amounted to RMB4,291 million with a weighted average interest rate of 5% per annum, accounting for 54.63% of the total borrowings.

As at 31 December 2015, there was no significant balance of borrowings denominated in foreign currencies.

GEARING RATIO

As at 31 December 2015, the Group's gearing ratio was 12.95% (as at 31 December 2014: 13.56%), which was arrived at by dividing the total borrowings by the total assets as at 31 December 2015.

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 2015 was RMB11,573 million, representing an increase of 2.64% 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 almost the same helicopter sales volume as compared with last year and amounted to RMB10,588 million, representing an increase of RMB672 million, or 6.78% as compared with that in the corresponding period of the preceding year, and accounting for 91.49% of the total revenue of the aviation entire aircraft business; (2) the revenue from the trainer aircraft business which represented a decrease in the sales volume of the trainer aircraft and amounted to RMB762 million, representing a decrease of RMB189 million, or 19.87% as compared with that in the corresponding period of the preceding year, and accounting for 6.58% of the total revenue of the aviation entire aircraft business; and (3) the revenue derived from the general purpose aircraft which represented a decrease in the sales volume of general purpose aircraft and amounted to RMB223 million, representing a decrease of RMB185 million, or 45.34% as compared with that in the corresponding period of the preceding year, and accounting for 1.93% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group in 2015 accounted for 43.82% of the Group's total revenue, representing a decrease of 0.03 percentage point as compared with that in the corresponding period of the preceding year.

Gross Profit Margin

The gross profit margin of the Group's aviation entire aircraft business for 2015 was 12.02%, representing an increase of 3.99 percentage points as compared with that in the corresponding period of the preceding year, which was mainly due to the adjustment on the product structure and the price of certain products during the period.

THE AVIATION PARTS AND COMPONENTS BUSINESS

Revenue

The Group's revenue derived from the aviation parts and components business for 2015 was RMB14,835 million, representing an increase of 2.77% as compared with that in the corresponding period of the preceding year. The revenue derived from the avionics business during the reporting period amounted to RMB10,435 million, representing an increase of RMB1,509 million, or 16.91% as compared with that in the corresponding period of the preceding year and accounted for 70.34% of the total revenue of the aviation parts and components business.

The revenue derived from the aviation parts and components business for 2015 accounted for 56.18% of the Group's total revenue, representing an increase of 0.03 percentage point 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 2015 was 31.07%, representing an increase of 3.40 percentage points as compared with that in the corresponding period of the preceding year. The increase in the entire gross profit margin of aviation parts and components was mainly attributable to the increase in revenue derived from the avionics products with higher gross profit margin and its proportion in total revenue of aviation parts and components business.

BUSINESS REVIEW AND OUTLOOK

In 2015, due to fluctuation in the international financial market and the shrinking of global trading volume, the Chinese economy faced a larger downward pressure. Facing such complicated global environment and the arduous domestic quest for reforms and development, and guided by market demand, AVIC, the controlling shareholder of the Company, implemented the strategy of innovation-driven development. As such, its competitiveness and market influence have been continuously improved, and its comprehensive strength has been steadily enhanced. AVIC was listed in the Fortune Global 500 for the seventh consecutive year, rising from 426th to 159th, representing a cumulative advancement of 267 in ranking. It was elected as the China's 500 Most Valuable Brands for the fourth consecutive year ranking the 25th, with a brand value of RMB100.8 billion. It was the first time that AVIC's brand value exceeded one hundred billion RMB.

In 2015, the Group steadily yet firmly promoted the overall implementation of our development strategy. Through persistent implementation of our international merger and acquisition strategy, the Group actively participated in the global competition and cooperation, seeking new momentum for growth. The Group enhanced the market influence of the aviation products of the Group by actively participating in various international air exhibitions with an aim to further explore the market. The Group also continued to improve our corporate governance, so as to increase our reputation and recognition in the international capital market.

Management Discussion and Analysis

Mr. Lin Zuoming, the Chairman of the Board, was listed as one of “China’s Most Influential Business Leaders for Listed Companies” by Fortune for the fifth time, and was awarded the “Most Influential Leader” by China Securities Golden Bauhinia Award. The Company won the “Best Investment Value Award” at the ceremony for “2015 China Financial Market Award for Listed Companies” hosted by the Hong Kong Chinese Enterprises Association.

The research and development work and the airworthiness certificate application for the helicopters produced by the Company have made positive progress. Certain AC-series helicopters have completed flight tests in cold and high plateau area, and have tapped the domestic market in various professional fields. Several series of helicopters were exhibited in the Paris Air Show and the Helicopter Exhibition in USA hosted by International Helicopter Association.

Y-12 series aircraft made satisfactory achievements in both international and domestic market promotion. Y-12F obtained type certificate issued by CAAC (Civil Aviation Administration of China) and FAA (Federal Aviation Administration). This marks a significant milestone in the promotion of China-made civil aircraft in the international market competition and influence.

C919, the first large commercial jet independently developed by China, successfully rolled off the line. The relevant parts and components of C919 jet manufactured by Hongdu Aviation, AVICOPTER, AVIC Avionics and Tianjin Aviation were smoothly delivered.

The L15 advanced trainer manufactured by Hongdu Aviation was put in exhibition in the Paris Air Show. It subsequently successfully completed the acceptance flight tests conducted by the first overseas customer. In the field of intelligent products, Hongdu Aviation has stepped into the phase of industrialization from the phase of research and development through the strategic deployment of coordination of manufacture, study, research, utility, independent development and capital operation.

JONHON Optronics implemented the strategy driven innovation to speed up the transformation, upgrading and leap-forward development. The connector project of JONHON Optronics successfully entered the first “Transformation List of Intelligent Property Rights for National Defense Industry”. Meanwhile, products and solutions of JONHON Optronics have been exhibited in the 40th American Optical Fiber Communication Exposition, the 18th New Electronics Exhibition in Russian and the European Conference on Optical Communication respectively. JONHON Optronics entered into a strategic cooperation agreement with China Electronics Standardization Institute. This signing of such agreements represented the establishment of formal strategic cooperation relationship between the largest connector research and manufacture company in China and the most prestigious Chinese standardization institute.

In the defense avionics realm, AVIC Avionics enlarged its investment in developing new technology and new products, and sought advantageous market position of its core products. In civil avionics realm, AVIC Avionics vigorously explored the market for general aviation, helicopter, engine and international subcontracting, and provided full support for the final assembly and delivery of key civil aircraft program. In non-aviation realm, AVIC Avionics greatly pushed forward the conversion and application of avionics technology.

The international cooperation projects of the Group progressed smoothly. The first nacelle fan cowl of the international subcontracting project HTF7500E undertaken by AVICOPTER with the cooperation of U.K. GKN AEROSPACE SERVICES was delivered successfully. The first product of the Yinguan Project, with the cooperation of Aircelle, also achieved delivery. During the reporting period, two large executive jets (Legacy 650), manufactured by Harbin Embraer Aircraft Industry Co., Ltd., and the working pack for A320 aircraft manufactured by Harbin Hafei Airbus Composite Materials Manufacture Center Co.,Ltd. were also successfully delivered to customers.

Meanwhile, the Company launched the acquisition of the 100% equity interest in AVIC Planning, with an aim to extend its businesses to the front-end services of aviation manufacturing industry, such as planning, designing and consultation of engineering. The Company invested in a professional company, AVIC Hubei Ali-jiatai Aircraft Equipment Co., Ltd. ("**Ali-Jiatai**"), which is a manufacturer of commercial aircraft seats and participated in the investment and establishment of AVIC Nanjing Servo Control Systems Co., Ltd. ("**Nanjing Servo Control**") and AVIC Nanjing Electromechanical Technology Co., Ltd. ("**Nanjing Electromechanical**"), with an aim to extend its civil aviation industrial chain. The Company proposed to participate in the capital increase of Shenyang Aircraft Group and Chengdu Aircraft Group, so as to extend the industrial chain to defense realm.

Looking forward into 2016, the global economy may continue its adjustment and correction and is expected to struggle to recover. Meanwhile, 2016 marks the beginning of the decisive phase in the national effort to build China into a comprehensive moderately prosperous society, and also a crucial year for pushing forward the structural reform. Facing more severe difficulties and challenges, the Company will endeavor to further optimize the strategic deployment, improve qualities and efficiencies, and increase the overall results of the Company, in the following manners:

1. To implement the new development concept of innovation, harmonization, green, openness and sharing, and enlarge the investment in technology innovation;
2. To proactively adapt to the policies for state-owned enterprises reform, adjust structure, and promote the industry innovation and upgrading to enforce core competitiveness;
3. To complete the acquisition of the 100% equity interest in AVIC Planning, so as to increase the revenue and profit of the Company;
4. To continue pushing forward both the domestic and overseas merger and acquisition, forming a diversified industrial layout; to speed up breeding new development momentum, meanwhile, promote the implementation of several investment plans;
5. To continue to improve the corporate governance, to strictly stick to the strategy of "Rule of Law" and to operate by rules; and
6. To proactively fulfill social responsibilities, adhere to the concept for developing green aviation, and follow a win-win path for both economy development and environment improvement.

ORDERS FOR AVIATION PRODUCTS

As at the date of this report, the Group has received orders for 271 helicopters, 176 trainers and 34 general aeroplanes. The Group is endeavoring to get more orders for its aviation products.

USE OF PROCEEDS

Up to 31 December 2015, a total of RMB3,436 million of the proceeds raised by the Company from the fund raising activities had 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 interest-bearing short term deposits.

EMPLOYEES

As at 31 December 2015, the Group had 47,974 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	47,845	99.73
Entire aircraft business	20,993	43.76
Parts and components business	26,852	55.97
Other businesses	129	0.27
Total	47,974	100

For the year ended 31 December 2015, the total staff costs of the Group amounted to RMB3,625 million, representing an increase of RMB196 million or 5.72% as compared with that of RMB3,429 million in the corresponding period of the preceding year.

REMUNERATION OF EMPLOYEES

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

TRAINING FOR EMPLOYEES

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

In accordance with its development strategy in 2015, in order to facilitate the development of its various businesses, the Group actively established a new training environment, systematically organized its trainings, enhanced the specificity and effectiveness of trainings, improved corresponding management systems and resources allocation mechanism. During the year, the Company continuously organized trainings in laws and regulations governing listed companies, securities and finance to related staff of the Company and its subsidiaries. Through trainings, the comprehensive qualities and competency for the position of our employees are entirely improved, which in turn will enhance the Group's competitiveness so as to adapt to the ever-changing market development.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors



Mr. Lin Zuoming (林左鳴)

(Chairman of Development and Strategy Committee and Nomination Committee)

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



Mr. Tan Ruisong (譚瑞松)

(Member of Development and Strategy Committee)

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

Non-executive Directors



Mr. Gu Huizhong (顧惠忠)

(Member of Audit Committee and Development and Strategy Committee)

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



Mr. Gao Jianshe (高建設)

(Member of Remuneration Committee and Nomination Committee)

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

Directors, Supervisors and Senior Management



Mr. Guo Chongqing (郭重慶)

(Member of Development and Strategy Committee)

83, an academian of the Chinese Academy of Engineering and a professor of Tongji University, a professor of Shanghai Jiao Tong University, the reputational dean of the Mechanical Engineering Institute and the consulting dean of Economics and Management Institute of Tongji University and a member of the specialist committee of China Machinery Industry Federation. He graduated from Harbin Institute of Technology in 1957 majoring in machinery manufacturing and was an assistant professor in the university. He had been the head of Department of Management Sciences of the National Natural Science Foundation of China and the chief designer of a number of major national construction projects, and was awarded the "Chinese Master of Engineering Design". Mr. Guo used to be an independent non-executive Director of the Company, and has been appointed as a non-executive Director of the Company since June 2015.



Mr. Maurice Savart

(Member of Development and Strategy Committee)

57, Chairman of Airbus Asia Advisory Council. Mr. Maurice commenced his career in science and technology for national defence in 1982 when he worked at the Training and Cooperation Department of the Ministry of Defence of France. He used to be the regional sales manager (Asia) of the Thomson-CSF/Aerospace Group, the business development director (Asia Pacific) and vice president (North Asia) of the Lagardere Group, the managing director (North Asia) of Aerospatiale Lagardere International and the senior vice president of EADS in charge of business in north Asia. He has been the Chairman of Airbus Asia Advisory Council from late 2007. Mr. Maurice graduated from the School of Engineering of Ecole Nationale Supérieure de Physique in France in 1980 and received his master degree in Science from the University of California in the USA in 1981 and a MBA degree from the School of Business Administration of Institut Supérieur des Affaires in France in 1982. Mr. Savart has been appointed as a non-executive Director of the Company since June 2004.

Independent Non-executive Directors



Mr. Lau Chung Man, Louis (劉仲文)

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

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



Mr. Liu Renhuai (劉人懷)

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

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

Directors, Supervisors and Senior Management



Mr. Yeung Jason Chi Wai (楊志威)

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

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

SUPERVISORS



Mr. Chen Guanjun (陳灌軍)

54, a master degree holder and a researcher. Mr. Chen obtained his bachelor degree from Nanjing University of Aeronautics and Astronautics in 1984, majoring in High-Altitude Equipment; and received his master degree in business administration from Paris University of Engineering Management. He commenced his career in the aviation industry in 1984, and used to be the deputy director and director of the research & development department, director of science & technology division, and vice president of the China Aviation Technology Intelligent Institute; 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; and Mr. Chen has been the deputy director of Aviation Industry Development Research Center of China since August 2011. Mr. Chen has been appointed as the Chairman of the Supervisory Committee since June 2015.

Directors, Supervisors and Senior Management



Mr. Liu Fumin (劉富敏)

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



Ms. Li Jing (李竟)

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

SENIOR MANAGEMENT



Mr. Chen Yuanxian (陳元先)

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



Mr. Zhang Kunhui (張昆輝)

53, a doctor degree holder, natural science researcher, supervisor of Ph.D. students, vice general manager of the Company and also vice-chairman and director of AVIC Avionics. Mr. Zhang graduated from Nanjing University of Aeronautics and Astronautics (bachelor and master of engineering), Beijing University of Aeronautics and Astronautics (doctor of Communication and Information Systems). He commenced his career in aviation industry from July 1983 and used to be division chief, vice director, executive vice director, director of China Leihua Electronic Technology Research Institute. He was appointed as director of Radar and Avionics Institute of AVIC in March 2004. And he was appointed as the chairman of the board for GE AVIC Civil Avionics Systems Company Limited in May 2013. Mr. Zhang was appointed as the vice general manager of the Company on April 2010.

Directors, Supervisors and Senior Management



Mr. Lv Jie (呂傑)

54, a master degree holder and researcher, vice general manager of the Company and also director of AVICOPTER. He has been the deputy director of the Chinese Flight Test Establishment of Former AVIC, and director of the Scientific Department, the General Engineer and the director of the Scientific Committee of the Chinese Flight Test Establishment of Former AVIC. He was also the director of the Science & Technology Development Department for Significant Projects and director of the Engineering Department of AVIC I, the director of the Management Department for Significant Projects and director of Defense Engineering Department of AVIC. Mr. Lv was appointed as the vice general manager of the Company in June 2015.

COMPANY SECRETARY



Mr. Yan Lingxi (閔靈喜)

46, a master degree holder, senior engineer, Company Secretary and Assistant to General Manager. He is also a director of AVIC Avionics and AVICOPTER. He graduated from the Beijing University of Aeronautics and Astronautics with a bachelor degree in engineering in 1991 and with a master degree in management in 1999. He commenced his career in the aviation industry in July 1991 and worked in the reform bureau of the Ministry of Aero-Space Industry, the corporate management office of Nanjing Jincheng Machinery Factory, the corporate management department and the asset and business management department of Former AVIC. He was appointed as a deputy division director and a division director of the corporate assets management department of AVIC II, and the director of the security and legal department of the Company. Mr. Yan has been appointed as the Company Secretary since April 2003, and the Assistant to General Manager since May 2010.

Report of the Board

The Board of Directors of AviChina Industry & Technology Company Limited hereby presents its Report of the Board together with the audited financial statements of the Group for the year ended 31 December 2015.

BUSINESS OF THE GROUP

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

For details of the business of the Group, Please refer to the section headed "Management Discussion and Analysis" from page 9 to page 19 of this annual report.

ENVIRONMENTAL POLICIES

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

During this reporting period, the Company continuously strengthened the management of environmental protection, actively participated in energy saving and emission reduction, and pursued green development.

RESULTS AND DIVIDEND

The results of the Group for 2015 are set out in the Consolidated Statement of Profit or Loss on page 60 of this annual report.

The Board recommended the payment of a final dividend for the year 2015 in an aggregate amount of RMB109,488,583.34, representing a dividend of RMB0.02 per Share (2014: 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, subject to adjustment based on the number of 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 8 June 2016 (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 3 June 2016 to 8 June 2016 (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 2 June 2016.

In accordance with Article 151 of the Articles of Association, the dividend will be declared in RMB to the shareholders of the Company. 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 27 May 2016 (the "**AGM**"). Subject to the approval of the Company's shareholders at the AGM, the aforementioned dividend is expected to be paid before 28 August 2016.

INFORMATION ON TAX DEDUCTION

H Shareholders shall be taxed for the dividends distributed by the Company in accordance with the Enterprise Income Tax Law of the PRC, the Individual Income Tax Law of the PRC and other relevant laws, regulations and rules. However, H Shareholders may enjoy tax relief in accordance with the provisions of applicable tax treaties entered into by the countries/regions where they belong to by virtue of residential identification and the PRC. For details, please refer to the announcement of the Company dated 26 June 2015.

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

SHARE CAPITAL

The Company's capital structure as at 31 December 2015 was as follows:

Class of Shares	Number of Shares as at 31 December 2015	Percentage of total number of Shares in issue as at 31 December 2015 (%)
Domestic Shares	3,117,995,265	56.96
Overseas listed foreign invested shares (H Shares)	2,356,433,902	43.04
Total	5,474,429,167	100

FIVE-YEAR FINANCIAL HIGHLIGHTS

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

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, pursuant to the register kept under Section 336 of the Securities and Futures Ordinance (the "SFO"), shareholders holding 5% or more than 5% equity interests in the Company were as follows:

Name of Shareholders	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to the same class of Shares	Approximate percentage to share capital in issue	Nature of Shares held
AVIC (Note 1)	Domestic Shares	Beneficial owner, Interest in Controlled Corporation	2,989,492,900	95.88%	54.61%	Long position
	H Shares	Interest in Controlled Corporation	13,076,000	0.55%	0.24%	Long position
European Aeronautic Defence and Space Company – EADS N.V. (Note 2)	H Shares	Beneficial owner	274,909,827	11.67%	5.02%	Long position

Notes:

- Out of the 2,989,492,900 Domestic Shares held by AVIC, 2,806,088,233 Domestic Shares were held as beneficial owner and 183,404,667 Domestic Shares were held through AMES, its wholly-owned subsidiary. On 8 July 2015, AVIC, through China Aviation Industry (Hong Kong) Company Limited, its wholly-owned subsidiary, purchased 13,076,000 H Shares on the trading system of the Stock Exchange, representing 0.24% equity interest in the Company. Upon completion of the aforementioned purchase, the aggregate number of Shares held by AVIC and its subsidiaries in the Company was 3,002,568,900, representing 54.85% of the total issued share capital of the Company.
- European Aeronautic Defence and Space Company – EADS N.V. officially changed its name to Airbus Group on 1 January 2014.

