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中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

**Announcement on the Annual Results for the Year Ended
31 December 2016; and
Proposed Change of Non-executive Directors**

Financial Highlights

- Revenue of the Group for the year 2016 amounted to RMB36,628 million, representing an increase of 38.70% as compared with that in the corresponding period of the preceding year (before restated) and an increase of 6.40% as compared with that in the corresponding period of the preceding year (as restated).
- Profit attributable to equity holders of the Company for the year 2016 amounted to RMB1,119 million, representing an increase of 29.66% as compared with that in the corresponding period of the preceding year (before restated) and a decrease of 2.10% as compared with that in the corresponding period of the preceding year (as restated).
- The Board recommended the payment of a final dividend for the year 2016 in an aggregate amount of RMB119,322,436.72, representing a dividend of RMB0.02 per share (RMB0.02 per share for the year 2015), calculated based on the existing number of the total issued shares of 5,966,121,836 shares as at the date of this announcement.

ANNUAL RESULTS

The board of directors (the “**Board**”) of AviChina Industry & Technology Company Limited (the “**Company**”) announces the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2016, together with the comparative figures for the year 2015, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (Restated)
REVENUE	4	36,627,771	34,424,049
Cost of sales		<u>(29,664,430)</u>	<u>(27,736,041)</u>
Gross profit		6,963,341	6,688,008
Other income and gains	4	325,825	404,321
Other expenses		<u>(63,775)</u>	<u>(80,986)</u>
Other income and gains, net		262,050	323,335
Selling and distribution expenses		(573,050)	(551,494)
Administrative expenses		<u>(3,921,305)</u>	<u>(3,716,387)</u>
OPERATING PROFIT		2,731,036	2,743,462
Finance income		211,768	244,142
Finance costs		<u>(464,621)</u>	<u>(490,096)</u>
Finance costs, net	6	(252,853)	(245,954)
Share of profits of:			
Joint ventures		28,262	20,848
Associates		<u>98,549</u>	<u>127,649</u>
PROFIT BEFORE TAX	5	2,604,994	2,646,005
Income tax expenses	7	<u>(352,743)</u>	<u>(427,898)</u>
PROFIT FOR THE YEAR		<u>2,252,251</u>	<u>2,218,107</u>
Attributable to:			
Equity holders of the Company		1,118,961	1,142,886
Non-controlling interests		<u>1,133,290</u>	<u>1,075,221</u>
		<u>2,252,251</u>	<u>2,218,107</u>

	<i>Notes</i>	2016 RMB	2015 RMB
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic			
- For profit for the year	9	<u>0.188</u>	<u>0.192</u>
Diluted			
- For profit for the year	9	<u>0.188</u>	<u>0.192</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
PROFIT FOR THE YEAR	2,252,251	2,218,107
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/loss to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(370,368)	557,974
Reclassification adjustments for gains included in the consolidated statement of profit or loss - gain on disposal	(38,512)	(28,992)
Income tax effect	61,332	(79,347)
	<u>(347,548)</u>	<u>449,635</u>
Exchange differences on translation of foreign operations	<u>11,638</u>	<u>10,508</u>
Net other comprehensive income/loss to be reclassified to profit or loss in subsequent periods	<u>(335,910)</u>	<u>460,143</u>
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Loss on a defined benefit scheme	<u>(43,015)</u>	<u>(74,689)</u>
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	<u>(43,015)</u>	<u>(74,689)</u>
OTHER COMPREHENSIVE INCOME/LOSS FOR THE YEAR, NET OF TAX	<u>(378,925)</u>	<u>385,454</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>1,873,326</u></u>	<u><u>2,603,561</u></u>
Attributable to:		
Equity holders of the Company	908,261	1,390,442
Non-controlling interests	<u>965,065</u>	<u>1,213,119</u>
	<u><u>1,873,326</u></u>	<u><u>2,603,561</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	<i>Notes</i>	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		12,395,357	11,549,435
Investment properties		301,877	346,024
Land use rights		1,704,798	1,639,197
Goodwill		69,188	69,188
Other intangible assets		118,709	138,928
Investments in joint ventures		95,200	75,121
Investments in associates		839,427	838,816
Available-for-sale investments		1,477,284	1,956,185
Deferred tax assets		231,356	207,003
Prepayments, deposits and other receivables		638,067	343,168
		<hr/>	<hr/>
Total non-current assets		17,871,263	17,163,065
CURRENT ASSETS			
Inventories		21,652,915	19,908,387
Accounts and notes receivable	<i>10</i>	16,147,794	15,293,210
Prepayments, deposits and other receivables		3,288,497	2,594,120
Financial assets held for trading		31,057	38,530
Pledged deposits		1,035,307	1,728,065
Term deposits with initial terms of over three months		709,047	851,160
Cash and cash equivalents		8,772,885	9,535,436
		<hr/>	<hr/>
Total current assets		51,637,502	49,948,908
		<hr/>	<hr/>
TOTAL ASSETS		69,508,765	67,111,973

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2016

	<i>Notes</i>	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
CURRENT LIABILITIES			
Accounts and notes payable	<i>11</i>	23,953,202	21,417,999
Other payables and accruals		6,247,523	9,613,230
Interest-bearing bank and other borrowings		4,336,590	4,668,282
Tax payable		252,200	269,373
Total current liabilities		<u>34,789,515</u>	<u>35,968,884</u>
NET CURRENT ASSETS		<u>16,847,987</u>	<u>13,980,024</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>34,719,250</u>	<u>31,143,089</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		4,374,148	3,233,391
Deferred income from government grants		869,321	849,189
Deferred tax liabilities		117,595	184,506
Other payables and accruals		1,021,531	456,444
Total non-current liabilities		<u>6,382,595</u>	<u>4,723,530</u>
TOTAL LIABILITIES		<u>41,172,110</u>	<u>40,692,414</u>
Net assets		<u>28,336,655</u>	<u>26,419,559</u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		5,966,122	5,474,429
Reserves		7,433,659	7,185,265
		13,399,781	12,659,694
Non-controlling interests		<u>14,936,874</u>	<u>13,759,865</u>
Total equity		<u>28,336,655</u>	<u>26,419,559</u>