Save as disclosed above, as at 31 December 2015, the Company had not been notified of any interests and short positions in 5% or more than 5% of the shares and underlying shares of the Company which had been recorded in the register kept under Section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities for the year ended 31 December 2015.

PRE-EMPTIVE RIGHTS

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

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2015, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

FIXED ASSETS

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

RESERVES

Details of movement in reserves of the Group for the year ended 31 December 2015 are set out in the Consolidated Statement of Changes in Equity and Note 33 to the financial statements.

DISTRIBUTABLE RETAINED EARNINGS

As at 31 December 2015, the Company had distributable retained earnings of RMB294,881,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's total purchases from the five largest suppliers for the aviation business accounted for 26.31% of the Group's total purchases, of which, purchases from the largest supplier accounted for 7.31% of the Group's total purchases. The Group's sales to the five largest customers accounted for 48.76% of the Group's total sales, of which, sales to the largest customer accounted for 28.08% of the Group's total sales.

Purchases from the five largest suppliers in the aviation entire aircraft segment accounted for 39.36% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 10.94% of the total purchases in that segment. Sales to the five largest customers in the aviation entire aircraft segment accounted for 87.20% of the total sales in that segment, of which, sales to the largest customer accounted for 50.22% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation parts and components segment accounted for 10.81% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 2.55% of that segment. Sales to the five largest customers in the aviation parts and components segment accounted for 12.00% of the total sales in that segment, of which, sales to the largest customer accounted for 2.69% of the total sales in that segment.

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

SUBSIDIARIES

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

DIRECTORS

Details of the Directors of the Company as at 31 December 2015 are set out from pages 20 to 24 of this annual report.

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

1. On 28 January 2015, JONHON Optronic proposed to jointly set up a new project company with Shenzhen Xindayitong Precision Electric Co., Ltd. JONHON Optronic proposed to contribute RMB25.50 million in cash through its own capital resource, representing 51% of the registered capital of the new project company. For details, please refer to the overseas regulatory announcement of the Company dated 28 January 2015.
2. On 30 March 2015, to continuously improve the aviation industry chain of the Company, the Company entered into a capital contribution agreement with China Aviation Industry Corporation Jincheng Nanjing Mechanics-electronics-hydraulics Research Center ("**AVIC Jincheng**") in relation to the establishment of Nanjing Servo Control, pursuant to which the Company proposed to contribute RMB140 million in cash in the establishment of Nanjing Servo Control. Upon the establishment of Nanjing Servo Control, the Company and AVIC Jincheng would hold 46.67% and 53.33% of the equity interests in Nanjing Servo Control, respectively. Meanwhile, the Company entered into a capital contribution agreement in relation to the establishment of Nanjing Electromechanical with AVIC Jincheng and AMES, pursuant to which the Company proposed to contribute RMB30 million in cash in the establishment of Nanjing Electromechanical. Upon establishment of Nanjing Electromechanical, the Company, AVIC Jincheng and AMES would hold 10%, 56.67% and 33.33% of the equity interests in Nanjing Electromechanical, respectively. AVIC is the controlling shareholder of the Company. AVIC Jincheng and AMES are the subsidiaries of AVIC. Therefore, both AVIC Jincheng and AMES are connected persons of the Company, and the entering into of the above mentioned capital contribution agreements constituted connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. For details please refer to the announcement of the Company dated 30 March 2015.
3. On 18 August 2015, the Company, AVIC Capital, AVIC Avionics, AVIC Aircraft, AVIC Electromechanical Systems Co., Ltd. PLC (together with the Company, AVIC Capital, AVIC Avionics and AVIC Aircraft referred to as the "**Capital Increase Participants**") as the capital increase participants, and Shenyang Aircraft Group and Chengdu Aircraft Group as the capital increase targets, entered into a framework agreement on capital increases ("**Framework Agreement**"). Pursuant to the Framework Agreement, the Capital Increase Participants proposed to participate in the capital contribution in Shenyang Aircraft Group and Chengdu Aircraft Group in cash. As at the date of this annual report, no formal capital contribution agreement has been signed in this regard. For details, please refer to the announcement of the Company dated 18 August 2015.
4. On 27 August 2015, to help the Company expand its civil aviation industry chain, the Company entered into a capital increase agreement with AVIC Aerospace Life-Support Industries, Ltd. ("**AVIC Life-Support**"), AVIC International Aero-Development Corporation ("**AVIC International Development**"), Ali-Jiatai and the individual shareholders, pursuant to which, the Company and AVIC International Development proposed to participate in the capital increase of an aggregate of RMB32 million in the registered capital of Ali-Jiatai in cash. Upon completion of the proposed capital increase, the Company and AVIC International Development would hold 24.78% and 10% equity interest in Ali-Jiatai, respectively. AVIC is the controlling shareholder of the Company, and each of AVIC Life-Support, AVIC International Development and Ali-Jiatai is a subsidiary of AVIC. Therefore, AVIC Life-Support, AVIC International Development and Ali-Jiatai are connected persons of the Company, and the entering into of the above mentioned capital increase agreement constituted a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 27 August 2015.

5. On 30 September 2015, to extend the business scope of the Company, and improve the capability for continuous profitability, the Company entered into an equity acquisition and share issuance agreement with AVIC. Pursuant to this agreement, the Company conditionally agreed to acquire and AVIC conditionally agreed to sell the 100% equity interest held by AVIC in AVIC Planning, the consideration for which was to be satisfied by the issuance of approximately 489,592,000 Domestic Shares to AVIC (the “**Acquisition and the Issuance**”). The issue price for each consideration share was RMB4.42 (equivalent to approximately HK\$5.39). The consideration Shares, being all Domestic Shares, represented approximately 15.70% and 8.94% of the then total issued Domestic Shares and then total issued share capital of the Company, respectively, and approximately 13.57% of the total issued Domestic Shares and approximately 8.21% of the total issued share capital of the Company as enlarged by the issuance upon completion. AVIC was the controlling shareholder of the Company, directly and indirectly holding 54.85% equity interest in the Company. AVIC Planning is a wholly-owned subsidiary of AVIC. In accordance with the rules in Chapter 14A of the Hong Kong Listing Rules, AVIC and AVIC Planning are connected persons of the Company, and the Acquisition and the Issuance both constituted discloseable and connected transactions of the Company respectively. For details, please refer to the announcements of the Company dated 30 September 2015, 10 March 2016 and 11 March 2016.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

For the year ended 31 December 2015, the Group engaged in continuing connected transactions with AVIC Group, AVIC Avionics and its subsidiaries (“**AVIC Avionics Group**”), AVICOPTER and its subsidiaries (“**AVICOPTER Group**”). AVIC is the controlling shareholder of the Company and therefore is a connected person of the Company. AVIC has direct and indirect equity interest of 34.16% in AVIC Avionics, which is a subsidiary of the Company held as to 43.22% by the Company and is consolidated in the audited accounts of the Company. AVIC Avionics is therefore a connected subsidiary of the Company under the Hong Kong Listing Rules. Similarly, AVIC has indirect equity interest of 26.93% in AVICOPTER, which is a subsidiary of the Company held as to 34.66% by the Company and is consolidated in the audited accounts of the Company. AVICOPTER is therefore a connected subsidiary of the Company under the Hong Kong Listing Rules. The Group also entered into continuing connected transactions with AVIC Finance, which is a subsidiary of AVIC and therefore a connected person of the Company.

AVIC

During the year 2015, the Group carried out following continuing connected transactions with AVIC Group pursuant to the four continuing connected transaction agreements entered into between the Company and AVIC:

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

Report of the Board

2. On 26 August 2014, the Company entered into the mutual provision of services agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group agreed to provide certain services relating to the production and business operations of the Group for a term of three years ending 31 December 2017 and the Group also agreed to provide certain services relating to the production and business operations of AVIC Group for a term of three years ending 31 December 2017.

Due to changes in the progress and settlement period of certain construction projects undertaken by AVIC Group and in respect of new construction projects arising from the Group's business expansion for which AVIC Group has been engaged to provide construction services and also taking into account the growth rate of the actual amounts of the expenditure transactions under the mutual provision of services agreement incurred during 2014 and the six months ended 30 June 2015 as well as the increase in domestic consumer prices, the Board estimated that the actual amounts of the expenditure transactions under the mutual provision of services agreement for the three financial years ending 31 December 2017 will exceed the original annual caps as determined on 26 August 2014. Therefore, the Board revised such annual caps on 26 August 2015.

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

AVIC Avionics and AVICOPTER

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

AVIC Finance

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

For details of the aforementioned continuing connected transactions, please refer to the announcements of the Company dated 30 August 2011, 26 August 2014 and 25 August 2015, and the circulars of the Company dated 23 September 2011 and 26 September 2014.

The annual caps for the aforementioned continuing connected transactions as compared with the actual transaction amounts incurred or received by the Group in 2015 are set out below. For the year ended 31 December 2015, such continuing connected transactions of the Group were calculated on a consolidated basis as follows:

	2015	
	Actual Amount (RMB million)	Annual Cap (RMB million)
1 Mutual Supply of Products Agreement		
(a) Annual expenditure of the Group	9,050	16,882
(b) Annual revenue of the Group	16,602	28,996
2 Mutual Provision of Services Agreement		
(a) Annual expenditure of the Group	803	1,200
(b) Annual revenue of the Group	127	238
3 Trademarks and Technology Cooperation Framework Agreement		
(a) Annual expenditure of the Group	20	98
(b) Annual revenue of the Group	199	349
4 Land Use Rights and Properties Leasing Agreement		
Annual expenditure of the Group	38	75
5 Products and Services Mutual Supply and Guarantee Agreement		
(a) Annual expenditure of the Group	661	1,100
(b) Annual revenue of the Group	810	1,500

	2015	
	Maximum daily outstanding balance of deposit (RMB million)	Cap for the maximum daily outstanding balance of deposit (RMB million)
6 Financial Services Framework Agreement		
(a) Maximum daily outstanding balance of deposits (including accrued interests) placed by the Group with AVIC Finance	1,424	3,000
	Actual Amount (RMB million)	Annual Cap (RMB million)
(b) Other financial services provided by AVIC Finance to the Group	541	1,000

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

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

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

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

In addition, according to the Hong Kong Listing Rules, the related party transactions mentioned in note 38 to the financial statements also constituted continuing connected transactions as defined under Chapter 14A of the Hong Kong Listing Rules. Such transactions were in compliance with the disclosure requirements of Chapter 14A of the Hong Kong Listing Rules.

One-Off Connected Transactions

For the one-off connected transactions of the Group conducted during the financial year of 2015, please refer to paragraphs 2, 4 and 5 under the subsection headed "Material Acquisitions and Disposal of Subsidiaries and Associated Companies During the Reporting Period " of this session on page 32 to page 33.

SIGNIFICANT EVENTS DURING THE REPORTING YEAR

1. On 30 March 2015, the Board resolved that, according to the conditions of the restricted share incentive scheme of the Company, the last one-third of the restricted shares granted to the eligible scheme participants under the initial grant should be unlocked on 31 March 2015. Please refer to the announcement of the Company dated 30 March 2015 for details.
2. On 8 July 2015, AVIC, through China Aviation Industry (Hong Kong) Company Limited, one of its subsidiaries, purchased 13,076,000 H Shares on the trading system of the Stock Exchange, for an aggregate amount of approximately HK\$59,898,900 and the average price per H Share was HK\$4.58. Upon completion of the purchase, the aggregate number of shares held by AVIC and its subsidiaries in the Company was 3,002,568,900 Shares, representing 54.85% of the then total issued share capital of the Company. Please refer to the announcement of the Company dated 8 July 2015 for details.
3. On 9 July 2015, the Company purchased 1,000,084 shares of Hongdu Aviation, a subsidiary of the Company, on the Shanghai Stock Exchange, representing approximately 0.14% of the then total share capital of Hongdu Aviation in issue. Upon completion of purchase, the number of shares in Hongdu Aviation held by the Company was 313,883,294, and the shareholding percentage held by the Company in Hongdu Aviation of then total issued share capital of Hongdu Aviation changed from 43.63% to 43.77%. Please refer to the announcement of the Company dated 9 July 2015 for details.
4. In June 2015, Harbin Aviation Group disposed of 2,585,721 shares of AVICOPTER on the Shanghai Stock Exchange. Upon completion of the disposal, the Company held 166,270,802 shares in AVICOPTER through Harbin Aviation Group, representing approximately 28.21% of the then total issued share capital of AVICOPTER. On 15 July 2015, the Company purchased 622,800 shares of AVICOPTER on the Shanghai Stock Exchange through a targeted asset management plan at an average price of RMB50.33 per share and a total amount of approximately RMB31,345,500. Please refer to the announcement of the Company dated 15 July 2015 for details.

SIGNIFICANT EVENTS OCCURRED SINCE THE END OF THE FINANCIAL YEAR

1. On 3 February 2016, AVIC Forstar, a subsidiary of JONHON Optronics, quoted on the National Equities Exchange and Quotations. The stock name of AVIC Forstar is "Forstar" and the stock code is "835640". Please refer to the announcements of the Company dated 26 August 2015, 13 January 2016, 3 February 2016 and 5 February 2016 for details.
2. On 10 March 2016, the Company entered into a supplementary agreement to the equity acquisition and share issuance agreement with AVIC, pursuant to which, the consideration for the acquisition of 100% equity interest in AVIC Planning has been confirmed as RMB2,173 million (i.e. RMB2,173,281,600) and the number of consideration shares to be issued by the Company to AVIC has been adjusted from approximately 489,592,000 shares to 491,692,669 shares at the issue price of RMB4.42 per consideration share. For details, please refer to the announcements of the Company dated 30 September 2015, 10 March 2016 and 11 March 2016.

CORPORATE GOVERNANCE

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Board, throughout the year ended 31 December 2015 and up to the date of this report, the Company maintained a sufficient public float of more than 25% of the Company’s issued shares as required under the Hong Kong Listing Rules.

AUDITORS

The financial statements for the year have been audited by Ernst & Young. In the forthcoming AGM, a resolution for the appointment of Ernst & Young and Ernst & Young Hua Ming LLP, as the international and domestic auditors of the Company, respectively, for the financial year of 2016 will be proposed.

On 12 June 2015, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP retired as the international and domestic auditors of the Company, respectively, and Ernst & Young and Ernst & Young Hua Ming LLP were appointed as the external auditors of the Company. Save as disclosed above, there is no change in external auditors during the past three years.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At the annual general meeting convened on 12 June 2015, as the term of office for all the Directors of the fourth session of the Board and Supervisors of the fourth session of the Supervisory Committee of the Company had expired, the Company elected the Directors of the fifth session of the Board and the shareholder representative Supervisors of the fifth session of the Supervisory Committee.

At the Board meeting convened on 12 June 2015, Mr. Lin Zuoming was appointed as the Chairman of the fifth session of the Board, and Mr. Tan Ruisong was appointed as the Vice Chairman of the fifth session of the Board. At the same time, Mr. Tan Ruisong was appointed as the General Manager of the Company. Mr. Chen Yuanxian, Mr. Zhang Kunhui and Mr. Lv Jie were appointed as the Vice General Manager of the Company. Mr. Chen Yuanxian was appointed as the CFO of the Company and Mr. Yan Lingxi was appointed as the company secretary of the Company. Upon conclusion of the aforementioned annual general meeting and Board meeting, the fifth session of the Board comprises Mr. Lin Zuoming (Chairman, executive Director), Mr. Tan Ruisong (Vice Chairman, executive Director, General Manager), Mr. Gu Huizhong (non-executive Director), Mr. Gao Jianshe (non-executive Director), Mr. Guo Chongqing (non-executive Director) and Mr. Maurice Savart (non-executive Director) as well as Mr. Lau Chung Man, Louis (independent non-executive Director), Mr. Liu Renhuai (independent non-executive Director) and Mr. Yeung Jason Chi Wai (independent non-executive Director).

At the Supervisory Committee meeting convened on 12 June 2015, Mr. Chen Guanjun was appointed as the Chairman of the fifth session of the Supervisory Committee. Upon conclusion of the aforementioned annual general meeting and the Supervisory Committee meeting, the fifth session of the Supervisory Committee comprises Mr. Chen Guanjun (Chairman of the Supervisory Committee, shareholder representative Supervisor), Mr. Liu Fumin (shareholder representative Supervisor) and Ms. Li Jing (employee representative Supervisor).

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

During or at the end of the reporting year, none of the Directors or Supervisors or an entity connected with them had any material interest, directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group, in which the Company or its subsidiaries was a party.

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

As at 31 December 2015, save as disclosed below, none of the Directors, Supervisors or Chief Executive of the Company had interests or held short positions in the shares, underlying shares and/or debentures of the Company and/or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO.