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the preliminary announcement of the Group's results for the year ended 31 December 2016 has been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

AviChina Industry & Technology Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on 30 April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation of China Aviation Industry Corporation II (“AVIC II”). AVIC II merged with China Aviation Industry Corporation I (“AVIC I”) to form Aviation Industry Corporation of China (“AVIC”) on 6 November 2008, and AVIC became the holding company of the Company thereafter. The Company’s H shares were listed on the 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 and the delivery of aviation engineering services such as planning, design, consultation, construction and operation.

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

2.1 BASIS OF PREPARATION

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.

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

On 30 September 2015 and 10 March 2016, the Company entered into an Equity Transfer Agreement, a Supplementary Agreement and a Share Issuance Agreement (collectively “the Agreements”) with its parent company AVIC to acquire 100% of the equity interest of AVIC Planning at the consideration of RMB2,173,281,600. The number of consideration shares issued by the Company to AVIC was 491,692,669 shares at the issue price of RMB4.42 per consideration share. AVIC Planning is a subsidiary of AVIC. It is controlled by AVIC before and after the combination, and that control is not temporary. Therefore the business combination is involving entities under common control. In accordance with the Agreements, the consideration shares were fully issued by the Company on 28 June 2016, and on the same date the Company obtained the control over AVIC Planning. 28 June 2016 is determined to be the date of acquisition.

Given that AVIC Planning is under common control of AVIC before and after the business combination, and that control is not temporary, the Company applied the principles of merger accounting in preparing these consolidated financial statements of the Company.

By applying the principles of merger accounting, these consolidated financial statements of the Company also included the financial position, profit or loss, comprehensive income and cash flows of AVIC Planning as if it had been combined with the Group throughout the year ended 31 December 2015, and from the earliest date presented. Comparative figures as at 31 December 2015 and for the year then ended have been restated as a result of such. All intra-group transactions and balances have been eliminated on consolidation.

The quantitative impact on the financial statements is summarised below:

(i) The consolidated statement of profit or loss for the year ended 31 December 2015

	As previously reported <i>RMB '000</i>	Merger of AVIC Planning <i>RMB '000</i>	Elimination of inter-company transactions <i>RMB '000</i>	As restated <i>RMB '000</i>
Revenue	26,408,437	8,677,565	(661,953)	34,424,049
Profit for the year	1,937,757	315,074	(34,724)	2,218,107

(ii) The consolidated statement of comprehensive income for the year ended 31 December 2015

	As previously reported <i>RMB '000</i>	Merger of AVIC Planning <i>RMB '000</i>	Elimination of inter-company transactions <i>RMB '000</i>	As restated <i>RMB '000</i>
Total comprehensive income for the year	2,323,189	315,096	(34,724)	2,603,561

(iii) The consolidated statement of financial position as at 31 December 2015

	As previously reported <i>RMB '000</i>	Merger of AVIC Planning <i>RMB '000</i>	Elimination of inter-company balances <i>RMB '000</i>	As restated <i>RMB '000</i>
Total non-current assets	16,094,678	702,070	366,317	17,163,065
Total current assets	44,555,026	6,190,131	(796,249)	49,948,908
Total non-current liabilities	4,279,324	444,206	-	4,723,530
Total current liabilities	30,611,326	5,719,640	(362,082)	35,968,884
Total equity	25,759,054	728,355	(67,850)	26,419,559

(iv) The consolidated statement of cash flows for the year ended 31 December 2015

	As previously reported <i>RMB'000</i>	Merger of AVIC Planning <i>RMB'000</i>	As restated <i>RMB'000</i>
Cash and cash equivalents at beginning of year	5,797,986	847,435	6,645,421
Net cash flows from/(used in) operating activities	1,617,435	(163,945)	1,453,490
Net cash flows from investing activities	1,367,800	60,367	1,428,167
Net cash flows from/(used in) financing activities	155,947	(146,843)	9,104
Effect of foreign exchange rate changes, net	(746)	-	(746)
Cash and cash equivalents as stated in the statement of financial position	8,938,422	597,014	9,535,436

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
Annual Improvements 2012-2014 Cycle	<i>Amendments to a number of IFRSs</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>

The adoption of the above new and revised standards has had no significant financial effect on 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.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions²</i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts²</i>
IFRS 9	<i>Financial Instruments²</i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture⁴</i>
IFRS 15	<i>Revenue from Contracts with Customers²</i>
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers²</i>
IFRS 16	<i>Leases³</i>
Amendments to IAS 7	<i>Disclosure Initiative¹</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses¹</i>
Amendments to IAS 40	<i>Transfers of Investment Property²</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration²</i>
Annual Improvements 2014–2016 Cycle	<i>Amendments to a number of IFRSs⁵</i>

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

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ No mandatory effective date yet determined but available for adoption

⁵ Annual Improvements 2014-2016 Cycle has amendments to three standards. Amendments to IFRS 12 will be effective for annual periods beginning on or after 1 January 2017. Amendments to IFRS 1 and Amendments to IAS 28 will be effective for annual periods beginning on or after 1 January 2018

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.

3. OPERATING SEGMENT INFORMATION

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

The Executive Directors classifies the business into three reportable segments:

- Manufacturing, assembly, sales and servicing of helicopters, trainers and other aircraft ("Aviation entire aircraft") .
- Manufacturing and sale of aviation parts and components ("Aviation parts and components") .
- Delivery of aviation engineering services such as planning, design, consultation, construction and operation ("Aviation engineering services") .

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

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

Year ended 31 December 2016	Aviation entire aircraft <i>RMB'000</i>	Aviation parts and components <i>RMB'000</i>	Aviation engineering services <i>RMB'000</i>	Total <i>RMB'000</i>
Segment Revenue:				
Sales to external customers	11,149,053	17,067,810	8,410,908	36,627,771
Intersegment sales				<u>1,960,610</u>
				38,588,381
<i>Reconciliation:</i>				
Elimination of intersegment operations				<u>(1,960,610)</u>
Revenue				<u><u>36,627,771</u></u>
Segment results	536,848	2,041,222	321,273	2,899,343
<i>Reconciliation:</i>				
Interest income				211,768
Corporate and other unallocated expenses				(41,496)
Finance costs				<u>(464,621)</u>
Profit before tax				<u><u>2,604,994</u></u>
Segment assets	28,031,082	33,476,440	9,866,710	71,374,232
<i>Reconciliation:</i>				
Elimination of intersegment receivables				<u>(1,865,467)</u>
Total assets				<u><u>69,508,765</u></u>
Segment liabilities	16,111,296	17,970,048	8,956,233	43,037,577
<i>Reconciliation:</i>				
Elimination of intersegment payables				<u>(1,865,467)</u>
Total liabilities				<u><u>41,172,110</u></u>

Year ended 31 December 2016	Aviation entire aircraft <i>RMB'000</i>	Aviation parts and components <i>RMB'000</i>	Aviation engineering services <i>RMB'000</i>	Total <i>RMB'000</i>
Other segment information:				
Share of profits and losses of :				
Joint ventures	-	28,252	10	28,262
Associates	(27,462)	128,390	(2,379)	98,549
Impairment losses recognised in the statement of profit or loss	41,429	244,119	30,889	316,437
Other non-cash expenses	142,163	-	-	142,163
Depreciation and amortisation	385,753	546,515	35,819	968,087
Investments in joint ventures	-	87,680	7,520	95,200
Investments in associates	447,971	386,217	5,239	839,427
Capital expenditure*	648,583	1,057,087	182,224	1,887,894

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

Year ended 31 December 2015	Aviation entire aircraft RMB '000 (Restated)	Aviation parts and components RMB '000 (Restated)	Aviation engineering services RMB '000 (Restated)	Total RMB '000 (Restated)
Segment Revenue:				
Sales to external customers	11,573,420	14,596,362	8,254,267	34,424,049
Intersegment sales				<u>2,258,104</u>
				36,682,153
<i>Reconciliation:</i>				
Elimination of intersegment operations				<u>(2,258,104)</u>
Revenue				<u>34,424,049</u>
Segment results	623,388	1,997,833	313,109	2,934,330
<i>Reconciliation:</i>				
Interest income				244,142
Corporate and other unallocated expenses				(42,371)
Finance costs				<u>(490,096)</u>
Profit before tax				<u>2,646,005</u>
Segment assets	29,966,940	31,016,508	7,594,245	68,577,693
<i>Reconciliation:</i>				
Elimination of intersegment receivables				<u>(1,465,720)</u>
Total assets				<u>67,111,973</u>
Segment liabilities	18,332,961	16,804,723	7,020,450	42,158,134
<i>Reconciliation:</i>				
Elimination of intersegment payables				<u>(1,465,720)</u>
Total liabilities				<u>40,692,414</u>

Year ended 31 December 2015	Aviation entire aircraft <i>RMB'000</i> (Restated)	Aviation parts and components <i>RMB'000</i> (Restated)	Aviation engineering services <i>RMB'000</i> (Restated)	Total <i>RMB'000</i> (Restated)
Other segment information:				
Share of profits and losses of :				
Joint ventures	-	20,789	59	20,848
Associates	(322)	130,549	(2,578)	127,649
Impairment losses recognised in the statement of profit or loss				
	157,812	120,283	33,662	311,757
Other non-cash expenses	123,572	3,730	-	127,302
Depreciation and amortisation				
	394,614	519,711	42,996	957,321
Investments in joint ventures	-	67,612	7,509	75,121
Investments in associates	529,715	301,483	7,618	838,816
Capital expenditure*	923,419	1,087,667	212,111	2,223,197

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

	2016	2015
	RMB'000	RMB'000
		(Restated)
<u>Revenue</u>		
Sale of goods	29,051,224	25,979,837
Rendering of services	7,576,547	8,444,212
	36,627,771	34,424,049
<u>Other income</u>		
Income from sale of materials	367,395	293,840
Cost of sale of materials	(321,114)	(265,452)
Profit from sale of materials	46,281	28,388
Income from rendering of maintenance and other services	99,061	99,775
Dividend income	21,841	28,333
Net rental income	11,633	16,059
	178,816	172,555
<u>Gains</u>		
Fair value gains, net:		
Financial assets held for trading	6,529	-
Foreign exchange gains, net	29,240	7,489
Default fine	18,323	9,986
Gain on exchange of non-monetary assets	10,219	-
Gain on disposal of:		
Available-for-sale investments	40,347	185,778
Interests in associates	9	-
Financial assets held for trading	731	6,425
Interest in a subsidiary	-	7,368
Others	41,611	14,720
Other income and gains	325,825	404,321
	36,953,596	34,828,370