Name of Director	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to the same class of Shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Lin Zuoming (Note)	H Share	Beneficial owner	462,005	0.020%	0.008%	Long position
Tan Ruisong	H Share	Beneficial owner	563,811	0.024%	0.010%	Long position
Gu Huizhong	H Share	Beneficial owner	239,811	0.010%	0.004%	Long position
Gao Jianshe	H Share	Beneficial owner	231,811	0.010%	0.004%	Long position
Yeung Jason Chi Wai	H Share	Beneficial owner	248,000	0.011%	0.005%	Long position
Chen Guanjun	H Share	Beneficial owner	100,507	0.004%	0.002%	Long position

Note: Based on the relevant disclosure of interests filed on the website of the Stock Exchange, as at 31 December 2015, Mr. Lin Zuoming held 2,000 A shares in AVICOPTER (listed on Shanghai Stock Exchange with the stock code: 600038) and 5,000 A shares in AVIC Avionics (listed on Shanghai Stock Exchange with the stock code: 600372), representing approximately 0.0003% and 0.0003% of the total issued share capital of AVICOPTER and AVIC Avionics respectively. AVICOPTER and AVIC Avionics were subsidiaries of the Company, and therefore they were associated corporations (within the meaning of Part XV of the SFO) of the Company.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2015, none of the Directors or Supervisors was entitled to acquiring shares or debentures of the Company or its associated corporations (within the meaning of the SFO).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existing during the year of 2015.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group shall comply with relevant laws and regulations in the jurisdictions where the Group operates. As the Group mainly operates through its subsidiaries in the PRC, accordingly, the operations of the Group shall comply with relevant laws and regulations in the PRC. During the year ended 31 December 2015 and up to the date of this report, the Group does not have any violation of relevant laws and regulations in the PRC which gives rise to significant impact to the Group's development, performance and businesses.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

PRINCIPAL RISKS AND UNCERTAINTIES

For details of the financial risks of the Group, please refer to note 42 to the financial statements in this report. For details of the exchange rate risks of the Group, please refer to the section headed "Management Discussion and Analysis" in this report.

Save as disclosed above, a number of other factors, including international policies, domestic and overseas economic conditions, may affect the result and business operations of the Group.

PERMITTED INDEMNITY PROVISION

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

Report of the Supervisory Committee

To all Shareholders:

During the year of 2015, the Supervisory Committee strictly complied with the PRC Company Law, the Articles of Association and the Procedural Rules for Meetings of the Supervisory Committee and duly adhered to the principles of honesty and integrity in performing the supervisory duties and exercising the rights conferred on it by the Articles of Association, and also in good faith safeguarded the shareholders' interests in a diligent, pragmatic and serious manner.

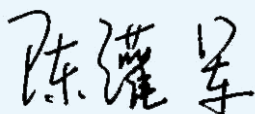
In 2015, the Supervisory Committee convened three meetings, at which ten resolutions were considered and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2014 annual report, 2015 interim report, and the profits distribution plans for 2014 and the first six months of 2015 of the Company respectively. The Supervisory Committee also attended the Board meetings and the general meetings held in 2015 to monitor the validity of procedures for the convening of and resolutions of the Board meetings and general meetings. Through convening Supervisory Committee meetings and attending Board meetings and general meetings, the Supervisory Committee performed its duties of supervising the major operating activities of the Company, as well as the performance of Directors and senior management officers in discharging their duties, and made suggestions to the Board.

The Supervisors attended the meetings of the Audit Committee and the communication meeting with external Directors for the year 2015, paid attention to the implementation and progress of concerns of the Audit Committee, and communicated with the independent non-executive Directors and auditors in respect of the Company's major operating matters and financial conditions.

The Supervisory Committee had reviewed the Report of the Board which the Board submitted to the general meeting, and considered that the report had fairly reflected the current position of the Company. In 2015, the Board and the senior management of the Company had duly exercised various powers conferred by the shareholders, performed various obligations, and made their best endeavors to make important contributions to the development of the Company.

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

The Supervisory Committee is fully confident in the prospect of the Company. In 2016, according to the work plan for this year, the Supervisory Committee will enhance its supervision over the Company's compliant operation and its construction of the internal control system, establish communication mechanism with intermediary institutions, and keep concern on the implementation of the resolutions of the Board. The Supervisory Committee will continue to strictly perform its duties in accordance with the Articles of Association and the relevant requirements, to strengthen the self-construction of the Supervisory Committee, to improve the supervision level, and safeguard shareholders' interests.



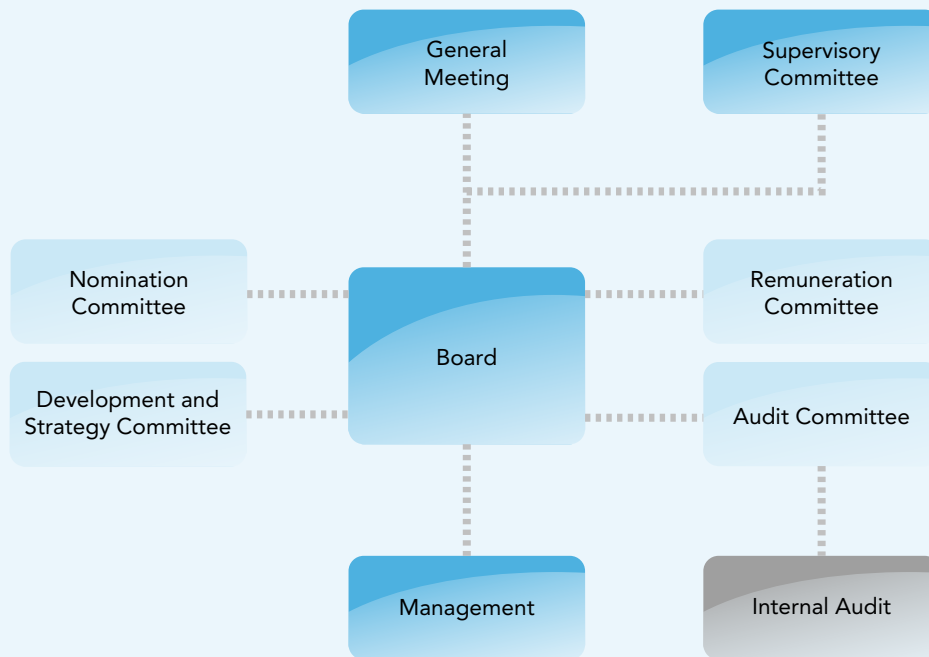
Chairman of the Supervisory Committee
Chen Guanjun

Beijing, 29 March 2016

Corporate Governance Report

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

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



BUSINESS MODEL AND LONG TERM STRATEGY

The Company mainly operates through its subsidiaries. The Company will give full play to its advantages, actively develop aviation business and perfect the aviation industry chain. The details of the business and financial review of 2015 are set out in the section headed "Management Discussion and Analysis" of this annual report.

CORPORATE GOVERNANCE POLICY

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

- Corporate governance and related suggestions: In light of the turbulence in global financial market in 2015, the Company discussed risks and risk management at Board meetings and the meetings of the relevant specialized committees. The Board conducted continuous assessment on potential influence of ever-changing external environment and amendments to national laws and regulations and regulatory rules on the business of the Company.
- Improvement of the capacity of Directors and senior management: The Company provided training for the newly appointed Directors, and from time to time provided information in relation to the supervision and company operations to the Directors to equip them with knowledge of the industry and the Group, and to facilitate the decision-making process of the Board and the specialized committees. During the reporting period, the Company also arranged a series of forums on the hot topics and important issues relating to the business of the Company.
- Compliance with laws and regulations: During this year, starting from improving the Authorization System for Legal Person, the Company had categorized the relevant authorizations as set out in Articles of Association, Rules Governing the Operation of Shareholders General Meetings and Rules Governing the Operation of Meetings for the Board, actively explored a new mode catering for the Company's actual situation to assure the Company to operate in compliance with rules and regulations. Meanwhile, the Company continued to build the risk management and internal control system, and organized the risk identification and appraisal work by adapting to the existing workflow to implement the risk management requirements in the specific working procedures, so as to comprehensively improve the Company's risk management and internal control level.
- Corporate governance report: The Board reviewed the corporate governance report contained in this annual report before the publication of this annual report and was of the view that the corporate governance report was in compliance with the relevant requirements of the Hong Kong Listing Rules.

CORPORATE GOVERNANCE CODE

During the reporting period, the Company strictly complied with various applicable laws, rules and regulations as well as the Articles of Association to standardize its operation. The Board reviewed the corporate governance practices adopted by the Company for the year ended 31 December 2015 and was of the view that the Company complied with the principles and code provisions set out in the Corporate Governance Code under the Hong Kong Listing Rules.

THE BOARD

The board is collectively responsible for leading, supervising and directing the Company.

DIRECTORS

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

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

Each Director (including non-executive Director) holds office for a period of three years, and is eligible for re-election upon the expiration of the term of office. A list of Directors, their respective profiles and roles in the Board and specialized committees under the Board are set out on pages 20 to 24 of this annual report. Relevant information is also published on the website of the Company. There is no relationship (including financial, business, family or other material or relevant relationships) among members of the Board.

RESPONSIBILITIES OF THE BOARD

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

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

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

RESPONSIBILITIES OF THE MANAGEMENT

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the chief executive officer have been clearly segregated to ensure a balance of power and authority. The current Chairman of the Company, Mr. Lin Zuoming, is responsible for leading the Board to ensure the effective operation of the Board. The chief executive officer, Mr. Tan Ruisong, is responsible for business operations of the Company. The Company has formulated the Working Guideline for the Management to clearly set out the roles and responsibilities of the chief executive officer. Meanwhile, duties reserved to the Chairman and those delegated to the management are also clearly set out in the Authorization System for Legal Person, which was formulated by the Company for the year 2015.

DIRECTORS TRAINING

Every newly appointed Director will receive relevant training based on his experience and background, to deepen his understanding of the culture and operation of the Group. The training generally consists of introduction for organization, businesses and governance of the Group. During the reporting period, the newly appointed independent non-executive Director, Mr. Yeung Jason Chi Wai, had received training upon his appointment to the Board of the Company.

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

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

Corporate Governance Report

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

Director	Training Scope		
	Corporate Governance	Laws and Regulations	Business Management
Executive Directors			
Mr. Lin Zuoming	√	√	√
Mr. Tan Ruisong	√	√	√
Non-executive Directors			
Mr. Gu Huizhong	√	√	√
Mr. Gao Jianshe	√	√	√
Mr. Guo Chongqing	√	√	√
Mr. Maurice Savart	√	√	√
Independent Non-executive Directors			
Mr. Lau Chung Man, Louis	√	√	√
Mr. Liu Renhuai	√	√	√
Mr. Yeung Jason Chi Wai	√	√	√

BOARD MEETINGS

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

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

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

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

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

The Board has established a Development and Strategy Committee, an Audit Committee, a Remuneration Committee and a Nomination Committee to ensure good corporate governance. Duties of these committees are set out in accordance with the principles of the Corporate Governance Code. Each committee reports directly to the Board. Minutes of committee meetings are kept by the company secretary. In 2015, the Company convened two meetings of the Audit Committee, two meetings of the Remuneration Committee and two meetings of Nomination Committee. The terms of reference of the Audit committee, the Remuneration Committee and the Nomination Committee are published on the websites of the Company and the Stock Exchange.

Five meetings were held by the Board during 2015. The attendance of every Director at the Board meetings in 2015 is set out below:

Directors	Times of meeting should attend	Times of attendance	Times of attendance by proxy
Executive Directors			
Mr. Lin Zuoming	5	5	0
Mr. Tan Ruisong	5	4	1
Non-executive Directors			
Mr. Gu Huizhong	5	4	1
Mr. Gao Jianshe	5	4	1
*Mr. Sheng Mingchuan	1	1	0
**Mr. Guo Chongqing	5	5	0
Mr. Maurice Savart	5	3	2
Independent Non-executive Directors			
Mr. Lau Chung Man, Louis	5	4	1
Mr. Liu Renhuai	5	5	0
**Mr. Yeung Jason Chi Wai	4	4	0

Corporate Governance Report

- * Mr. Sheng Mingchuan retired as a non-executive Director of the Company with effect from 12 June 2015.
- ** On 12 June 2015, Mr. Guo Chongqing resigned as an independent non-executive Director of Company and was appointed as a non-executive Director of Company by the annual general meeting of the Company; and Mr. Yeung Jason Chi Wai was appointed as an independent non-executive Director of the Company by the annual general meeting of the Company.

In 2015, Directors who did not attend a Board meeting in person due to other business commitments all read the related documents of the meeting and appointed other Directors as proxy present their opinion and exercise their voting rights on their behalf at the meeting.

DEVELOPMENT AND STRATEGY COMMITTEE

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

Members of the Development and Strategy Committee communicated with each other from time to time in 2015 on matters relating to the committee's development, the Company's future development strategies and international cooperation. No formal meeting was convened by the committee during the reporting period.

REMUNERATION COMMITTEE

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

The Remuneration Committee is responsible for approving the emolument policies of the Directors, Supervisors and senior management staff and proposing to the Board amendments to the emolument policies and system. The Remuneration Committee will take into consideration factors such as work performance and experience of Directors and Supervisors when determining their remunerations and will report to the Board after each meeting. For the year ended 31 December 2015, the Remuneration Committee convened two meetings to consider and approve the resolutions relating to the remuneration of Directors of the fifth session of the Board, Supervisors of the fifth session of the Supervisory Committee and senior management, and the third unlocking of shares under the initial grant under the Incentive Scheme.

For the year ended 31 December 2015, remunerations of senior management members by bands are set out as follows:

Remuneration Band	Number
RMB250,000-350,000	5

Details of remunerations of Directors and Supervisors for the year ended 31 December 2015 are set out in Note 8 to the financial statements.

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

Name of Director	Position	Times of Meetings should attend	Times of attendance	Times of Attendance by Proxy
*Mr. Guo Chongqing	Original Chairman of the Remuneration Committee, Original independent non-executive Director (current non-executive Director)	1	1	0
**Mr. Yeung Jason Chi Wai	New Chairman of the Remuneration Committee, independent non-executive Director	1	1	0
Mr. Gao Jianshe	non-executive Director	2	2	0
Mr. Lau Chung Man, Louis	independent non-executive Director	2	2	0
Mr. Liu Renhuai	independent non-executive Director	2	2	0

* On 12 June 2015, Mr. Guo Chongqing was appointed as a non-executive Director of the Company at the annual general meeting, and ceased to serve as the Chairman of the Remuneration Committee.

** On 12 June 2015, Mr. Yeung Jason Chi Wai was appointed as the independent non-executive Director of the Company at the annual general meeting, and elected as the Chairman of the Remuneration Committee.

AUDIT COMMITTEE

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

The Audit Committee is responsible for monitoring the financial operation and audit procedures of the Company, assessing effectiveness of the internal control and risk management systems of the Company, reviewing and supervising the performance of the corporate governance responsibilities of the Company as well as performing other duties and responsibilities assigned by the Board, and maintaining effective communication with the management, internal audit institution and external auditors of the Company. As at the date of this report, the Audit Committee comprises four members, namely, Mr. Yeung Jason Chi Wai, Mr. Lau Chung Man, Louis, and Mr. Liu Renhuai who are independent non-executive Directors, and Mr. Gu Huizhong who is a non-executive Director. Mr. Lau Chung Man, Louis is the chairman of the Audit Committee. Mr. Yeung Jason Chi Wai was appointed as the member of the Audit Committee upon his appointment as the independent non-executive Director. Meanwhile, Mr. Guo Chongqing ceased to serve as the member of the Audit Committee. Mr. Lau Chung Man, Louis and Mr. Gu Huizhong have appropriate professional qualifications in accounting or related financial management expertise as required by the Hong Kong Listing Rules.

During 2015, the Audit Committee:

- reviewed the financial statements and the annual results announcement for the year ended 31 December 2014;
- reviewed the interim financial statements and relevant interim results announcement for the six months ended 30 June 2015;
- reviewed the Company's profit distribution plan for the year 2014 and the interim profit distribution plan for the year 2015;
- reviewed the proposal relating to the appointment of international and domestic auditors of the Company for the year 2015 and determination of their respective remunerations;
- reviewed the Company's financial reporting system and internal control procedures; and
- reviewed the reports on operating results of the Company for the year 2014 and the first half of 2015, the internal control report of the Company for the year 2014, and listened to the report from the external auditor on its audit work in relation to the year 2014 and on its review of 2015 interim report as well as its recommendations to the management of the Company.

The Audit Committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2015.

The Audit Committee held two meetings during 2015. The Audit Committee reviewed and evaluated the findings of the Auditor's Report issued by the external auditors, the accounting principles and standards applied by the Group and the internal control system and the financial statements of the Company. The Audit Committee reported to the Board its scope of work, discussion results and recommendations after every meeting. The attendance of the members of the committee is set out as follows:

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

* On 12 June 2015, Mr. Guo Chongqing was appointed as a non-executive Director of the Company at the annual general meeting, and ceased to serve as a member of the Audit Committee.

** On 12 June 2015, Mr. Yeung Jason Chi Wai was appointed as the independent non-executive Director of the Company at the annual general meeting, and elected as the member of the Audit Committee.

EXTERNAL AUDITORS

In 2015, the payment made to the Company's external auditors in relation to auditing services amounted to RMB3.39 million. The external auditors did not provide any services other than such auditing services to the Company and the Company did not make any payment to the external auditors for any non-auditing services. The payment mentioned above had been approved by the Audit Committee, the Board and the general meeting.

The Board has resolved to propose at the forthcoming annual general meeting to appoint Ernst & Young and Ernst & Young Hua Ming LLP, as the international and domestic auditors of the Company, respectively, to assume statutory audit work of the Company for the financial year 2016. The proposal is subject to the approval of shareholders at the annual general meeting of the Company for the year 2015.

The statement of the external auditors of the Company in relation to their reporting responsibilities on the consolidated financial statements is set out on pages 58 to 59 of this annual report.

NOMINATION COMMITTEE

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

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

The Nomination Committee held two meetings in 2015. The Nomination Committee discussed the composition and size of the board, and the change of members of relevant committees, to ensure the compliance with the relevant regulatory requirements, and approved resolution relating to nominating candidates for independent non-executive Director and general manager, vice general manager and company secretary. The attendance of the Nomination Committee members at the meetings is as follows:

Name of Director	Position	Times of Meetings should attend	Times of attendance	Times of Attendance by alternate director
Mr. Lin Zuoming	Chairman of the Nomination Committee, executive Director	2	2	0
Mr. Gao Jianshe	Non-executive Director	2	1	0
*Mr. Guo Chongqing	Original independent non-executive Director (current non-executive Director)	2	2	0
Mr. Lau Chung Man, Louis	independent non-executive Director	2	2	0
Mr. Liu Renhuai	independent non-executive Director	2	2	0
**Mr. Yeung Jason Chi Wai	independent non-executive Director	0	0	0

* On 12 June 2015, Mr. Guo Chongqing was appointed as a non-executive Director of the Company at the annual general meeting, and ceased to serve as a member of the Nomination Committee.

** On 12 June 2015, Mr. Yeung Jason Chi Wai was appointed as an independent non-executive Director of the Company at the annual general meeting, and elected as the member of the Nomination Committee.