5. PROFIT BEFORE TAX

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

	2016	2015
	RMB'000	RMB'000
		(Restated)
Cost of inventories sold	22,978,604	20,437,392
Cost of services provided	6,685,826	7,298,649
Depreciation		
Investment properties	7,493	3,184
Property, plant and equipment	883,461	894,953
Less: Amortisation of deferred income from government grants	(98,490)	(39,691)
	792,464	858,446
Amortisation		
Land use rights	54,792	31,722
Intangible assets	22,341	27,462
Research and development costs		
Current year expenditure	2,233,312	2,079,648
Less: Government grants released*	(753,785)	(663,514)
	1,479,527	1,416,134
Auditor's remuneration	8,525	9,823
Employee benefit expense (including directors' and supervisors' remuneration)		
Wages, salaries, housing benefits and other allowances	5,364,763	4,879,790
Share-based payment expense	-	1,429
Pension scheme contributions	859,735	724,685
Foreign exchange differences, net	(29,240)	(7,489)
Impairment of:		
An investment in an associate	-	467
Available-for-sale investments	24,948	10,153
Accounts receivable and prepayments, deposits and other receivables	117,364	160,340
Property, plant and equipment	245	12,899
Write-down of inventories to net realisable value	173,880	127,898

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

6. FINANCE COSTS, NET

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
Finance income:		
Bank interest income	201,417	232,640
Other interest income	10,351	11,502
	211,768	244,142
Finance costs:		
Interest on bank borrowings and other borrowings	431,000	440,899
Interest on finance leases	250	368
Total interest expense	431,250	441,267
Less: Interest capitalised	(29,442)	(32,480)
Other financial costs	62,813	81,309
	464,621	490,096
Finance costs, net	(252,853)	(245,954)

7. INCOME TAX EXPENSES

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2015:15%), 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% (2015: 25%) on the assessable income of respective entities in the Group.

	2016. <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
Current income tax	382,676	425,679
Deferred income tax	(29,933)	2,219
Total tax charge for the year	352,743	427,898

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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
Profit before tax	<u>2,604,994</u>	<u>2,646,005</u>
Tax at the statutory tax rate of 25%	651,249	661,501
Lower tax rate(s) for specific provinces or enacted by local authorities	(310,674)	(244,347)
Profits and losses attributable to joint ventures and associates	(31,703)	(37,124)
Income not subject to tax	(22,764)	(17,548)
Expenses not deductible for tax	36,549	45,320
Tax losses utilised from previous periods	(6,100)	(1,307)
Tax losses not recognised	31,466	13,806
Others	<u>4,720</u>	<u>7,597</u>
Tax charge at the Group's effective rate	<u>352,743</u>	<u>427,898</u>

8. DIVIDENDS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Proposed:		
Final dividend, proposed of RMB0.02 (2015 RMB0.02) per share	<u>119,322</u>	<u>109,489</u>

The proposed final dividend is proposed by the directors at a meeting held on the date of approval of these financial statements, and is subject to the approval of the Company's shareholders at the following annual general meeting.

This dividend was not recognised as a payable in the consolidated financial statements for the year ended 31 December 2016 but will be reflected as an appropriation of retained earnings for the year ending 31 December 2017.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 5,966,121,836 (2015:5,963,258,214) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2016.

The calculation of the diluted earnings per share amount is based on the profit for the year ended 31 December 2015 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 ended 31 December 2015, 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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	1,118,961	1,142,886
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (thousands)	5,966,122	5,963,258
Potential dilutive effect arising from restricted shares (thousands)	-	1,672
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation (thousands)	<u>5,966,122</u>	<u>5,964,930</u>

10. ACCOUNTS AND NOTES RECEIVABLE

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Accounts receivable		
- Ultimate holding company	4,310	5,618
- Fellow subsidiaries	5,961,059	7,693,114
- A joint venture	259	94
- Associates	26,523	36,395
- Other related party	-	2,766
- Others	6,686,343	5,332,658
	<hr/>	<hr/>
Accounts receivable, gross	12,678,494	13,070,645
Provision for impairment	(664,157)	(572,318)
	<hr/>	<hr/>
Accounts receivable, net	12,014,337	12,498,327
Notes receivable		
- Fellow subsidiaries	2,191,714	1,561,469
- A joint venture	1,034	950
- Others	1,940,709	1,232,464
	<hr/>	<hr/>
	4,133,457	2,794,883
	<hr/>	<hr/>
Accounts and notes receivable	16,147,794	15,293,210

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

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

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Within 1 year	9,735,933	10,861,250
1 to 2 years	1,788,223	1,352,485
2 to 3 years	376,470	194,697
Over 3 years	113,711	89,895
	<u>12,014,337</u>	<u>12,498,327</u>

11. ACCOUNTS AND NOTES PAYABLE

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Accounts payable (Note(a))		
- Ultimate holding company	138	341
- Fellow subsidiaries	3,037,576	4,740,852
- Joint ventures	8,172	12,231
- Associates	4,492	26,254
- Others	14,747,489	11,620,187
	<u>17,797,867</u>	<u>16,399,865</u>
Notes payable (Note (b))		
- Fellow subsidiaries	1,823,728	2,404,922
- Joint ventures	51,262	12,247
- Associates	600	-
- Others	4,279,745	2,600,965
	<u>6,155,335</u>	<u>5,018,134</u>
	<u>23,953,202</u>	<u>21,417,999</u>

Notes:

- (a) An ageing analysis of the accounts payable as at 31 December 2016 and 2015, based on the invoice date, is as follows:

	31 December 2016 RMB'000	31 December 2015 RMB'000 (Restated)
Within 1 year	13,139,169	12,987,129
1 to 2 years	3,079,340	2,561,982
2 to 3 years	1,178,862	598,989
Over 3 years	400,496	251,765
	<u>17,797,867</u>	<u>16,399,865</u>

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

- (b) The notes payable are with an average maturity period of less than six months. As at 31 December 2016, notes payable of RMB3,360,153,000 (31 December 2015: RMB 3,262,196,000 as restated) were secured by pledged deposits to the extent of RMB1,009,104,000 (2015: RMB1,671,851,000 as restated).

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2016, the financial results of China Aviation Planning and Design Institute Co., Ltd. (“**AVIC Planning**”) as the newly acquired entity by the Group had been consolidated into those of the Group. Pursuant to the relevant regulations and requirements, the corresponding financial data in the corresponding period of last year was restated. Meanwhile, based on the new business portfolio, the business segments of the Group are divided into aviation entire aircraft, aviation parts and components, and aviation engineering services.

For the year ended 31 December 2016, the Group recorded a revenue of RMB36,628 million, representing an increase of RMB10,220 million or 38.70% as compared with that of RMB26,408 million (before restated) in the corresponding period of the preceding year, and an increase of RMB2,204 million or 6.40% as compared with that of RMB34,424 million (as restated) in the corresponding period of last year. Profit attributable to equity holders of the Company for the year 2016 amounted to RMB1,119 million, representing an increase of RMB256 million or 29.66% as compared with that of RMB863 million (before restated) in the corresponding period of last year, and a decrease of RMB24 million or 2.10% as compared with that of RMB1,143 million (as restated) in the corresponding period of last year.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

1 Composition of revenue

The revenue of the Group for 2016 was RMB36,628 million, representing an increase of 6.40% as compared with that of RMB34,424 million in the corresponding period of the preceding year, which was mainly attributable to the growth in the aviation parts and components business of the Group.

The revenue of the Group’s aviation entire aircraft business for 2016 amounted to RMB11,149 million, representing a decrease of RMB424 million or 3.66% as compared with that of RMB11,573 million in the corresponding period of the preceding year, which was mainly attributable to the decrease of the sales volume of helicopter. The revenue of aviation entire aircraft business for 2016 accounted for 30.44% of the total revenue of the Group, representing a decrease of 3.18 percentage points as compared with that in the corresponding period of the preceding year.

The revenue of the Group’s aviation parts and components business amounted to RMB17,068 million, representing an increase of RMB2,471 million or 16.93% as compared with that of RMB14,597 million in the corresponding period of the preceding year, which was attributable to the rapid increase of revenue contributed by China Aviation Optical-Electrical Technology Co., Ltd. (“**JONHON Optronic**”), a subsidiary of the Company. The revenue of aviation parts and components business for 2016 accounted for 46.60% of the total revenue of the Group, representing an increase of 4.20 percentage points as compared with that in the corresponding period of the preceding year.

The revenue of the Group’s aviation engineering services business amounted to RMB8,411 million, representing an increase of RMB157 million or 1.90% as compared with that of RMB8,254 million in the corresponding period of the preceding year. The revenue of aviation engineering services business for 2016 accounted for 22.96% of the total revenue of the Group, representing a decrease of 1.02 percentage points as compared with that in the corresponding period of the preceding year.

The Group mainly conducts its business in Mainland China where its revenue is mainly generated from.

2. Selling and distribution expenses

The Group's selling and distribution expenses for 2016 amounted to RMB573 million, representing an increase of RMB22 million or 3.99% as compared with that of RMB551 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase in sales service expenses of JONHON Optronics along with the increase in its revenue. In 2016, the selling and distribution expenses accounted for 1.56% of the revenue of the Group, staying even with that in the corresponding period of the preceding year.

3 Administrative expenses

The Group's administrative expenses for 2016 amounted to RMB3,921 million, representing an increase of RMB205 million or 5.52% as compared with that of RMB3,716 million in the corresponding period of the preceding year. This was mainly attributable to the enhanced investment in research and development by JONHON Optronics. In 2016, the administrative expenses accounted for 10.70% of the revenue of the Group, representing a decrease of 0.09 percentage point as compared with that in the corresponding period of the preceding year.

4 Operating profit

The operating profit of the Group for 2016 amounted to RMB2,731 million, representing a decrease of RMB12 million or 0.44% as compared with that of RMB2,743 million in the corresponding period of the preceding year. Along with the increase in the Group's revenue, the gross profit of the Group increased correspondingly. However, due to a significant decrease in investment gains generated from disposal of available-for-sale investments during this year, other gains recorded a decrease and eventually the Group's operating profit represented a slight drop.

5 Finance costs, net

The Group's net finance costs in 2016 amounted to RMB253 million, representing an increase of RMB7 million, or 2.85% as compared with that of RMB246 million in the corresponding period of the preceding year. Please refer to note 6 to the financial statements for details.

6 Income tax expense

The Group's income tax expense in 2016 was RMB353 million, representing a decrease of RMB75 million, or 17.52% as compared with that of RMB428 million in the corresponding period of the preceding year. Please refer to note 7 to the financial statements for details.

7 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company amounted to RMB1,119 million in 2016, representing a decrease of RMB24 million, or 2.10% as compared with that of RMB1,143 million in the corresponding period of the preceding year. The profit for the year amounted to RMB 2,252 million representing an increase of 1.53% as compared with that in the corresponding period of the preceding year which was mainly contributed by non-wholly-owned subsidiaries. Meanwhile, the profit for the year of certain wholly-owned subsidiaries recorded a decrease, resulting in the decrease of the profit attributable to equity holders of the Company as compared with that in the corresponding period of the preceding year.