INTERESTS HELD BY DIRECTORS AND SECURITIES TRANSACTIONS

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

Interests of the Company held by the Directors as at 31 December 2015 have been disclosed in the Report of the Board of this annual report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Hong Kong Listing Rules and the Shares Trading Management Rules as its own guidelines for securities transactions by Directors, Supervisors and employees of the Company. All Directors and Supervisors have been provided with a copy of the Model Code and the Shares Trading Management Rules upon appointments. Prior to the announcement of the annual or interim results of the Company, written reminders of the restrictions on dealing in any securities or derivatives of the Company under the Hong Kong Listing Rules will be provided to the Directors and the Supervisors appropriately. All Directors and Supervisors of the Company have confirmed their compliance with the Model Code in 2015 upon specific enquiries with them.

Employees who may likely possess unpublished inside information of the Group are also required to comply with the Model Code. The Company is not aware of any breach in this regard in 2015.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Directors are responsible for monitoring the preparation of the financial statements for every financial year and ensuring those financial statements present a true and fair view on the operating results, financial performance and cash flow of the Group in the relevant financial year. In preparing the financial statements for the year ended 31 December 2015, the Directors have:

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

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

INTERNAL CONTROL

The Board is responsible for maintaining a steady, proper and effective internal control system for the Group to safeguard its assets. The Board reviews the effectiveness of the internal control system of the Group annually through the Audit Committee.

The department of the Company in charge of internal control and audit acts as a daily operational office of its Audit Committee of the Board to monitor how the Company and its subsidiaries establish and improve their respective internal control systems and to provide guidance in this respect, to supervise and review the implementation of regulations on internal control systems in a timely manner and to organize the conduct of internal audit and perform audit responsibilities.

In 2015, the A share listed subsidiaries of the Company issued internal control evaluation reports after evaluating the effectiveness of their own internal control in accordance with the provisions and requirements of "The Basic Standard for Enterprise Internal Control of the PRC" and its supporting guidelines, and appointed accounting firms to conduct independent audit on their internal control in 2015. During the reporting period, those companies established and effectively implemented the internal control of the businesses and items within the scope of the evaluation, achieving the objectives of internal control with no major defect identified. On this basis, and taking into account the comments on the internal control and the state of establishment of the internal control system of other subsidiaries, the Finance and Planning Department evaluated the internal control of the Group as a whole and reported the evaluation conclusions to the Audit Committee and the Board.

The Board reviewed through the Audit Committee the effectiveness of the internal control system of the Group for the year ended on 31 December 2015, including all the significant financial, operational and regulatory control and risk management functions, and was satisfied that such system was effective and sufficient. The Audit Committee also reviewed and was satisfied with the sufficiency of resources and the qualifications and experience of the employees for performing the Group's accounting and financial reporting functions, the adequacy of the employee training courses and the relevant budget.

Due to the inherent limitations of the internal control system, the establishment of the Group's internal control system is for the purpose of managing potential risks rather than eliminating all the risks, which is impossible to achieve. Therefore, the internal control system can only provide a reasonable assurance, rather than an absolute assurance, for the Group to achieve its operational targets. Likewise, it is impossible for the internal control system to completely eliminate all material inaccurate statements made or all the losses caused to the Group.

SUPERVISORY COMMITTEE

The Supervisory Committee is accountable to the general meetings of the Company. In 2015, the fifth session of the Supervisory Committee was established comprising two shareholder representative Supervisors and one employee representative Supervisor. In 2015, the Supervisory Committee held three meetings and considered and approved ten resolutions. It supervised, on behalf of shareholders of the Company, the financial position of the Group, the legality and compliance of the performance of duties by the Directors and senior management of the Company, attended the Board meetings and general meetings and fulfilled its duties diligently.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

GENERAL MEETING

The general meeting is the supreme authority of the Company. It performs its functions according to law and makes decisions on major issues in relation to the Company. The annual general meetings and extraordinary general meetings of the Company provide a channel for shareholders to communicate directly with the Board. In 2015, the Company convened one annual general meeting, at which seventeen resolutions were considered and approved. All Directors, Supervisors and members of the senior management of the Company endeavored to attend the general meetings. The following is the attendance record of the Directors:

Director	Time(s) of meeting(s) should attend	Times of attendance
Mr. Lin Zuoming	1	1
Mr. Tan Ruisong	1	0
Mr. Gu Huizhong	1	0
Mr. Gao Jianshe	1	1
Mr. Guo Chongqing	1	1
Mr. Maurice Savart	1	1
Mr. Lau Chung Man, Louis	1	1
Mr. Liu Renhuai	1	1
Mr. Yeung Jason Chi Wai	1	1

Corporate Governance Report

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

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

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

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

AviChina Industry & Technology Company Limited

Postal Code: 100007

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

Telephone: 86-10-58354309

Facsimile: 86-10-58354300/10

E-mail Address: avichina@avichina.com

ARTICLES OF ASSOCIATION

The Articles of Association is set out on the websites of the Company and the Stock Exchange.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

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

The Company has assigned specific employees to assume the role of investor relationship management. During the reporting period, due to the change of information disclosure methods required by the Stock Exchange, the Company had put more efforts in the maintenance of its websites to ensure that information is disclosed accurately and in a timely manner. The Company not only renews and modifies its Chinese and English websites continuously in accordance with the Hong Kong Listing Rules, but also regularly publishes and updates business news and information contained in its website to help investors understand the up-to-date situation of the Company clearly. Details of the businesses of the Group and announcements such as interim results and annual results could also be downloaded from the Company's websites. To satisfy investors' habits for reading through new media devices, the Company issued electronic brochures in both Chinese and English languages by generating a quick response code, providing convenience for investors to read the brochure on mobile phones.

The Company also emphasized the mutual communication with its investors. During 2015, the requirements of the Company maintained continuous dialogues and communications with shareholders pursuant to the Corporate Governance Code. The company secretary and investor relationship team are in charge of the communication with shareholders, investors and other participants of the capital market. The Company convened several reverse road shows, inviting investors to visit the Company and its subsidiaries to learn the operation. Investors were also invited to experience the first commuter flight in China, to learn the development of general aviation. The Company also enhanced the connection with investment bank by participating in various activities of them. Through communications with the capital market, shareholders and investors are able to timely and fully understand the operations and development plans of the Company and the key concerns from investors. The annual general meetings and extraordinary general meetings also provide further platform and opportunities for shareholders to exchange opinions directly with members of the Board.

Independent Auditors' Report

To the shareholders of AviChina Industry & Technology Company Limited

(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of AviChina Industry & Technology Company Limited (the "Company") and its subsidiaries set out on pages 60 to 156, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

To the shareholders of AviChina Industry & Technology Company Limited (continued)

(Established in the People's Republic of China with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AviChina Industry & Technology Company Limited and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants

Hong Kong

29 March 2016

Consolidated Statement of Profit or Loss

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	5	26,408,437	25,710,377
Cost of sales		(20,408,071)	(20,811,590)
Gross profit		6,000,366	4,898,787
Other income and gains	5	392,250	319,351
Other expenses		(80,321)	(3,038)
Other income and gains, net		311,929	316,313
Selling and distribution expenses		(523,661)	(470,346)
Administrative expenses		(3,365,924)	(2,749,702)
OPERATING PROFIT		2,422,710	1,995,052
Finance income		220,548	233,385
Finance costs		(464,571)	(369,131)
Finance costs, net	7	(244,023)	(135,746)
Share of profits of:			
A joint venture		20,789	15,792
Associates		127,451	127,921
PROFIT BEFORE TAX	6	2,326,927	2,003,019
Income tax expense	10	(389,170)	(267,298)
PROFIT FOR THE YEAR		1,937,757	1,735,721
Attributable to:			
Equity holders of the Company		862,537	781,298
Non-controlling interests		1,075,220	954,423
		1,937,757	1,735,721
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic			
– For profit for the year	12	RMB0.158	RMB0.143
Diluted			
– For profit for the year	12	RMB0.158	RMB0.143

Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
PROFIT FOR THE YEAR	1,937,757	1,735,721
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	557,974	218,140
Reclassification adjustments for gains included in the consolidated statement of profit or loss		
– Gain on disposal	(28,992)	(47,147)
Income tax effect	(79,347)	(25,649)
	449,635	145,344
Exchange differences on translation of a foreign operation	10,413	(12,348)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	460,048	132,996
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Loss on a defined benefit scheme	(74,616)	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	(74,616)	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	385,432	132,996
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,323,189	1,868,717
Attributable to:		
Equity holders of the Company	1,110,071	828,213
Non-controlling interests	1,213,118	1,040,504
	2,323,189	1,868,717

Consolidated Statement of Financial Position

31 December 2015

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	10,809,236	10,441,149
Investment properties	14	342,860	39,406
Land use rights	15	1,379,547	1,451,166
Goodwill	16	69,188	62,145
Other intangible assets	17	138,928	156,422
Investment in a joint venture	18	67,612	52,508
Investments in associates	19	838,494	823,955
Available-for-sale investments	20	1,949,518	1,238,288
Deferred tax assets	21	181,781	169,839
Prepayments, deposits and other receivables	24	317,514	251,851
Total non-current assets		16,094,678	14,686,729
CURRENT ASSETS			
Inventories	22	18,056,272	16,593,469
Accounts and notes receivable	23	13,235,354	10,973,833
Prepayments, deposits and other receivables	24	2,219,151	2,820,833
Financial assets held for trading	25	38,530	307
Pledged deposits	26	1,699,479	986,192
Term deposits with initial term of over three months	26	367,818	2,862,484
Cash and cash equivalents	26	8,938,422	5,797,986
Total current assets		44,555,026	40,035,104
TOTAL ASSETS		60,649,704	54,721,833

Consolidated Statement of Financial Position

31 December 2015

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
CURRENT LIABILITIES			
Accounts and notes payable	27	16,583,990	15,049,990
Other payables and accruals	28	9,153,487	7,844,479
Interest-bearing bank and other loans	29	4,621,612	5,633,359
Tax payable		252,237	193,303
Total current liabilities		30,611,326	28,721,131
NET CURRENT ASSETS			
		13,943,700	11,313,973
TOTAL ASSETS LESS CURRENT LIABILITIES			
		30,038,378	26,000,702
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	29	3,233,391	1,784,728
Deferred income from government grants	30	849,189	831,608
Deferred tax liabilities	21	184,504	51,682
Other payables and accruals	28	12,240	31,325
Total non-current liabilities		4,279,324	2,699,343
TOTAL LIABILITIES			
		34,890,650	31,420,474
Net assets			
		25,759,054	23,301,359
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	31	5,474,429	5,474,429
Reserves	33	6,526,575	5,341,005
		12,001,004	10,815,434
Non-controlling interests			
		13,758,050	12,485,925
Total equity			
		25,759,054	23,301,359

The consolidated financial statements set out on pages 60 to 156 were approved and authorised for issue by the Board on 29 March 2016, and were signed on its behalf by:

Director
Tan Ruisong

Director
Gu Huizhong

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to equity holders of the Company									Non-controlling interests	Total
	Issued capital	Shares held for restricted share scheme	Capital reserve	Share-based compensation reserve	Fair value reserve	Currency translation reserve	Other reserves	Retained earnings	Subtotal		
As at 1 January 2015	5,474,429	(43,323)	3,686,692	21,870	233,970	(6,309)	179,799	1,268,306	10,815,434	12,485,925	23,301,359
Profit for the year	-	-	-	-	-	-	-	862,537	862,537	1,075,220	1,937,757
Other comprehensive income for the year, net of tax	-	-	-	-	237,226	10,308	-	-	247,534	137,898	385,432
Total comprehensive income for the year	-	-	-	-	237,226	10,308	-	862,537	1,110,071	1,213,118	2,323,189
Acquisition of additional interests in subsidiaries	-	-	(12,690)	-	-	-	-	-	(12,690)	(7,146)	(19,836)
Capital injection by non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	26,205	26,205
Partial disposal of interests in a subsidiary	-	-	168,015	-	-	-	-	-	168,015	27,846	195,861
Wholly disposal of interests in a subsidiary	-	-	(336)	-	-	-	-	-	(336)	(76)	(412)
Shares vested under a share scheme											
- Funded by the Company	-	23,299	-	(23,299)	-	-	-	-	-	-	-
- Funded by scheme participants	-	20,024	-	-	-	-	-	-	20,024	-	20,024
Value of employee services under a share scheme (Note 32)	-	-	-	1,429	-	-	-	-	1,429	-	1,429
2014 final dividend	-	-	-	-	-	-	-	(109,489)	(109,489)	-	(109,489)
Contribution from non-controlling shareholders of subsidiaries (Note)	-	-	-	-	-	-	-	-	-	177,364	177,364
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(165,186)	(165,186)
Transfer to statutory surplus reserve (Note 33)	-	-	-	-	-	-	13,177	(13,177)	-	-	-
Appropriation (Note 33)	-	-	-	-	-	-	15,339	(15,339)	-	-	-
Others	-	-	8,546	-	-	-	-	-	8,546	-	8,546
As at 31 December 2015	5,474,429	-	3,850,227*	-	471,196*	3,999*	208,315*	1,992,838*	12,001,004	13,758,050	25,759,054

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to equity holders of the Company								Non-controlling interests	Total	
	Issued capital	Shares held for restricted share scheme	Capital reserve	Share-based compensation reserve	Fair value reserve	Currency translation reserve	Other reserves	Retained earnings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			Subtotal
As at 1 January 2014	5,474,429	(88,501)	3,741,761	38,094	174,656	6,090	144,812	631,484	10,122,825	11,684,072	21,806,897
Profit for the year	-	-	-	-	-	-	-	781,298	781,298	954,423	1,735,721
Other comprehensive income for the year, net of tax	-	-	-	-	59,314	(12,399)	-	-	46,915	86,081	132,996
Total comprehensive income for the year	-	-	-	-	59,314	(12,399)	-	781,298	828,213	1,040,504	1,868,717
Acquisition of additional interests in subsidiaries	-	-	(4,605)	-	-	-	-	-	(4,605)	52,145	47,540
Shares vested under a share scheme											
– Funded by the Company	-	24,296	-	(24,296)	-	-	-	-	-	-	-
– Funded by scheme participants	-	20,882	-	-	-	-	-	-	20,882	-	20,882
Value of employee services under a share scheme (Note 32)	-	-	-	8,072	-	-	-	-	8,072	-	8,072
2013 final dividend	-	-	-	-	-	-	-	(109,489)	(109,489)	-	(109,489)
Contribution from non-controlling shareholders of subsidiaries (Note)	-	-	-	-	-	-	-	-	-	74,513	74,513
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(299,012)	(299,012)
Transfer to statutory surplus reserve (Note 33)	-	-	-	-	-	-	14,655	(14,655)	-	-	-
Appropriation (Note 33)	-	-	-	-	-	-	20,332	(20,332)	-	-	-
Others	-	-	(50,464)	-	-	-	-	-	(50,464)	(66,297)	(116,761)
As at 31 December 2014	5,474,429	(43,323)*	3,686,692*	21,870*	233,970*	(6,309)*	179,799*	1,268,306*	10,815,434	12,485,925	23,301,359

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

* These reserve accounts comprise the consolidated other reserves of RMB6,526,575,000 (2014:RMB5,341,005,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,326,927	2,003,019
Adjustment for:			
Interest expense		400,860	352,388
Share of profit of a joint venture	18	(20,789)	(15,792)
Share of profits of associates	19	(127,451)	(127,921)
Interest income	7	(220,548)	(233,385)
Loss on disposals of items of property, plant and equipment		31,774	3,038
Gain on disposals of investment properties		–	(83,321)
Loss/(gain) on disposals of investment in associates		1,382	(25,615)
Gain on disposals of available-for-sale investments	5	(185,778)	(92,033)
Gain on disposals of financial assets held for trading	5	(6,425)	(5,197)
Gain on disposal of a subsidiary	36	(7,368)	–
Fair value losses/(gains) on financial assets held for trading		9,249	(60)
Depreciation on investments properties	14	2,937	881
Depreciation on property, plant and equipment	13	863,478	762,580
Amortisation of other intangible assets	17	27,462	22,207
Amortisation of land use rights	15	26,136	33,845
Impairment of an investment in an associate	19	467	–
Impairment of available-for-sale investments	6	10,153	–
Impairment of inventories	6	127,898	86,130
Impairment of property, plant and equipment	13	12,899	–
Impairment of accounts receivable and prepayments, deposits and other receivables	6	118,206	43,509
Value of employee services under a share scheme		1,429	8,072
Dividend income from available-for-sale investments and financial assets held for trading		(28,333)	(39,990)
		3,364,565	2,692,355
Increase in inventories		(1,592,686)	(1,879,277)
Increase in accounts and notes receivable		(2,407,895)	(1,655,569)
Decrease/(increase) in prepayments, deposits and other receivables		1,691,225	(19,598)
Increase in accounts and notes payable		1,534,174	869,231
Increase/(decrease) in other payables and accruals		261,661	(338,325)
(Increase)/decrease in pledged deposits		(713,287)	327,048
Cash generated from/(used in) operations		2,137,757	(4,135)
Interest received		220,548	233,385
Interest paid		(433,340)	(352,388)
Income tax paid		(307,530)	(269,026)
Net cash flows from/(used in) operating activities		1,617,435	(392,164)

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,562,457)	(1,750,411)
Purchase of land use rights		(39,563)	(64,865)
Additions to other intangible assets		(7,101)	(15,859)
Purchase of available-for-sale investments		(42,063)	(52,850)
Disposals of available-for-sale investments		38,515	99,794
Purchase of financial assets held for trading		(227,941)	–
Disposals of financial assets held for trading		186,849	5,197
Redemption of term deposits with initial term of over three months		2,862,484	3,378,697
Addition of term deposits with initial term of over three months		(367,818)	(2,862,484)
Government grant for purchase of property, plant and equipment	30	72,929	118,220
Proceeds from disposals of property, plant and equipment		122,887	53,924
Proceeds from disposals of investment properties		–	86,541
Acquisition of subsidiaries, net of cash acquired		–	(111,764)
Payment of consideration for acquisition of subsidiaries in 2013		–	(701,283)
Addition of investments in associates	19	(55,600)	(11,149)
Disposal of investments in associates		9,359	229,061
Disposal of interests in subsidiaries		227,405	–
Dividends received from a joint venture	18	5,685	965
Dividend received from available-for-sale investments		13,769	–
Dividends received from associates		130,461	128,737
Net cash flows from/(used in) investing activities		1,367,800	(1,469,529)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans		6,733,121	6,793,838
Repayments of loans		(6,296,205)	(5,520,291)
Repayments of other advances from related parties		–	(27,416)
Contribution from non-controlling shareholders of subsidiaries		13,542	74,513
Purchase of non-controlling interests of subsidiaries		(19,836)	(25,666)
Dividends paid to equity holders of the Company		(109,489)	(109,489)
Dividends paid to non-controlling shareholders of subsidiaries		(165,186)	(277,995)
Net cash flows from financing activities		155,947	907,494
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		5,797,986	6,725,516
Effect of foreign exchange rate changes, net		(746)	26,669
CASH AND CASH EQUIVALENTS AT END OF YEAR		8,938,422	5,797,986

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	31 December 2015 RMB'000	31 December 2014 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	11,005,719	9,646,662
Less: Pledged deposits		(1,699,479)	(986,192)
Term deposits with initial term of over three months		(367,818)	(2,862,484)
Cash and cash equivalents as stated in the statement of cash flows	26	8,938,422	5,797,986
SUPPLEMENTAL DISCLOSURE OF A NON-CASH ACTIVITY			
Exchange of non-monetary assets		197,615	–

Notes to the Financial Statements

1. CORPORATE AND GROUP INFORMATION

AviChina Industry & Technology Company (the "Company") Limited was established in the People's Republic of China (the "PRC") on 30 April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation of China Aviation Industry Corporation II ("AVIC II"). AVIC II merged with China Aviation Industry Corporation I ("AVIC I") to form Aviation Industry Corporation of China ("AVIC") on 6 November 2008, and AVIC became the holding company of the Company thereafter. The Company's H shares were listed on the 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 (the "Group") are principally involved in the research, development, manufacture and sale of aviation products.