SEGMENT INFORMATION

The Group's business can be divided into three segments, namely the aviation entire aircraft business, the aviation parts and components business and the aviation engineering services business.

THE AVIATION ENTIRE AIRCRAFT BUSINESS

Revenue

The Group's revenue derived from the aviation entire aircraft business for 2016 was RMB11,149 million, representing a decrease of 3.66% as compared with that in the corresponding period of the preceding year. The above revenue includes: (1) the revenue derived from the helicopter business which represented a slight decrease in the sales volume as compared with last year, amounted to RMB9,927 million representing a decrease of RMB661 million or 6.24% as compared with that in the corresponding period of the preceding year, and accounted for 89.04% of the total revenue of the aviation entire aircraft business; (2) the revenue from the trainer aircraft business which represented an increase in the sales volume, amounted to RMB988 million representing an increase of RMB226 million or 29.66% as compared with that in the corresponding period of the preceding year, and accounted for 8.86% of the total revenue of the aviation entire aircraft business; (3) the revenue derived from the general purpose aircraft amounted to RMB234 million, representing an increase of RMB11 million or 4.93% as compared with that in the corresponding period of the preceding year, and accounting for 2.10% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group in 2016 accounted for 30.44% of the Group's total revenue, representing a decrease of 3.18 percentage points as compared with that in the corresponding period of the preceding year.

Gross Profit Margin

The gross profit margin of the Group's aviation entire aircraft business for 2016 was 9.51%, representing a decrease of 2.51 percentage points as compared with that in the corresponding period of the preceding year, as certain products were in the course of trial manufacturing with a comparatively low gross profit margin.

THE AVIATION PARTS AND COMPONENTS BUSINESS

Revenue

The Group's revenue derived from the aviation parts and components business for 2016 was RMB17,068 million, representing an increase of 16.93% as compared with that in the corresponding period of the preceding year. The above revenue includes the revenue derived from the avionics business during the reporting period, which amounted to RMB11,657 million, representing an increase of RMB1,222 million or 11.71% as compared with that in the corresponding period of the preceding year, and accounted for 68.30% of the total revenue of the aviation parts and components business.

The revenue derived from the aviation parts and components business for 2016 accounted for 46.60% of the Group's total revenue, representing an increase of 4.20 percentage points as compared with that in the corresponding period of the preceding year.

Gross Profit Margin

The gross profit margin of the Group's aviation parts and components business for 2016 was 30.37%, representing a decrease of 1.04 percentage points as compared with that in the corresponding period of the preceding year, which was mainly attributable to the variation to the Group's product structure.

THE AVIATION ENGINEERING SERVICES BUSINESS

Revenue

The Group's revenue derived from the aviation engineering services business for 2016 was RMB8,411 million, representing an increase of 1.90% as compared with that in the corresponding period of the preceding year. Such revenue accounted for 22.96% of the Group's total revenue, representing a decrease of 1.02 percentage points as compared with that in the corresponding period of the preceding year.

Gross Profit Margin

The gross profit margin of the Group's aviation engineering services business for 2016 was 8.56%, staying even with that in the corresponding period of the preceding year.

BUSINESS REVIEW AND OUTLOOK

In 2016, the international environment was complicated and severe, many uncertainties existed in the global economy, and accordingly the downward pressure in the Chinese economy had been growing continuously. Facing difficulties and challenges, Aviation Industry Corporation of China ("AVIC"), the controlling shareholder of the Company, persisted in the main principles of focusing on improving quality and efficiency and facilitating the transformation and upgrade, promoted the organization plan of "leaner and healthier", improved the economic returns and efficiency, and accomplished all the tasks.

The Group kept on deepening its understanding of "the New Normal" under economic development to implement the new development concept of innovation, harmonization, green, openness and sharing; continued to optimize strategic deployment and persisted in building up a platform of aviation high-tech industry and related industry in China; proceeded with each business smoothly and steadily and obtained aviation product orders stably; completed the acquisition of the 100% equity interest in AVIC Planning, further extending its business to the front-end engineering services, such as planning, design and consultation services of the aviation manufacturing business.

The Group continued to strengthen the international market exploration, improved its brand awareness internationally, and actively integrated into international industry chain. In the first half of 2016, the Group organized its subsidiaries to attend the 50th Farnborough International Airshow for the first time, to proactively expand the international civil aviation products market, strengthen the co-investment and cooperation with international aviation manufacturers, and build up a platform for further communication with international cooperators.

In 2016, the operation of the helicopter business of the Group kept stable, and the research and development of new models progressed smoothly. AC352 series helicopter successfully completed its maiden flight, filling the gap of lacking 7 ton series civil helicopters in China. AC311 series helicopter completed tasks such as air travel, air patrol, business flight and test flight equipped with medical rescue facilities. AC311A series helicopter, which was researched and developed for plateau area, obtained the type certificate and production certificate issued by Civil Aviation Administration of China (“CAAC”). AC312E, a twin-engine light helicopter, completed its maiden flight and fully came into the flight test stage. AC313 series helicopter accomplished the test flight of emergency floating and air inflation, being the first airworthiness test on water running configuration. Y-12 series aircraft obtained type certificates issued by CAAC and Federal Aviation Administration (“FAA”) successively.