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

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

Notes to the Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Aviation Optical-Electrical Technology Co.,Ltd. (中航光電科技股份有限公司)	PRC	RMB463,472,988	41.57 Note(a)	–	Research and development, manufacture and sales of electrical connectors, optical components and cable assemblies
China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司) **	PRC	RMB1,759,162,938	43.22 Note(b)	–	Holding investments engaged in aviation equipment business
Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司)	PRC	RMB293,163,439	100	–	Manufacture and sale of aviation electrical engineering products and accessories
China Aviation Publishing & Media Co., Ltd. (中航出版傳媒有限責任公司)	PRC	RMB48,779,000	53.63	–	Advertising, public relations, consulting services, professional exhibition, information development, sale of audio and video equipment
AviChina Hong Kong Limited (中航科工香港有限公司)	Hong Kong	HKD1,000	100	–	Design, sale and development of aviation products, finance and investment, information consulting, training and house rental

Notes to the Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China AVIC Helicopter Co.,Ltd. (中航直升機股份有限公司)	PRC	RMB589,476,716	6.45	28.21* Note(b)	Research, development, design, manufacture and sale of aero products, including parts and components
Jiangxi Changhe Aviation Industry Company Limited (江西昌河航空工業有限公司)	PRC	RMB470,142,916	–	34.66* Note(b)	Manufacture and sale of general-purpose aeroplane and helicopters
Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司)	PRC	RMB86,830,000	–	34.66* Note(b)	Manufacture aviation propellers, speed governors, feathering pumps, helicopter rotors, tail rotors, hover crafts with propellers
Tianjin Helicopter Co., Ltd. (天津直升機有限責任公司)	PRC	RMB250,000,000	–	34.66* Note(b)	Research and manufacture of helicopters and other aircrafts, aerospace components, production, sale and maintenance services
Harbin Hafei Aviation Industry Co., Ltd. (哈爾濱哈飛航空工業有限責任公司)	PRC	RMB500,000,000	–	34.66* Note(b)	Design, development, manufacture and sale of helicopters, other aircraft
Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司)	PRC	RMB60,000,000	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories

Notes to the Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司)	PRC	RMB173,542,800	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司)	PRC	RMB146,773,263	–	43.22 Note(b)	Research, manufacture and sale of aviation auto control equipment and instruments
Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司)	PRC	RMB321,680,000	1.56	37.49 Note(b)	Research, manufacture and sale of air data systems and various types of aviation instruments
Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀表有限責任公司)	PRC	RMB200,000,000	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀表有限公司)	PRC	RMB48,334,292	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司)	PRC	RMB245,340,701	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories

Notes to the Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀表有限公司)	PRC	RMB160,000,000	–	34.58 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀表有限公司)	PRC	RMB63,440,000	–	43.22 Note(b)	Manufacture and sales of aviation instruments, sensors and autopilot products and related products
Suzhou Changfeng Avionics Co.,Ltd. (蘇州長風航空電子有限公司)	PRC	RMB59,630,000	–	43.22 Note(b)	Research, manufacture, sale of avionics, airborne equipment and aviation products and related services
Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀表有限公司)	PRC	RMB100,000,000	–	43.22 Note(b)	Manufacture and sale of aeronautic instruments and other civil mechanical and electrical instruments
AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限公司)	PRC	RMB61,265,300	–	26.14 Note(a)	Research, manufacture, sale, maintenance and related service of aviation electric equipment, electric connectors and related products

Notes to the Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
AVIC Forstar S&T Co., Ltd. (中航富士達科技股份有限公司)	PRC	RMB62,700,000	–	24.19 Note(a)	Manufacture of electric connector, wire and cable, cable components, microwave components, optoelectronic devices, antennas, power supplies, instruments and meter production and marketing
Shenzhen Xiangtong photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司)	PRC	RMB2,360,000	–	21.20 Note(a)	Research and development, manufacture and sale of optical fibre connectors, optical-module ceramic cores, active and passive optical fibre communication devises, new ceramic material
China Aviation Optical Precision Electronics (Shenzhen) Co., Ltd. (中航光電精密電子(深圳)有限公司)***	PRC	RMB50,000,000		21.20 Note(a)	Manufacture and sale of electrical connectors

* On 9 July 2015, the Company acquired 1,000,084 shares of Jiangxi Hongdu Aviation Industry Co. Ltd. at a total amount of RMB19,882,000 and the equity interest held by the Company increased from 43.63% to 43.77%.

On June 2015, Harbin Aviation Industry (Group) Ltd. disposed of 2,585,721 shares of China AVIC Helicopter Co., Ltd. and the equity interest held by Harbin Aviation Industry (Group) Ltd. decreased from 28.65% to 28.21%.

** On 27 March 2015, China AVIC Electronics Co., Ltd. (中航機載電子股份有限公司) changed its name to China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司).

*** China Aviation Optical Precision Electronics (Shenzhen) Co., Ltd was newly established on 29 October 2015. China Aviation Optical-Electrical Technology Co., Ltd. holds 51% equity interest with total investment of RMB25,500,000.

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

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

Notes to the Financial Statements

2.1 BASIS OF PREPARATION

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

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

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

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

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

Notes to the Financial Statements

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

Annual Improvements 2010–2012 Cycle

Annual Improvements 2011–2013 Cycle

The adoption of the above revised standard has had no significant financial effect on the financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap.622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	<i>Financial Instruments</i> ³
Amendments to IFRS10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁶
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the consolidation Exception</i> ¹
Amendments to IFRS11	<i>Joint Arrangements: Accounting for Acquisitions of Interests</i> ¹
IFRS 14	<i>Regulatory Deferral Accounts</i> ⁵
IFRS 15	<i>Revenue from Contracts with Customers</i> ³
IFRS 16	<i>Leases</i> ⁴
Amendments to IAS 1	<i>Disclosure Initiative</i> ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ²
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ²
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ¹
Annual Improvements 2012-2014 Cycle	<i>Amendments to a number of IFRSs</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

⁴ Effective for annual periods beginning on or after 1 January 2019

⁵ Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

⁶ No mandatory effective date yet determined

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

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

Business combinations and goodwill

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

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

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

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

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

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

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

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

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

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

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

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

Land use rights

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

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

Intangible assets (other than goodwill)

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

Development costs

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

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Technology know-how

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

Trademarks and licences

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

Contractual customer relationships

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

Leases

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

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

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments

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

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

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

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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

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

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale financial investments (Continued)

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Cash and cash equivalents

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

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

Income tax

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

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

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

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

Government grants

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

Construction contracts

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

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

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contracts for services

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

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

Revenue from the rendering of services is recognised over the service terms as the services are rendered.

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

Share-based payments

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

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

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

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

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

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

Other employee benefits

Pension scheme

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

Housing benefits

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

Termination benefits

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

Notes to the Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

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

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

The functional currency of a certain subsidiary is other than RMB. As at the end of the reporting period, the assets and liabilities of this entity is translated into RMB at the exchange rate prevailing at the end of the reporting period and its statement of profit or loss is translated into RMB at the weighted average exchange rate for the year.

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

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

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

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

Classification between investment properties and owner-occupied properties

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

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

Deferred tax and income tax

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

Depreciation and amortisation

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

Impairment of accounts receivable and other receivable

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

Inventories

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

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Revenue recognition (Construction contracts)

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

Impairment of available-for-sale financial assets

The Group classifies certain assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. At 31 December 2015, impairment losses of RMB10,153,000 have been recognised for available-for-sale financial assets (2014: Nil).

4. OPERATING SEGMENT INFORMATION

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

The Executive Directors classify the business into two reportable segments:

- Manufacture, assembly, sale and servicing of helicopters, trainers and other aircraft ("Aviation entire aircraft").
- Manufacture and sale of aviation parts and components ("Aviation parts and components").

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

The Group is mainly operating in the PRC where all of its assets are located.

Notes to the Financial Statements

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2015	Aviation entire aircraft RMB'000	Aviation parts and components RMB'000	Total RMB'000
Segment Revenue:			
Sales to external customer	11,573,420	14,835,017	26,408,437
intersegment sales	–	1,707,144	1,707,144
	11,573,420	16,542,161	28,115,581
<i>Reconciliation:</i>			
Elimination of intersegment operations			(1,707,144)
Revenue			26,408,437
Segment results			
	563,370	1,847,833	2,411,203
<i>Reconciliation:</i>			
Interest income			220,548
Dividend income and unallocated gains			202,118
Corporate and other unallocated expenses			(42,371)
Finance costs			(464,571)
Profit before tax			2,326,927
Segment assets			
	31,108,056	30,645,284	61,753,340
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(1,103,636)
Total assets			60,649,704
Segment liabilities			
	19,161,470	16,832,816	35,994,286
<i>Reconciliation:</i>			
Elimination of intersegment payables			(1,103,636)
Total liabilities			34,890,650
Other segment information:			
Share of profits and losses of:			
A joint venture	–	20,789	20,789
Associates	(445)	127,896	127,451
Impairment losses recognised in the statement of profit or loss			
	147,183	122,440	269,623
Other non-cash expenses*	272,211	124,714	396,925
Depreciation and amortisation	319,680	600,333	920,013
Investments in associates	493,900	344,594	838,494
Investment in a joint venture	–	67,612	67,612
Capital expenditure**	643,602	1,035,419	1,679,021

* Other non-cash expenses include impairment losses recognised in the statement of profit or loss and exclude depreciation and amortisation.

** Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets including assets from the acquisition of a subsidiary.

Notes to the Financial Statements

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2014	Aviation entire aircraft RMB'000	Aviation parts and components RMB'000	Total RMB'000
Segment Revenue:			
Sales to external customer	11,274,859	14,435,518	25,710,377
intersegment sales	–	1,411,529	1,411,529
	11,274,859	15,847,047	27,121,906
<i>Reconciliation:</i>			
Elimination of intersegment operations			(1,411,529)
Revenue			25,710,377
Segment results			
<i>Reconciliation:</i>	368,378	1,680,301	2,048,679
Interest income			233,385
Dividend income and unallocated gains			135,746
Corporate and other unallocated expenses			(45,660)
Finance costs			(369,131)
Profit before tax			2,003,019
Segment assets			
<i>Reconciliation:</i>	28,398,538	27,145,113	55,543,651
Elimination of intersegment receivables			(821,818)
Total assets			54,721,833
Segment liabilities			
<i>Reconciliation:</i>	17,512,665	14,729,627	32,242,292
Elimination of intersegment payables			(821,818)
Total liabilities			31,420,474
Other segment information:			
Share of profits and losses of:			
A joint venture	–	15,792	15,792
Associates	(10,241)	138,162	127,921
Impairment losses recognised in the statement of profit or loss			
	25,847	103,792	129,639
Other non-cash expenses*	22,972	190,754	213,726
Depreciation and amortisation	355,732	463,781	819,513
Investments in associates	554,325	269,630	823,955
Investment in a joint venture		52,508	52,508
Capital expenditure**	1,072,635	1,108,252	2,180,887

* Other non-cash expenses include impairment losses recognised in the statement of profit or loss and exclude depreciation and amortisation.

** Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets including assets from the acquisition of a subsidiary.

Notes to the Financial Statements

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered during the year.

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

	2015 RMB'000	2014 RMB'000
Revenue		
Sale of goods	25,827,489	25,198,837
Rendering of services	580,948	511,540
	26,408,437	25,710,377
Other income		
Income from sale of materials	292,408	259,271
Cost from sale of materials	(265,409)	(202,976)
	26,999	56,295
Income from rendering of maintenance and other services	99,775	4,278
Dividend income	28,333	39,990
Net rental income	9,243	12,562
	164,350	113,125
Gains		
Gain on disposal of:		
Available-for-sale financial assets	185,778	92,033
Interests in associates	–	25,615
Financial assets held for trading	6,425	5,197
A subsidiary	7,368	–
Investment properties	–	83,321
Others	28,329	60
	392,250	319,351
	26,800,687	26,029,728

Notes to the Financial Statements

6. PROFIT BEFORE TAX

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

	Notes	2015 RMB'000	2014 RMB'000
Cost of inventories sold		19,815,410	20,222,334
Cost of services provided		504,455	537,694
Depreciation			
Investment properties	14	2,937	881
Property, plant and equipment	13	863,478	762,580
Less: Amortisation of deferred income from government grants	30	(39,691)	(37,050)
		826,724	726,411
Amortisation			
Land use rights	15	26,136	33,845
Intangible assets	17	27,462	22,207
Research and development costs			
Current year expenditure		1,944,823	1,807,277
Less: Government grants released*		(663,514)	(826,131)
		1,281,309	981,146
Auditors' remuneration		9,823	10,368
Employee benefit expense (including directors' and chief executive's remuneration)			
Wages, salaries, housing benefits and other allowances		3,143,058	2,978,951
Share-based payment expense		1,429	8,072
Pension scheme contributions		480,549	441,704
Foreign exchange differences, net		(7,398)	6,924
Impairment of:			
An investment in an associate	19	467	–
Available-for-sale investments		10,153	–
Accounts and notes receivable and prepayments, deposits and other receivables		118,206	43,509
Property, plant and equipment	13	12,899	–
Write-down of inventories to net realisable value		127,898	86,130

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

Notes to the Financial Statements

7. FINANCE COSTS, NET

	2015 RMB'000	2014 RMB'000
Finance income:		
Bank interest income	209,047	222,808
Other interest income	11,501	10,577
	<u>220,548</u>	<u>233,385</u>
Finance costs:		
Interest on bank loans and other loans	432,972	391,439
Interest on finance leases	368	474
Total interest expense	433,340	391,913
Less: Interest capitalised	(32,480)	(39,525)
Other financial costs	63,711	16,743
	<u>464,571</u>	<u>369,131</u>
Finance costs, net	<u>(244,023)</u>	<u>(135,746)</u>

Notes to the Financial Statements

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2015 RMB'000	2014 RMB'000
Fees	1,815	1,613
Other emoluments:		
Salaries, allowances and benefits in kind	1,219	1,122
	3,034	2,735

(a) Independent non-executive directors

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

	2015 RMB'000	2014 RMB'000
Mr. Lau Chungman	210	195
Mr. Liu Renhuai	170	85
Mr. Yang Zhiwei	105	–
Mr. Guo Chongqing*	85	153
	570	433

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

Notes to the Financial Statements

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2014					
Executive directors:					
Mr. Lin Zuoming	-	450	-	-	450
Mr. Tan Ruisong	-	500	-	-	500
Non-executive directors:					
Mr. Gu Huizhong	380	-	-	-	380
Mr. Gao Jianshe	380	-	-	-	380
Mr. Sheng Mingchuan	-	-	-	-	-
Mr. Maurice Savart	60	-	-	-	60
	820	950	-	-	1,770

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

Notes to the Financial Statements

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(c) Supervisors

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2014					
2014 Supervisors:					
Ms. Bai Ping	320	-	-	-	320
Mr. Yu Guanghai	40	-	-	-	40
Ms. Li Jing	-	172	-	-	172
	360	172	-	-	532

* On 12 June 2015, Mr. Guo Chongqing and Mr. Liu Fumin were appointed as non-executive director and supervisor of the Company respectively.

On the same day, Mr. Guo Chongqing resigned as an independent non-executive director; Mr. Sheng Mingchuan resigned as a non-executive director; and Ms. Bai Ping and Mr. Yu Guanghai resigned as supervisors of the Company.

Notes to the Financial Statements

9. FIVE HIGHEST PAID EMPLOYEES

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

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	4,323	3,737

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

	Number of employees	
	2015	2014
Nil to HK\$1,000,000	1	4
HK\$1,000,001 to HK\$1,500,000	4	1

During the years ended 31 December 2014 and 2015, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals has waived any remuneration during the years ended 31 December 2014 and 2015.

Notes to the Financial Statements

10. INCOME TAX

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2014:15%), 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% (2014: 25%) on the assessable income of respective entities in the Group.

	2015 RMB'000	2014 RMB'000
Current income tax	381,389	266,162
Deferred income tax	7,781	1,136
Total tax charge for the year	389,170	267,298

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:

	2015 RMB'000	2014 RMB'000
Profit before tax	2,326,927	2,003,019
Tax at the statutory tax rate of 25%	581,732	500,755
Lower tax rate(s) for specific provinces or enacted by local authorities	(199,081)	(229,085)
Profits and losses attributable to a joint venture and associates	(36,181)	(35,928)
Income not subject to tax	(17,871)	(9,995)
Expenses not deductible for tax	41,849	17,691
Tax losses utilised from previous periods	(392)	(2,851)
Tax losses not recognised	12,252	26,711
Others	6,862	-
Tax charge at the Group's effective rate	389,170	267,298

Notes to the Financial Statements

11. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Proposed:		
Final dividend, proposed of RMB0.02 (2014: RMB0.02) per share	109,489	109,489

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the following annual general meeting.

This dividend was not recognised as a payable in the consolidated financial statements as at 31 December 2015 but will be reflected as an appropriation of retained earnings for the year ending 31 December 2016.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 5,471,565,545 (2014: 5,459,988,425) in issue during the year.