In 2016, the Group continued to manufacture the trainer aircraft and expand the markets steadily. L15 advanced trainer aircraft and K8 trainer aircraft of Jiangxi Hongdu Aviation Industry Co., Ltd. (“**Hongdu Aviation**”) debut on the 9th Africa Aerospace and Defense Airshow, being the first flight show by L15 advanced trainer aircraft in the continent of Africa. The first batch of L15Z were successfully delivered to overseas customers, and 12 CJ6 were manufactured, tested and delivered to overseas customers. As the sole supplier for the fuselage liner part of C919 large commercial aircraft, Hongdu Aviation won the Silver Award for Excellent Suppliers of Commercial Aircraft Corporation of China Ltd once again.

In 2016, the aviation parts and components business of the Group grew remarkably. JONHON Optronic reinforced the technology innovation driven development strategy and continued to bring up new economic growth point, accomplishing several breakthroughs in core connector technologies and continuous expansion in related diversified businesses. 56Gbps high-speed connector project successfully won the bidding for the Foundation Reinforcing Engineering Project of Chinese Industry, whose product technology standard has reached international advanced level. With dedication in technical study, JONHON Optronic achieved breakthroughs successfully in the intelligent automatic fiber distribution technology and accomplishments in 46 automation projects during this year. JONHON Optronic came into the list of global leading suppliers in the communication industry successfully, made breakthrough in the European market for electrical vehicles, and enhanced its international industry impact. China Avionics Systems Co., Ltd vigorously explored markets in general aviation, helicopters, engines, international sub-contracting, etc.. Meanwhile, it made efforts in pushing forward the transformation application of aviation electronics technology and built up the innovation and venture platform for industrial internet, to promote the development of modern scientific service industry and to form the new growth momentum for the Company's strategy. Shanghai Aviation Electric Co., Ltd. explored the laser projector markets including R&D, manufacture and sales by applying its derivative technology in aviation lighting, and the Guohua series laser projectors and several relevant resolutions made stunning debut on the 11th China International Aviation & Aerospace Exhibition in 2016.

In 2016, through acquisition of AVIC Planning, the aviation engineering services business was included in the Group's business as a new business. AVIC Planning has been actively promoting the transformation from general management contract to Engineering Procurement Construction ("EPC"), exploring for a mode and path for integrated development of industry and capital in its advantageous business, promoting the implementation of new business models such as BOT ("Build-Operate-Transfer") and PPP ("Public—Private—Partnership").

In 2016, the Company participated in the capital contribution to the establishment of AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (“**AviChina Intelligent Surveying & Mapping**”), to promote the application of UAVs(unmanned aviation vehicle) and the aviation industry to develop towards intelligentizing direction. The Group completed the capital contribution to the establishment of AVIC Nanjing Servo Control Systems Co., Ltd. and AVIC Nanjing Electromechanical Technology Co., Ltd., extending the civil aviation industrial chain. Harbin Hafei Aviation Industry Co., Ltd. (“**Hafei Aviation**”) participated in the capital contribution to the establishment of Harbin General Aircraft Industry Co., Ltd. (“**Harbin General Aircraft**”), which is primarily engaged in the manufacturing and sales of general fixed-wing aircraft and relevant businesses including client service and etc., enabling the Company to integrate, coordinate and enhance the development of its general aviation business. During the year, AVIC Hubei Ali-Jiatai Aircraft Equipment Co., Ltd., in which the Company made investment, officially became a supplier for new seats to Boeing 737 aircraft and has obtained the design approval letter for Civil Aircraft Technical Standard Orders issued by FAA in respect of its aircraft seats for Boeing 737 aircraft.

In 2017, the global economy is struggling to recover. Speeding up structural reform, improving manufacturing efficiency and promoting productivity in all aspects will be a new path for growth. The General Office of the State Council issued the Guidance on Promoting the Development of General Aviation Industry, making overall deployment on the whole-chain development of general aviation for the first time. The government attached importance to the general aviation industry, which will be beneficial for the development, transformation and upgrading for the aviation business of the Company. The Group will take this as an opportunity to proactively adapt to national policies. The Company will follow the guidance of deepening reforms in an all-round way, focusing on cultivating core competitiveness, improving the operation quality and efficiency, reinforce management, standardize operation, and make returns for shareholders and society:

1. Basing oneself upon, the Company will focus on its main businesses, improve quality and efficiency, and optimize the governance mode of the Group;
2. The Company will strengthen the technology driven innovation strategy, push forward innovation breakthrough in the frontiers of the new generation aviation industry, and improve the supporting function of the new emerging industry;
3. The Company will proactively adapt to the Guidance on Promoting the Development of General Aviation Industry issued by General Office of the State Council, further specify the development targets of general aviation, and speed up the development of general aviation;
4. The Company will further implement the concept of “Made in China 2025”, set intelligent manufacturing as a long-term strategic task to persist on, and improve the overall competitiveness of the whole aviation industry chain;
5. The Company will make efforts in broadcasting the core value of the Company, improve the culture propaganda work, adhere to the concept for developing green aviation, proactively fulfill social responsibilities, and improve the brand image of the Company.

CASH FLOW AND FINANCIAL RESOURCES

1 Liquidity and capital resources

As at 31 December 2016, the Group's cash and cash equivalents amounted to RMB8,773 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 2016 and 2015 were as follows:

Unit: RMB million (except for percentage)

Main items of cash flow	2016	2015	Changes	Changes
		(restated)	(amount)	(percentage)
Net cash flows (used in) /from operating activities	(858)	1,453	(2,311)	N/A
Net cash flows (used in) /from investing activities	(608)	1,428	(2,036)	N/A
Net cash flows from financing activities	704	9	695	7,722%

2 Operating, investing and financing activities

Net cash outflows from operating activities of the Group for the year 2016 amounted to RMB858 million, representing an increase of RMB2,311 million net outflows as compared with the net cash inflows of RMB1,453 million in the corresponding period of the preceding year. This was mainly because certain products delivered during the reporting period have been pre-paid last year.