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

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

	2015 RMB'000	2014 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	862,537	781,298
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (thousands)	5,471,566	5,459,988
Potential dilutive effect arising from restricted shares (thousands)	1,672	7,084
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation (thousands)	5,473,238	5,467,072

Notes to the Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT

2015	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture, fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost					
As at 1 January 2015	2,944,371	5,292,169	5,250,158	2,100,644	15,587,342
Additions	1,245,364	39,830	190,792	153,504	1,629,490
Transfer from investment properties	-	8,975	-	-	8,975
Transfer upon completion	(2,035,220)	1,377,689	505,575	151,956	-
Disposals/write-off	(80,420)	(58,513)	(95,051)	(54,657)	(288,641)
Disposal of a subsidiary	-	(5,233)	(6,071)	(2,260)	(13,564)
Transfer to investment properties	-	(243,867)	-	-	(243,867)
As at 31 December 2015	2,074,095	6,411,050	5,845,403	2,349,187	16,679,735
Accumulated depreciation and impairment					
As at 1 January 2015	-	(1,166,880)	(2,601,045)	(1,378,268)	(5,146,193)
Depreciation	-	(187,079)	(390,190)	(286,209)	(863,478)
Transfer from investment properties	-	(1,115)	-	-	(1,115)
Impairment	-	-	(12,344)	(555)	(12,899)
Disposal/write-off	-	29,460	58,802	45,718	133,980
Disposal of a subsidiary	-	1,949	4,040	1,725	7,714
Transfer to investment properties	-	11,492	-	-	11,492
As at 31 December 2015	-	(1,312,173)	(2,940,737)	(1,617,589)	(5,870,499)
Net book value					
As at 31 December 2014	2,944,371	4,125,289	2,649,113	722,376	10,441,149
As at 31 December 2015	2,074,095	5,098,877	2,904,666	731,598	10,809,236

As at 31 December 2015, certain of the Group's property, plant and equipment with carrying value of approximately RMB118,012,000 (31 December 2014: RMB133,421,000) were situated on leasehold land in the PRC which are granted by AVIC for the Group's use at no cost or have been leased from certain subsidiaries of the ultimate holding company under long-term leases. The remaining period of the Group's rights on the leasehold land at 31 December 2015 ranged from 7 to 34 years (31 December 2014: 8 to 35 years).

The Group was in the process of applying for the legal titles for buildings with a net book value of RMB1,271,279,000 as at 31 December 2015 (31 December 2014: RMB1,613,320,000).

Notes to the Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

2014	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture, fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost					
As at 1 January 2014	2,544,227	4,319,045	4,995,113	1,896,856	13,755,241
Acquisition of business	1,762	39,810	21,999	1,556	65,127
Additions	1,690,998	29,119	121,665	122,768	1,964,550
Transfer upon completion	(1,292,616)	960,235	207,649	124,732	–
Disposals/write-off	–	(43,259)	(96,268)	(45,268)	(184,795)
Transfer to investment properties	–	(12,781)	–	–	(12,781)
As at 31 December 2014	2,944,371	5,292,169	5,250,158	2,100,644	15,587,342
Accumulated depreciation and impairment					
As at 1 January 2014	–	(1,027,329)	(2,375,925)	(1,108,917)	(4,512,171)
Depreciation	–	(141,611)	(312,737)	(308,232)	(762,580)
Disposal/write-off	–	1,335	87,617	38,881	127,833
Transfer to investment properties	–	725	–	–	725
As at 31 December 2014	–	(1,166,880)	(2,601,045)	(1,378,268)	(5,146,193)
Net book value					
As at 31 December 2013	2,544,227	3,291,716	2,619,188	787,939	9,243,070
As at 31 December 2014	2,944,371	4,125,289	2,649,113	722,376	10,441,149

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

Notes to the Financial Statements

14. INVESTMENT PROPERTIES

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	39,406	31,451
Transfer from owner-occupied property	314,655	12,056
Depreciation	(2,937)	(881)
Disposal of a subsidiary	(404)	–
Disposal	–	(3,220)
Transfer to owner-occupied property	(7,860)	–
Carrying amount at 31 December	342,860	39,406
At valuation	436,372	44,373

All investment properties are located in the PRC and their valuations as at 31 December 2015 and 2014 stated above based on either the observable market prices of similar buildings in the same districts or discounted cash flow method, which are within level 2 of the fair value hierarchy (Note 41).

The Group was in the process of applying for the legal titles for investment properties with a net book value of RMB121,520,000 as at 31 December 2015 (31 December 2014:Nil).

Notes to the Financial Statements

15. LAND USE RIGHTS

	2015 RMB'000	2014 RMB'000
Cost		
As at 1 January	1,605,509	1,536,689
Acquisition of business	–	3,955
Additions	39,563	64,865
Disposal of a subsidiary	(3,561)	–
Transfer to investment properties	(89,924)	–
As at 31 December	1,551,587	1,605,509
Accumulated amortization		
As at 1 January	(154,343)	(120,498)
Amortisation	(26,136)	(33,845)
Disposal of a subsidiary	795	–
Transfer to investment properties	7,644	–
As at 31 December	(172,040)	(154,343)
Net book amount		
As at 31 December	1,379,547	1,451,166

The Group was in the process of applying for the legal titles for land use rights with a net book value of RMB53,111,000 as at 31 December 2015 (31 December 2014: RMB131,346,000).

Notes to the Financial Statements

16. GOODWILL

	2015 RMB'000	2014 RMB'000
At 1 January	62,145	15,938
Addition	7,043	46,207
Carrying amount at 31 December	69,188	62,145

The goodwill acquired in the acquisitions of Shenzhen Xiangtong photoelectric Technology Co., Ltd. ("Xiangtong photoelectric") in 2014 and AVIC Forstar S&T Co., Ltd. ("AVIC Forstar") in 2013 is fully allocated to each unit respectively. As of 31 December 2015, the Group performed an impairment assessment of goodwill based on the respective recoverable amounts of the CGUs and concluded that no impairment provision was necessary. The recoverable amount of each CGU is determined based on value-in-use calculation using discounted cash flow method. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

The key assumptions used for value-in-use calculations in 2015 were annual volume growth rates of 0% to 29% and 6% to 18% (2014: 0% to 49% and -11% to 9%), long-term growth rates of 0% and 0% (2014: 0% and 0%) and pre-tax discount rate of 13% and 13% (2014: 12% and 11%) for Xiangtong Photoelectric and AVIC Forstar respectively.

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

Notes to the Financial Statements

17. OTHER INTANGIBLE ASSETS

2015	Development costs RMB'000	Technology know-how RMB'000	Trademarks and licences RMB'000	Contractual customer relationships RMB'000	Total RMB'000
Cost					
As at 1 January 2015	45,110	134,803	8,173	19,302	207,388
Additions	3,487	6,313	168	–	9,968
As at 31 December 2015	48,597	141,116	8,341	19,302	217,356
Accumulated amortisation					
As at 1 January 2015	–	(45,218)	(2,933)	(2,815)	(50,966)
Amortisation	–	(22,413)	(2,636)	(2,413)	(27,462)
As at 31 December 2015	–	(67,631)	(5,569)	(5,228)	(78,428)
Net book amount					
As at 31 December 2015	48,597	73,485	2,772	14,074	138,928
2014					
	Development costs RMB'000	Technology know-how RMB'000	Trademarks and licences RMB'000	Contractual customer relationships RMB'000	Total RMB'000
Cost					
As at 1 January 2014	39,171	58,352	8,173	19,302	124,998
Acquisition of business	–	66,531	–	–	66,531
Additions	5,939	9,920	–	–	15,859
As at 31 December 2014	45,110	134,803	8,173	19,302	207,388
Accumulated amortisation					
As at 1 January 2014	–	(28,198)	(286)	(275)	(28,759)
Amortisation	–	(17,020)	(2,647)	(2,540)	(22,207)
As at 31 December 2014	–	(45,218)	(2,933)	(2,815)	(50,966)
Net book amount					
As at 31 December 2014	45,110	89,585	5,240	16,487	156,422

Notes to the Financial Statements

18. INVESTMENT IN A JOINT VENTURE

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

	2015 RMB'000	2014 RMB'000
Share of net assets, as at 1 January	52,508	37,681
Share of profit for the year	20,789	15,792
Dividend declared	(5,685)	(965)
Share of net assets, as at 31 December	67,612	52,508

19. INVESTMENTS IN ASSOCIATES

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

	2015 RMB'000	2014 RMB'000
Share of net assets, as at 1 January	823,955	1,055,141
Share of profit for the year	127,451	127,921
Increase in investments	55,600	11,149
Dividend declared	(153,977)	(166,810)
Disposal of investments	(8,450)	(203,446)
Transfer to available-for-sale investments, net	(5,618)	–
	838,961	823,955
Provision for impairment	(467)	–
Share of net assets, as at 31 December	838,494	823,955

Notes to the Financial Statements

20. AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2015 RMB'000	31 December 2014 RMB'000
Listed equity investments, at fair value	1,326,457	589,495
Unlisted equity investments, at cost (Note)	633,570	652,015
	1,960,027	1,241,510
Less: Provision for impairment	(10,509)	(3,222)
	1,949,518	1,238,288

During the year, the fair value gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB557,974,000 (2014: RMB218,140,000), of which RMB28,992,000 (2014: RMB47,147,000) was reclassified from other comprehensive income to the statement of profit or loss for the year.

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

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

Notes to the Financial Statements

21. DEFERRED TAX

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

Deferred tax assets

	Impairment RMB'000	Accruals and other temporary differences RMB'000	Total RMB'000
At 1 January 2014	73,904	124,728	198,632
Deferred tax credit/(charged) to the profit or loss during the year	23,781	(8,835)	14,946
At 31 December 2014	97,685	115,893	213,578
Deferred tax credit/(charged) to the profit or loss during the year	35,457	(31,300)	4,157
Deferred tax credit/(charged) to the other comprehensive income during the year	–	(18,030)	(18,030)
At 31 December 2015	133,142	66,563	199,705

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

	2015 RMB'000	2014 RMB'000
Deductible temporary differences	83,651	72,255
Tax losses not recognised	255,435	379,481

Tax losses not recognised will be expired in one to five years as following:

	2015 RMB'000	2014 RMB'000
2015	–	46,211
2016	25,469	66,402
2017	45,998	66,114
2018	60,941	90,158
2019	71,266	110,596
2020	51,761	–
	255,435	379,481

Notes to the Financial Statements

21. DEFERRED TAX (Continued)

Deferred tax liabilities

	Fair value change of available-for- sale investments RMB'000	Investment profit to be amortised RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2014	39,724	–	12,173	51,897
Deferred tax charged/(credited) to the profit or loss during the year	297	–	15,785	16,082
Deferred tax charged/(credited) to the other comprehensive income during the year	27,442	–	–	27,442
At 31 December 2014	67,463	–	27,958	95,421
Deferred tax charged/(credited) to the profit or loss during the year	11,842	17,714	(17,618)	11,938
Deferred tax charged to the other comprehensive income during the year	81,260	–	13,809	95,069
At 31 December 2015	160,565	17,714	24,149	202,428

Offsetting of deferred tax assets and deferred tax liabilities

	2015		2014	
	Offsetting amount RMB'000	Net amount after offsetting RMB'000	Offsetting amount RMB'000	Net amount after offsetting RMB'000
Deferred tax assets	(17,924)	181,781	(43,739)	169,839
Deferred tax liabilities	17,924	184,504	43,739	51,682

22. INVENTORIES

	31 December 2015 RMB'000	31 December 2014 RMB'000
Raw materials	5,549,041	6,519,440
Work in progress	10,478,126	8,382,363
Finished goods	2,029,105	1,691,666
	18,056,272	16,593,469

Notes to the Financial Statements

23. ACCOUNTS AND NOTES RECEIVABLE

	31 December 2015 RMB'000	31 December 2014 RMB'000
Accounts receivable		
– Ultimate holding company	5,519	–
– Fellow subsidiaries	6,121,898	4,742,931
– A joint venture	94	164
– Associates	36,395	3,886
– Other related party	2,766	6,059
– Others	4,823,554	4,168,716
Accounts receivable, gross	10,990,226	8,921,756
Provision for impairment	(416,321)	(290,650)
Accounts receivable, net	10,573,905	8,631,106
Notes receivable		
– Fellow subsidiaries	1,442,568	1,421,873
– A joint venture	950	–
– Others	1,217,931	920,854
	2,661,449	2,342,727
Accounts and notes receivable	13,235,354	10,973,833

Certain of the Group's sales were on advance payment. Sales to small, new or short-term customers are normally expected to be settled shortly after delivery. A credit period of up to six to twelve months may be granted in respect of sales to customers with good credit history and long-established relationship with the Group. Terms offered to related parties are similar to those offered to third parties. Accounts and notes receivable from those related parties are unsecured, non-interest-bearing and are repayable in accordance with the relevant trading terms.

Notes to the Financial Statements

23. ACCOUNTS AND NOTES RECEIVABLE (Continued)

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

	31 December 2015 RMB'000	31 December 2014 RMB'000
Within 1 year	9,213,029	7,739,696
1 to 2 years	1,126,865	653,375
2 to 3 years	152,115	191,730
Over 3 years	81,896	46,305
	<u>10,573,905</u>	<u>8,631,106</u>

The movements in provision for accounts receivable are as follows:

	2015 RMB'000	2014 RMB'000
At beginning of year	290,650	247,966
Impairment losses recognised	144,525	43,509
Amount written off as uncollectible	(18,854)	(825)
	<u>416,321</u>	<u>290,650</u>

Notes to the Financial Statements

23. ACCOUNTS AND NOTES RECEIVABLE (Continued)

Included in the above provision for impairment of accounts receivable was a provision for individually impaired accounts receivable of RMB12,925,000 (2014: RMB14,684,000) with a carrying amount before provision of RMB12,968,000 (2014: RMB14,684,000), and a provision for collectively impaired accounts receivable of RMB403,396,000 (2014: RMB275,966,000) with a carrying amount before provision of RMB10,977,258,000 (2014: RMB8,907,072,000).

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

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

	31 December 2015 RMB'000	31 December 2014 RMB'000
Not past due	9,213,029	7,739,696
Less than 1 year past due	1,126,865	653,375
1 to 2 years past due	152,115	191,730
Over 2 years past due	81,896	46,305
	10,573,905	8,631,106

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

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

Notes to the Financial Statements

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2015 RMB'000	31 December 2014 RMB'000
Advances to suppliers		
– Fellow subsidiaries	257,862	596,053
– Associates	–	35
– Others	548,586	453,138
Amounts due from customers for contract work	145,806	394,287
Dividends receivable		
– Associates	37,550	37,690
– A fellow subsidiary	300	573
Prepayments and deposits	351,485	360,105
Other advances to		
– Ultimate holding company	1,249	1,820
– Fellow subsidiaries	24,730	31,388
Other current assets	442,473	465,177
Other receivables	726,624	732,418
	2,536,665	3,072,684
Less: Non-current portion	(317,514)	(251,851)
	2,219,151	2,820,833

As of 31 December 2015, other receivables of RMB71,508,000 (2014: RMB113,850,000) were impaired. The individually impaired receivables mainly relate to those small debtors which are in financial difficulties.

Notes to the Financial Statements

25. FINANCIAL ASSETS HELD FOR TRADING

	31 December 2015 RMB'000	31 December 2014 RMB'000
Listed equity investment, at market value	38,530	307

26. CASH AND BANK BALANCES

	31 December 2015 RMB'000	31 December 2014 RMB'000
Cash and bank balances	11,005,719	9,646,662
Less: Pledged deposits	(1,699,479)	(986,192)
Term deposits with initial term of over three months	(367,818)	(2,862,484)
Cash and cash equivalents	8,938,422	5,797,986

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

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

As at 31 December 2015, RMB1,423,620,000 (31 December 2014: RMB1,605,483,000) was deposited in AVIC Finance Co, Ltd., a fellow subsidiary of the Company.

Notes to the Financial Statements

27. ACCOUNTS AND NOTES PAYABLE

	31 December 2015 RMB'000	31 December 2014 RMB'000
Accounts payable (Note(a))		
– Ultimate holding company	341	–
– Fellow subsidiaries	4,465,632	2,495,861
– Joint venture	12,231	–
– Associates	6,664	–
– Others	7,086,812	7,894,358
	<u>11,571,680</u>	<u>10,390,219</u>
Notes payable (Note (b))		
– Fellow subsidiaries	2,404,922	2,649,640
– Joint venture	12,247	–
– Others	2,595,141	2,010,131
	<u>5,012,310</u>	<u>4,659,771</u>
	<u>16,583,990</u>	<u>15,049,990</u>

Notes:

- (a) An ageing analysis of the accounts payable as at 31 December 2015 and 2014, based on the invoice date, is as follows:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Within 1 year	9,238,832	9,124,298
1 to 2 years	1,798,188	879,629
2 to 3 years	315,312	214,708
Over 3 years	219,348	171,584
	<u>11,571,680</u>	<u>10,390,219</u>

The accounts payable are non-interest-bearing and are normally settled within 0 to 6 months.

- (b) The notes payable are with an average maturity period of less than six months. As at 31 December 2015, notes payable of RMB3,262,196,000 (31 December 2014: RMB2,938,413,000) were secured by pledged deposits to the extent of RMB1,671,851,000 (2014: RMB968,605,000).

Notes to the Financial Statements

28. OTHER PAYABLES AND ACCRUALS

	31 December 2015 RMB'000	31 December 2014 RMB'000
Advance from customers		
– Fellow subsidiaries	4,480,611	3,099,165
– Others	383,938	666,072
Wages, salaries, bonuses and other employee benefits	1,410,340	1,471,969
Accrued expenses	247,754	273,152
Payable for property, plant and equipment		
– Fellow subsidiaries	49,779	394,684
– Others	480,119	116,820
Payable for acquisition of equity interests in subsidiaries		
– Fellow subsidiaries (Note)	335,444	327,345
– Others	12,240	12,288
Deferred income from government grants	15,657	36,309
Amounts payable to the ultimate holding company	268,827	268,827
Other advances from		
– Ultimate holding company	1,908	–
– Fellow subsidiaries	246,807	232,759
Dividend payable to non-controlling shareholders of subsidiaries	186,023	185,075
Consumption tax, business tax and other taxes payable	140,241	151,299
Provision	199,129	76,433
Other payables	706,910	563,607
	9,165,727	7,875,804
Less: Non-current portion	(12,240)	(31,325)
	9,153,487	7,844,479

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

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

From the date of Share Transfer Agreement until 31 December 2015, Suzhou Changfeng has received part of Land Compensation, amounting to RMB327 million. Transferee has recorded the above payments to other payables as net income of Land Compensation due to Transferor, while writing off capital reserve. As at 31 December 2015, Suzhou Changfeng has not settled the above Land Compensation with regard to the land use rights with Suzhou Land Reserve Center, therefore the amount payable to Transferor remains unknown to the transferee.

Notes to the Financial Statements

29. INTEREST-BEARING BANK AND OTHER LOANS (Continued)

Notes:

(a) As at 31 December 2015, other loans represented:

– corporate bonds issued by China Aviation Optical-Electrical Technology Co., Ltd. in an aggregate principal amount of RMB500,000,000 (31 December 2014: RMB500,000,000) bearing interest at 5.08% per annum and guaranteed by the Company.

– loans granted by a fellow subsidiary of AVIC amounting to RMB3,790,595,000 (31 December 2014: RMB3,443,410,000) bearing interest at 2% to 7% per annum.

(b) The exposure of the total loans to the change of interest rate is as follows:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Bank loans		
– Fixed rates	2,095,911	1,846,851
– Floating rates	1,468,497	1,628,496
	3,564,408	3,475,347
Other loans		
– Fixed rates	3,494,909	3,679,590
– Floating rates	795,686	263,150
	4,290,595	3,942,740
	7,855,003	7,418,087

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

	2015	2014
Weighted average effective interest rates		
– Bank loans	4%	5%
– Other loans	5%	5%

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

Notes to the Financial Statements

29. INTEREST-BEARING BANK AND OTHER LOANS (Continued)

Notes: (Continued)

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

	31 December 2015 RMB'000	31 December 2014 RMB'000
Securities over the Group's assets, at carrying value		
– Buildings	58,046	35,538
– Notes receivable	88,362	112,825
– Accounts receivable	570,129	762,647
	716,537	911,010
Guarantees provided by		
– Fellow subsidiaries	390,549	474,299
– Entities within the Group	499,959	1,179,330
– Key management of a subsidiary	–	5,662
	890,508	1,659,291

(e) As at 31 December 2015, the Group had the following undrawn committed loan facilities.

	31 December 2015 RMB'000	31 December 2014 RMB'000
At floating rates		
– Expiring within one year	10,683,437	5,396,738

Notes to the Financial Statements

30. DEFERRED INCOME FROM GOVERNMENT GRANTS

Movements of deferred income from government grants for each of the years ended 31 December 2015 and 2014 are as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	831,608	786,747
Additions	72,929	118,220
Amortisation	(39,691)	(37,050)
At 31 December	864,846	867,917
Less: Current portion	(15,657)	(36,309)
	849,189	831,608

31. SHARE CAPITAL

Shares

	31 December 2015 RMB'000	31 December 2014 RMB'000
Registered, issued and fully paid:		
3,117,995,265 (2014:3,117,995,265) domestic shares of RMB1 each	3,117,995	3,117,995
2,356,433,902 (2014:2,356,433,902) H shares of RMB1 each	2,356,434	2,356,434
	5,474,429	5,474,429

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

Notes to the Financial Statements

32. SHARE-BASED COMPENSATION

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

Upon the grant of restricted shares to Scheme participants, 50% of the grant price amounting to approximately RMB64,707,000 was funded by the Scheme participants. These restricted shares would vest gradually after the Scheme participants complete a period of service of 2 to 4 years from the date of grant.

During 2011, 37,013,900 of the Company's shares were acquired from the market. The total amount paid to acquire the shares was approximately RMB139,994,000 and deducted from reserves within equity. The shares had been held as restricted shares by a trustee before they were vested.

On 2 April 2013, one-third of the restricted shares with the value of employee services of approximately RMB26,776,000 were unlocked and transferred to Scheme participants. The related weighted average share price on that day was HK\$3.90.

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

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

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

	2015		2014	
	Fair value	Number	Fair value	Number
	(per share)	of restricted	(per share)	of restricted
	HK\$	shares granted	HK\$	shares granted
		'000		'000
At 1 January	2.08	11,455	2.08	23,400
Vested/exercised during the year	2.08	(11,455)	2.08	(11,945)
At 31 December	2.08	–	2.08	11,455

No restricted shares were granted during the year (2014:Nil). The Group recognised a share-based compensation of RMB1,429,000 during the year ended 31 December 2015 (2014: RMB8,072,000).

Notes to the Financial Statements

33. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 64 to 65 of the financial statements.

(a) Capital reserve

Capital reserve of the Company represents (i) the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment, set off by net premium on issue of shares upon listing of the Company; and (ii) the difference between the fair value of shares issued and their respective par value.

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

(b) Currency translation reserve

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

(c) Other reserves

(i) Statutory surplus reserve

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

(ii) Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside an amount to a safety reserve at the rate ranging from 0.1% to 2% on the total revenue of aviation products recognised for the year. The reserve can be utilised for improvements of safety on the manufacturing work of aviation products, and the amounts utilised are charged to the consolidated statement of profit or loss, as incurred. In 2015, RMB42,352,000 (2014: RMB39,487,000) was appropriated to the special reserve, and RMB27,013,000 (2014: RMB19,155,000) was utilised.

Notes to the Financial Statements

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

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

Percentage of equity interest held by non-controlling interests

	2015	2014
China Aviation Optical-Electrical Technology Co.,Ltd.	58.43%	58.43%
China Avionics Systems Co., Ltd.	56.78%	56.78%
China AVIC Helicopter Co., Ltd.	65.34%	64.90%
Jiangxi Hongdu Aviation Industry Co., Ltd.	56.23%	56.37%

Profit for the year allocated to non-controlling interests

	2015 RMB'000	2014 RMB'000
China Aviation Optical-Electrical Technology Co.,Ltd.	369,694	238,912
China Avionics Systems Co., Ltd.	314,485	376,315
China AVIC Helicopter Co., Ltd.	301,947	239,991
Jiangxi Hongdu Aviation Industry Co., Ltd.	48,724	57,953

Notes to the Financial Statements

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

Dividends paid to non-controlling interests

	2015 RMB'000	2014 RMB'000
China Aviation Optical-Electrical Technology Co.,Ltd.	27,081	27,081
China Avionics Systems Co., Ltd.	49,943	49,943
China AVIC Helicopter Co., Ltd.	53,832	49,734
Jiangxi Hongdu Aviation Industry Co., Ltd.	4,032	16,169

Accumulated balances of non-controlling interests at the reporting dates

	2015 RMB'000	2014 RMB'000
China Aviation Optical-Electrical Technology Co.,Ltd.	2,486,042	2,143,269
China Avionics Systems Co., Ltd.	3,400,042	3,160,805
China AVIC Helicopter Co., Ltd.	4,376,354	4,144,121
Jiangxi Hongdu Aviation Industry Co., Ltd.	2,973,394	2,757,964

Notes to the Financial Statements

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

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

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

Notes to the Financial Statements

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

2014	China Aviation Optical- Electrical Technology Co.,Ltd. RMB'000	China Avionics Systems Co., Ltd. RMB'000	China AVIC Helicopter Co., Ltd. RMB'000	Jiangxi Hongdu Aviation Industry Co., Ltd. RMB'000
	Revenue	3,491,246	6,610,752	12,764,608
Total expenses	706,346	1,453,998	1,043,321	205,604
Profit for the year	383,961	651,266	366,371	100,989
Total comprehensive income for the year	383,889	698,608	366,371	201,351
Current assets	4,723,347	10,594,833	16,196,486	5,410,786
Non-current assets	1,597,708	4,394,758	3,711,708	3,486,420
Current liabilities	2,157,025	8,305,834	13,442,196	3,908,024
Non-current liabilities	811,285	1,130,912	236,388	86,806
Net cash flows from/(used in) operating activities	153,484	70,860	(253,215)	(400,611)
Net cash flows used in investing activities	(273,801)	(309,106)	(194,803)	(754,567)
Net cash flows from/(used in) financing activities	(182,407)	261,966	(59,285)	563,059
Effect of foreign exchange rate changes, net	(2,707)	6	(10)	19
Net increase/(decrease) in cash and cash equivalents	(305,431)	23,726	(507,313)	(592,100)

Notes to the Financial Statements

35. OPERATING LEASES ARRANGEMENTS

As lessee

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

As at 31 December 2015 and 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Land and buildings		
Not later than one year	20,273	7,867
Later than one year and not later than five years	39,740	28,113
Later than five years	13,553	15,210
	<hr/>	<hr/>
	73,566	51,190

Notes to the Financial Statements

36. DISPOSAL OF A SUBSIDIARY

The information in respect of the disposal of the subsidiary ("Shenyang General Aviation Co., Ltd.") is as follows:

	31 December 2015 RMB'000
Net assets, disposed of	17,984
Gain on disposal of a subsidiary	7,368
Satisfied by cash	25,352

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	31 December 2015 RMB'000
Cash consideration	25,352
Cash and bank balances disposed of	(3,775)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	21,577

37. COMMITMENTS

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

Contracted, but not provided for

	31 December 2015 RMB'000	31 December 2014 RMB'000
Land and buildings	1,595,863	–
Plant and equipment	67,145	107,047
Construction	433,245	1,346,337
Investment in an associate	–	10,000
Investment in acquisition of a subsidiary	2,173,282	–
	4,269,535	1,463,384

Notes to the Financial Statements

38. RELATED PARTY DISCLOSURES

The Group is directly and indirectly controlled by AVIC, which owned 54.85% in total of the Company's shares as at 31 December 2015. The remaining 45.15% of the shares are widely held.

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

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

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

Notes to the Financial Statements

38. RELATED PARTY DISCLOSURES (Continued)

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

	Notes	2015 RMB'000	2014 RMB'000
Ultimate holding Company			
Service fee payable	(3)	1,610	14,650
Associates:			
Sales of products	(3)	63,121	173,376
Purchases of products	(3)	90,589	327,799
Service fee payable	(3)	–	32,301
Rental expense	(3)	5,600	–
Joint venture:			
Sales of products	(3)	903	1,075
Purchases of products	(3)	109,634	73,560
Fellow subsidiaries:	(1)		
Sales of products	(3)	16,731,725	16,570,259
Purchases of products	(3)	8,869,649	10,832,010
Rendering of service	(3)	126,874	4,278
Service fee payable	(3)	803,272	639,857
Rental expense	(3)	32,619	84,114
Rental income	(3)	9,087	–
Guarantee	(3)	390,549	474,299
Others	(2)		
Sales of products	(3)	5,308	39,125

Notes:

- (1) Fellow subsidiaries are companies which are controlled by the same ultimate holding company, AVIC.
- (2) It represents the Commercial Aircraft Corporation of China Ltd., which is an associate of AVIC.
- (3) In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of the Group's business and were determined based on mutually agreed terms as follows:
 - **Sales/purchases of goods and materials, rendering/receiving services**
The products and ancillary services are provided: (i) according to the Government-prescribed price; (ii) if there is no Government-prescribed price, then according to the Government –guidance price; (iii) if there is no Government-guidance price, then according to the market price; and (iv) if none of the above is applicable, then according to the contractual price.
 - **Rental income/expenses**
The annual rental is reviewed and adjusted regularly and not be higher than the prevailing market annual rental as determined by an independent valuer with reference to the market rent of land or properties with similar conditions and locations.
 - **Guarantee**
Guarantee is provided by related parties for the subsidiaries of the Company to carry out loans.

Notes to the Financial Statements

38. RELATED PARTY DISCLOSURES (Continued)

(b) Outstanding balances with related parties:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Assets:		
Accounts receivable		
– Ultimate holding company	5,519	–
– Fellow subsidiaries	6,121,898	4,742,931
– A joint venture	94	164
– Associates	36,395	3,886
– Other related party	2,766	6,059
Notes receivable		
– Fellow subsidiaries	1,442,568	1,421,873
– A joint venture	950	–
Advance to suppliers		
– Fellow subsidiaries	257,862	596,053
– Associates	–	35
Other receivables and prepayments		
– Ultimate holding company	1,249	1,820
– Fellow subsidiaries	25,030	31,961
– Associates	37,550	37,690
Deposits		
– A fellow subsidiary	1,423,620	1,605,483
Liabilities:		
Accounts payable		
– Ultimate holding company	341	–
– Fellow subsidiaries	4,465,632	2,495,861
– A joint venture	12,231	–
– Associates	6,664	–
Notes payable		
– Fellow subsidiaries	2,404,922	2,649,640
– A joint venture	12,247	–
Advance from customers		
– Fellow subsidiaries	4,480,611	3,099,165
Other payables and accruals		
– Ultimate holding company	270,735	268,827
– Fellow subsidiaries	632,030	954,788

Balances with related parties above are unsecured, non-interest-bearing, and are repayable or settled in accordance with the relevant trading terms.

Notes to the Financial Statements

38. RELATED PARTY DISCLOSURES (Continued)

(c) Compensation of key management personnel of the Group

	2015 RMB'000	2014 RMB'000
Short term employee benefits	4,264	4,284
Share-based compensation	196	1,087
Total compensation paid to key management personnel	4,460	5,371

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

39. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

- (a) At 31 December 2015, the Group endorsed certain bills receivables accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB144,389,000 (2014: Nil) to certain of its suppliers in order to settle the accounts payable due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated accounts payable settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the accounts payable settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB144,389,000 (2014: Nil) as at 31 December 2015.
- (b) As part of its normal business, the Group entered into a accounts receivable factoring arrangement (the "Arrangement") and transferred certain accounts receivable to a bank. Under the Arrangement, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment up to 180 days. The Group is not exposed to default risks of the accounts debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the accounts receivable, including the sale, transfer or pledge of the accounts receivable to any other third parties. The original carrying value of the accounts receivable transferred under the Arrangement that have not been settled as at 31 December 2015 was RMB570,129,000 (2014: RMB762,647,000). The carrying amount of the assets that the Group continued to recognise as at 31 December 2015 was RMB570,129,000 (2014: RMB762,647,000) and that of the associated liabilities as at 31 December 2015 was RMB505,000,000 (2014: RMB632,000,000).

Notes to the Financial Statements

39. TRANSFERS OF FINANCIAL ASSETS (Continued)

Transferred financial assets that are derecognised in their entirety

At 31 December 2015, the Group endorsed certain bills receivable accepted by banks in Mainland China (the “Derecognised Bills”) to certain of its suppliers in order to settle the accounts payable due to such suppliers with a carrying amount in aggregate of RMB1,216,563,000. The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated accounts payable. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2015, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

40. FINANCIAL INSTRUMENTS BY CATEGORY

2015

Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Available- for-sale financial assets	Total
	Held for trading	RMB'000	RMB'000	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments	–	–	1,949,518	1,949,518
Accounts and notes receivable	–	13,235,354	–	13,235,354
Financial assets included in prepayments, deposits and other receivables	–	1,345,952	–	1,345,952
Financial assets held for trading	38,530	–	–	38,530
Pledged deposits	–	1,699,479	–	1,699,479
Cash and cash equivalents	–	8,938,422	–	8,938,422
Term deposits with initial term of over three months	–	367,818	–	367,818
	38,530	25,587,025	1,949,518	27,575,073

Notes to the Financial Statements

40. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

2015 (Continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Accounts and notes payable	16,583,990	16,583,990
Financial liabilities included in other payables and accruals	3,198,956	3,198,956
Interest-bearing bank and other loans	7,855,003	7,855,003
	27,637,949	27,637,949

2014

Financial assets

	Financial assets at fair value through profit or loss Held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	–	1,238,288	1,238,288
Accounts and notes receivable		10,973,833		10,973,833
Financial assets included in prepayments, deposits and other receivables	–	1,344,425	–	1,344,425
Financial assets held for trading	307	–	–	307
Pledged deposits	–	986,192	–	986,192
Cash and cash equivalents	–	5,797,986	–	5,797,986
Term deposits with initial term of over three months	–	2,862,484	–	2,862,484
	307	21,964,920	1,238,288	23,203,515

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Accounts and notes payable	15,049,990	15,049,990
Financial liabilities included in other payables and accruals	3,206,376	3,206,376
Interest-bearing bank and other loans	7,418,087	7,418,087
	25,674,453	25,674,453

Notes to the Financial Statements

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amount		Fair Value	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Financial Assets				
Available-for-sale investments				
– Listed equity securities	1,326,457	589,495	1,326,457	589,495
Financial assets held for trading	38,530	307	38,530	307
Financial liabilities				
Interest-bearing bank and other loans:				
non-current	3,233,391	1,784,728	3,304,651	1,683,901
Other payables and accruals:				
non-current	12,240	31,325	11,668	29,862

Management has assessed that the fair values of cash and cash equivalents, accounts and notes receivable, accounts and notes payable, financial assets included in prepayments, deposits and other receivables, short-term interest-bearing bank and other loans, financial liabilities included in other payables and accruals and current portion of interest-bearing bank and other loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the interest-bearing bank and other loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for the interest-bearing bank and other loans as at 31 December 2015 was assessed to be insignificant.

Notes to the Financial Statements

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of financial assets held for trading and certain listed equity investments are based on quoted market prices. The fair value of certain listed equity investment has been estimated using a Monte Carlo Simulation model based on assumptions that are supported by observable market prices or rates.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2015

	Fair value measurement using			Total RMB'000
	Quoted prices In active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments:				
– listed equity investments	1,141,590	184,867	–	1,326,457
Financial assets held for trading	38,530	–	–	38,530
	1,180,120	184,867	–	1,364,987

As at 31 December 2014

	Fair value measurement using			Total RMB'000
	Quoted prices In active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments:				
– listed equity investments	589,495	–	–	589,495
Financial assets held for trading	307	–	–	307
	589,802	–	–	589,802

Notes to the Financial Statements

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Liabilities measured at fair value

The Group did not have any financial liabilities measured at fair value as at 31 December 2015 and 2014.

During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2014:Nil).

Assets for which fair values are disclosed:

As at 31 December 2015

	Fair value measurement using			Total RMB'000
	Quoted prices	Significant	Significant	
	In active market	observable	unobservable	
	(Level 1)	inputs	inputs	
	RMB'000	RMB'000	RMB'000	
Investment properties	–	436,372	–	436,372
	–	436,372	–	436,372

As at 31 December 2014

	Fair value measurement using			Total RMB'000
	Quoted prices	Significant	Significant	
	In active market	observable	unobservable	
	(Level 1)	inputs	inputs	
	RMB'000	RMB'000	RMB'000	
Investment properties	–	44,373	–	44,373
	–	44,373	–	44,373

The fair values of investment properties stated above were based on either the observable market prices of similar buildings in the same districts or discounted cash flow method, which are within level 2 of the fair value hierarchy.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (2014: Nil).

Notes to the Financial Statements

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Liabilities for which fair values are disclosed:

As at 31 December 2015

	Fair value measurement using			Total RMB'000
	Quoted prices	Significant	Significant	
	In active market	observable	unobservable	
	(Level 1)	inputs	inputs	
	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other loans:				
non-current	–	3,304,651	–	3,304,651
Other payables and accruals:				
non-current	–	11,668	–	11,668
	–	3,316,319	–	3,316,319

As at 31 December 2014

	Fair value measurement using			Total RMB'000
	Quoted prices	Significant	Significant	
	In active market	observable	unobservable	
	(Level 1)	inputs	inputs	
	RMB'000	RMB'000	RMB'000	
Interest-bearing bank and other loans:				
non-current	–	1,683,901	–	1,683,901
Other payables and accruals:				
non-current	–	29,862	–	29,862
	–	1,713,763	–	1,713,763

Notes to the Financial Statements

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise time deposits, interest-bearing bank and other loans and cash and cash and cash equivalent. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and notes receivable and accounts and notes payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest-rate risk, price risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest-rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents, details of which have been disclosed in Note 26. The Group's exposure to changes in interest rates is mainly attributable to its loans, details of which have been disclosed in Note 29. Loans carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. As of 31 December 2015, 71% (2014: 74%) of the Group's loans were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest-rate risk.

At 31 December 2015, if the interest rates on bank loans, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, profit for the year would have been RMB32,781,000 (2014: RMB29,081,000) lower/higher.

Price risk

The Group is principally exposed to equity securities price risk in respect of investments held by the Group which are classified as financial assets held for trading and available-for-sale financial assets. Some of these financial assets are publicly traded in recognised stock exchanges. At 31 December 2015, if the quoted market price of these financial assets held for trading and available-for-sale financial assets held by the Group had increased/decreased by 10%, with all other variables held constant, profit for the year and equity would have been RMB3,275,000 (2014: RMB26,000) and RMB116,024,000 (2014: RMB50,133,000) higher/lower respectively as a result of the changes in fair value of these financial assets.

Notes to the Financial Statements

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

86% (2014: 84%) of the Group's pledged deposits, term deposits and cash and cash equivalents are held in state-owned financial institutions, which management believes are of high credit quality. Most of the Group's financial assets held for trading and available-for-sale financial assets are also publicly traded in recognised stock exchanges. Management does not expect any losses from non-performance by these counterparties.

The Group has significant related party balances (Note 38(b)) with low credit risk, and for the balances with third parties, the Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally, the Group does not require collateral from trade debtors. Management makes periodic collective assessment as well as individual assessment on the recoverability of account and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of accounts and notes receivable, prepayments, deposits and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and long-term and short-term bank and other loans.

As at 31 December 2015, the net current assets of the Group amounted to RMB13,943,700,000 (31 December 2014: RMB11,313,973,000). Management monitors regularly the Group's current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amounts of committed banking facilities to meet its working capital requirements. The amount of undrawn credit facilities at the end of each reporting period are disclosed in Note 29(e) to the financial statements. The directors believe that the Group's current operating cash flows and credit facilities are sufficient for financing its capital commitments in the near future and for working capital purposes.

Notes to the Financial Statements

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2015				Total RMB'000
	Within 1 year RMB'000	1 to2 years RMB'000	2 to5 years RMB'000	Over 5 years RMB'000	
Interests-bearing bank and other loans	4,804,699	2,447,970	853,196	–	8,105,865
Accounts and notes payable	16,583,990	–	14,039	–	16,598,029
Other payables and accruals	6,950,930	–	–	–	6,950,930

	2014				Total RMB'000
	Within 1 year RMB'000	1 to2 years RMB'000	2 to5 years RMB'000	Over 5 years RMB'000	
Interests-bearing bank and other loans	6,026,434	656,247	1,295,048	61,266	8,038,995
Accounts and notes payable	15,049,990	–	14,087	–	15,064,077
Other payables and accruals	1,600,814	–	–	–	1,600,814

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may consider the macro economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generating from operations and may raise funding through capital market or bank loans as necessary.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total loans divided by total assets as shown in the consolidated statement of financial position.

Notes to the Financial Statements

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The gearing ratios at 31 December 2015 and at 31 December 2014 were as follows:

	2015 RMB'000	2014 RMB'000
Total loans (Note 29)	7,855,003	7,418,087
Total assets	60,649,704	54,721,833
Gearing ratio	13%	14%

43. EVENTS AFTER THE REPORTING PERIOD

- (a) On 10 March 2016, the Company entered into a supplementary agreement to the equity acquisition and share issuance agreement with AVIC, pursuant to which, the consideration for the acquisition of 100% equity interest in China Aviation Planning and Design Institute Co., Ltd. ("AVIC Planning") has been confirmed by the state-owned assets supervision and administration authorities as RMB2,173,281,600 and the number of consideration shares to be issued by the Company to AVIC has been adjusted from approximately 489,592,000 shares to 491,692,669 shares at the issue price of RMB4.42 per consideration share.
- (b) On 26 January 2016, Jiangxi Hongdu Aviation Industry Co., Ltd. issued its first tranche of the Medium-term Notes with a principal amount of RMB1,000,000,000 bearing an annual interest rate of 3.52% and will mature on 28th January 2019. On 25 March 2016, Jiangxi Hongdu Aviation Industry Co., Ltd. issued its second tranche of the Medium-term Notes with a principal amount of RMB900,000,000 bearing an annual interest rate of 3.20% and will mature on 25th March 2019.

44. COMPARATIVE AMOUNTS

As further explained in Note 2.2 to the financial statements, due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosures.

Notes to the Financial Statements

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2015 RMB'000	31 December 2014 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	17,631	18,248
Investment properties	21,774	–
Intangible assets	1,992	969
Interests in subsidiaries	5,383,893	5,364,011
Interests in associates	45,600	–
Available-for-sale financial assets	644,758	465,124
Deferred income tax assets	1,417	–
Prepayments, deposits and other receivables	908	50,000
Total non-current assets	6,117,973	5,898,352
CURRENT ASSETS		
Accounts receivable	1,780	–
Advance to suppliers	13,600	10,908
Other receivables and prepayments	239,886	22,701
Term deposits with initial term of over three months	–	1,724,002
Cash and cash equivalents	1,945,485	471,741
Total current assets	2,200,751	2,229,352
TOTAL ASSETS	8,318,724	8,127,704

Notes to the Financial Statements

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	31 December 2015	31 December 2014
	RMB'000	RMB'000
CURRENT LIABILITIES		
Other payables and accruals	228,607	39,770
Amounts payable to the ultimate holding company	–	212,600
Tax payable	13,246	–
Total current liabilities	241,853	252,370
NON-CURRENT LIABILITIES		
Deferred tax liabilities	37,214	13,485
Total non-current liabilities	37,214	13,485
TOTAL LIABILITIES	279,067	265,855
Net assets	8,039,657	7,861,849
EQUITY		
Share capital	5,474,429	5,474,429
Reserves (Note)	2,565,228	2,387,420
Total equity	8,039,657	7,861,849

Notes to the Financial Statements

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: A summary of the Company's reserves is as follows:

	Shares held for restricted share scheme RMB'000	Capital reserve RMB'000	Share-based compensation reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	(43,323)	1,947,445	21,870	76,808	98,844	285,776	2,387,420
Profit for the year	-	-	-	-	-	131,771	131,771
Other comprehensive income for the year, net of tax	-	-	-	134,073	-	-	134,073
Total comprehensive income for the year	-	-	-	134,073	-	131,771	265,844
Shares vested under a share scheme							
– Funded by the Company	23,299	-	(23,299)	-	-	-	-
– Funded by scheme participants	20,024	-	-	-	-	-	20,024
Value of employee services under a share scheme	-	-	1,429	-	-	-	1,429
2014 final dividend	-	-	-	-	-	(109,489)	(109,489)
Transfer to statutory surplus reserve	-	-	-	-	13,177	(13,177)	-
At 31 December 2015	-	1,947,445	-	210,881	112,021	294,881	2,565,228

	Shares held for restricted share scheme RMB'000	Capital reserve RMB'000	Share-based compensation reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2014	(88,501)	1,948,436	38,094	-	84,189	263,367	2,245,585
Profit for the year	-	-	-	-	-	146,553	146,553
Other comprehensive income for the year, net of tax	-	-	-	76,808	-	-	76,808
Total comprehensive income for the year	-	-	-	76,808	-	146,553	223,361
Shares vested under a share scheme							
– Funded by the Company	24,296	-	(24,296)	-	-	-	-
– Funded by scheme participants	20,882	-	-	-	-	-	20,882
Value of employee services under a share scheme	-	-	8,072	-	-	-	8,072
2013 final dividend	-	-	-	-	-	(109,489)	(109,489)
Transfer to statutory surplus reserve	-	-	-	-	14,655	(14,655)	-
Others	-	(991)	-	-	-	-	(991)
At 31 December 2014	(43,323)	1,947,445	21,870	76,808	98,844	285,776	2,387,420

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2016.

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings indicated.

“Airbus Helicopters”	Airbus Helicopters, a subsidiary of Airbus Group and formerly known as Eurocopter
“AMES”	AVIC Electromechanical Systems Company Limited (中航機電系統有限公司), a wholly-owned subsidiary of AVIC
“Articles of Association”	Articles and Association of the Company (as amended from time to time)
“AVIC”	Aviation Industry Corporation of China (中國航空工業集團公司), a controlling shareholder of the Company holding directly and indirectly 54.85% equity interest of the Company as at 31 December 2015
“AVICOPTER”	AVICOPTER PLC (中航直升機股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 28.21% of its interests being held by the Company through Harbin Aviation Group and 6.45% of its interests being directly held by the Company
“AVIC Aircraft”	AVIC Aircraft Co., Ltd. (中航飛機股份有限公司), whose shares are listed on the Shanghai Stock Exchange, a subsidiary of AVIC
“AVIC Avionics”	China Avionics Systems Co., Ltd., (中航航空電子系統股份有限公司) a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange with 43.22% of its equity interest being held by the Company as at 31 December 2015
“AVIC Avionics Systems”	AVIC Avionics Systems Co., Ltd., (中航航空電子系統有限責任公司), a wholly-owned subsidiary of AVIC
“AVIC Capital”	AVIC Capital Co., Ltd. (中航資本控股股份有限公司), whose A shares are listed on the Shanghai Stock Exchange, is a subsidiary of AVIC
“AVIC Finance”	Aviation Industry Corporation Finance Company Limited (中航工業集團財務有限責任公司), a subsidiary of AVIC
“AVIC Forstar”	AVIC Forstar S&T Company Limited. (中航富士達科技股份有限公司), with 58.18% of its interests being held by JONHON Optronic

Definitions

“AVIC Huiyang”	Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司), a wholly-owned subsidiary of AVICOPTER
“AVIC Group”	AVIC and its subsidiaries (excluding the Group)
“AVIC I”	China Aviation Industry Corporation I (中國航空工業第一集團公司), the predecessor of AVIC
“AVIC II”	China Aviation Industry Corporation II (中國航空工業第二集團公司), a former controlling shareholder of the Company and the predecessor of AVIC
“AVIC Kaitian”	Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), which is held as to 86.74% by and a subsidiary of AVIC Avionics, and held as to 1.56% by the Company directly
“AVIC Lanfei”	Lanzhou Flight Control Co., Ltd., (蘭州飛行控制有限責任公司), a wholly-owned subsidiary of AVIC Avionics
“AVIC Planning”	China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究總院有限公司), a wholly-owned subsidiary of AVIC
“AviChina”, “the Company”	AviChina Industry & Technology Company Limited (中國航空科技工業股份有限公司), a joint stock limited company established in the PRC with limited liability on 30 April 2003
“AviChina Hong Kong”	AviChina Hong Kong Limited (中航科工香港有限公司), a wholly-owned subsidiary of AviChina
“Board” or “Board of Directors”	the board of directors of the Company
“CAPMC”	China Aviation Publishing & Media Co., Ltd. (中航出版傳媒有限責任公司), which is held as to 53.63% by and a subsidiary of the Company
“Changfeng Avionics”	Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司), a wholly-owned subsidiary of AVIC Avionics
“Changhe Aviation”	Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司), a wholly-owned subsidiary of AVICOPTER
“Chengdu Aircraft Group”	AVIC Chengdu Aircraft Industrial (Group) Co., Ltd. (成都飛機工業(集團)有限責任公司), a wholly-owned subsidiary of AVIC

“Directors”	the director(s) of the Company
“Domestic Shares”	ordinary shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi by PRC nationals and/or PRC corporate entities
“Former AVIC”	Aviation Industry of China Corporation (中國航空工業總公司), the predecessor of AVIC I and AVIC II
“Group”, “the Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign invested shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are traded in Hong Kong dollars and listed on the Stock Exchange
“Harbin Aviation”	Harbin Hafei Aviation Industry Limited Liability Company (哈爾濱哈飛航空工業有限責任公司), a wholly-owned subsidiary of AVICOPTER
“Harbin Embraer”	Harbin Embraer Aircraft Industry Co., Ltd. (哈爾濱安博威飛機工業有限公司), in which the Company indirectly held 49% equity interest
“Harbin Aviation Group”	Harbin Aviation Industry (Group) Co., Ltd. (哈爾濱航空工業(集團)有限公司), a wholly-owned subsidiary of the Company
“Helicopter Tianjin”	Tianjin Helicopter Company Limited (天津直升機有限責任公司), a wholly-owned subsidiary of AVICOPTER
“Hongdu Aviation”	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 43.77% of its interests being held by the Company
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Jingdezhen Helicopter R&D Branch”	AVIChina Industry and Technology Company Limited Jingdezhen Helicopter Research and Development Branch (中國航空科技工業股份有限公司景德鎮直升機研發分公司)
“JONHON Optronic”	China Aviation Optical-Electrical Technology Co., Ltd., (中航光電科技股份有限公司), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, with 41.57% of its equity interest held by the Company

Definitions

“Keeven Instrument”	Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics
“Lanzhou Aviation Electrical”	Lanzhou Wanli Aviation Electrical Co., Ltd. (蘭州萬里航空機電有限責任公司), a wholly-owned subsidiary of AVIC Avionics
“Oriental Instrument”	Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司), a wholly-owned subsidiary of AVIC Avionics
“Qianshan Avionics”	AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司), a wholly-owned subsidiary of AVIC Avionics
“Restricted Shares”	the H Shares granted/to be granted under the Scheme and has the meanings ascribed to such term in the Scheme
“Incentive Scheme”	the restricted share incentive scheme adopted by the Company at the extraordinary general meeting of the Company held on 29 March 2011
“Shaanxi Baocheng”	Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀錶有限責任公司), a wholly-owned subsidiary of AVIC Avionics
“Shaanxi Huayan”	AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司), a subsidiary of AVIC Avionics with 80% equity interests held
“Shanghai Aviation Electric”	Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司), a wholly-owned subsidiary of AVIC Avionics
“Shares”	Domestic Shares and H Shares
“Shenyang Aircraft Group”	AVIC Shenyang Aircraft Industrial (Group) Co., Ltd. (沈陽飛機工業(集團)有限責任公司), a subsidiary of AVIC
“Shenyang Xinghua”	AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (沈陽興華航空電器有限責任公司), which is held as to 62.87% by and a subsidiary of JONHON Optronic
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisors”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company

Definitions

“Taiyuan Instrument”	AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics
“the PRC”	People’s Republic of China
“Tianjin Aviation”	Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司), a wholly-owned subsidiary of the Company
“Trainer”	aeroplanes designed and used for pilot training purposes
“Xiangtong Photoelectric”	Shenzhen Xiangtong Photo electric Technology Co., Ltd. (深圳市翔通光電技術有限公司), with 51% of its interests being held by JONHON Optronics

Corporate Information

BOARD OF DIRECTORS

Executive Director (Chairman)	Lin Zuoming
Executive Director (Vice Chairman)	Tan Ruisong
Non-Executive Director	Gu Huizhong
Non-Executive Director	Gao Jianshe
Non-Executive Director	Guo Chongqing
Non-Executive Director	Maurice Savart
Independent Non-Executive Director	Lau Chung Man, Louis
Independent Non-Executive Director	Liu Renhuai
Independent Non-Executive Director	Yeung Jason Chi Wai

SUPERVISORS

Chairman of the Supervisory Committee	Chen Guanjun
Supervisor	Liu Fumin
Supervisor	Li Jing

SENIOR MANAGEMENT

General Manager	Tan Ruisong
Vice General Manager	Chen Yuanxian
	Zhang Kunhui
	Lv Jie
Company Secretary	Yan Lingxi

THE LEGAL NAME OF THE COMPANY

中國航空科技工業股份有限公司	
AviChina Industry & Technology Company Limited	
Abbreviation name in Chinese:	中航科工
Abbreviation name in English:	AVICHINA
Legal representative:	Lin Zuoming

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2202A, 22th Floor, Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong

AUTHORISED REPRESENTATIVES

Tan Ruisong

Yan Lingxi

PRINCIPAL BANKERS

Shanghai Pudong Development Bank Limited
No.12, Zhongshan Dong Yi Road,
Shanghai, the PRC

Bank of Communications Co., Ltd.
No. 188 Yin Cheng Zhong Road,
Pudong New District,
Shanghai, the PRC

China Minsheng Banking Corp., Ltd.
No. 2 Fuxingmennei Street,
Xicheng District,
Beijing, the PRC

Bank of China Limited
No.1 Fuxingmennei Street,
Xicheng District,
Beijing, the PRC

PLACE OF LISTING, STOCK NAME AND STOCK CODE

Main Board of The Stock Exchange of Hong Kong Limited
(H Shares)

Stock Name: AVICHINA

Stock Code: 2357

REGISTERED ADDRESS

8th Floor, Tower 2, No. 5A Rongchang East Street,
Beijing Economic Technological Development Area,
Beijing, the PRC

WEBSITE

www.avichina.com

Corporate Information

CORRESPONDENCE ADDRESS

Postal Code: 100007
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SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Room 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2015 will be held at 9:00 a.m. on Friday, 27 May 2016 at AVIC Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC.

AUDITORS

International Auditors

Ernst & Young
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Auditors in the PRC

Ernst & Young Hua Ming LLP
Level 15, Ernst & Young Tower, Oriental plaza
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Dong Cheng District,
Beijing, the PRC

LEGAL ADVISERS

As to Hong Kong law

Baker & McKenzie
14th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong

As to PRC law

Beijing Jingtian & Gongcheng Law Firm
34th Floor, Tower 3, China Central Place,
77 Jianguo Road, Chaoyang District,
Beijing, the PRC