Net cash outflows from investing activities of the Group for the year 2016 amounted to RMB608 million, representing an increase of RMB2,036 million net outflows as compared with the net cash inflows of RMB1,428 million in the corresponding period of the preceding year. The main reason was that there was a significant decrease in term deposits with an initial term of over three months as a result of the investment funds arrangement during the corresponding period of last year while during the reporting period, the scale of the term deposits with an initial term of over three months was small and the change in the balances was not much.

Net cash inflows from financing activities of the Group for the year 2016 amounted to RMB704 million, representing an increase of RMB695 million or 7,722% as compared with that of RMB9 million in the corresponding period of the preceding year, which was mainly attributable to the issuance of medium-term notes by a subsidiary and the capital injections from non-controlling shareholders of certain subsidiaries of the Group.

As at 31 December 2016, the Group's total borrowings amounted to RMB8,711 million, of which the short-term borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB3,429 million, RMB908 million and RMB4,374 million, respectively.

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

Maturity	<i>RMB million</i>
Within one year	908
In the second year	708
In the third to fifth year	3,496
After the fifth year	170
Total	5,282

As at 31 December 2016, the Group's bank borrowings amounted to RMB2,537 million with a weighted average interest rate of 4% per annum, accounting for 29.12% of the total borrowings. Other borrowings amounted to RMB6,174 million with a weighted average interest rate of 5% per annum, accounting for 70.88% of the total borrowings.

As at 31 December 2016, there was no significant balance of borrowings denominated in foreign currencies.

GEARING RATIO

As at 31 December 2016, the Group's gearing ratio was 12.53% (as at 31 December 2015: 11.77% as restated), which was arrived at by dividing the total borrowings by the total assets as at 31 December 2016.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2016, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2016, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

GUARANTEED AND SECURED LOANS

As at 31 December 2016, the Group's total borrowings amounted to RMB8,711 million, of which RMB249 million was secured by buildings, notes receivable and accounts receivable with a net book value of approximately RMB279 million.

Borrowings placed under guarantees amounted to RMB1,497 million, of which RMB1,243 million represented guarantees amongst the members of the Group and RMB254 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 consider that the exchange rate risks to the Group will not have any material adverse impact on the Group's financial results.

USE OF PROCEEDS

Up to 31 December 2016, a total of RMB3,643 million of the proceeds raised by the Company from the fund raising activities had been used in the manufacturing, research and development of advanced trainer aircraft, 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 2016, the Group had 51,119 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	51,012	99.79
Entire aircraft business	20,896	40.88
Parts and components business	27,248	53.30
Engineering services business	2,868	5.61
Other businesses	107	0.21
Total:	51,119	100

For the year ended 31 December 2016, the total staff costs of the Group amounted to RMB6,224 million, representing an increase of RMB618 million or 11.02% as compared with those of RMB5,606 million in the corresponding period of the preceding year.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares for the year ended 31 December 2016.

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

1. On 30 September 2015, the Company entered into the Equity Acquisition and Share Issuance Agreement with AVIC, pursuant to which the Company had conditionally agreed to acquire and AVIC had conditionally agreed to sell 100% equity interest held by AVIC in AVIC Planning ("**Target Equity**"). After filing with and confirmed by the state-owned assets supervision and administration authorities, the valuation of the Target Equity was adjusted to RMB2,173 million (i.e. RMB2,173,281,600). Taking into account the adjusted valuation of the Target Equity and other factors, on 10 March 2016, the Company entered into the 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 was confirmed as RMB2,173 million (i.e. RMB 2,173,281,600) and the number of consideration shares to be issued by the Company to AVIC was adjusted to 491,692,669 shares at the issue price of RMB4.42 per consideration share. On 28 June 2016, all conditions precedent to the acquisition of AVIC Planning, as set out in the Equity Acquisition and Share Issuance Agreement, had been satisfied, and the Company issued 491,692,669 new domestic shares to AVIC as the consideration for the acquisition of AVIC Planning. Upon completion of the issuance, the total number of issued shares of the Company increased from 5,474,429,167 shares to 5,966,121,836 shares, among which, the total number of domestic shares had increased from 3,117,995,265 shares to 3,609,687,934 shares, and the total number of H shares held by the H shareholders remained unchanged. On 8 August 2016, the Company announced that the AVIC Planning Acquisition was completed and the entire equity interest in AVIC Planning was transferred to the Company.

Please refer to the announcements of the Company dated 30 September 2015, 19 October 2015, 10 March 2016, 28 June 2016 and 8 August 2016, and the circular dated 10 May 2016 for details.

2. On 13 June 2016, Hafei Aviation, a non-wholly owned subsidiary of the Company, entered into the Joint Venture Contract with China Aviation Industry General Aircraft Co., Ltd. ("**CAIGA**"), a subsidiary of AVIC, and Heilongjiang Dazheng Investment Group Co., Ltd. ("**Dazheng Investment**"), pursuant to which Hafei Aviation agreed to contribute RMB200 million in kind in the establishment of Harbin General Aircraft, which shall primarily be engaged in the manufacturing and sales of general fixed-wing aircraft and relevant businesses including client service and etc.. Upon establishment of Harbin General Aircraft, Hafei Aviation, CAIGA and Dazheng Investment held 40%, 40% and 20% of the equity interest in Harbin General Aircraft, respectively. As at the agreement date, CAIGA was a subsidiary of AVIC, the controlling shareholder of the Company. The signing of the Joint Venture Agreement constituted a connected transaction under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**"). For details, please refer to the announcement of the Company dated 13 June 2016.

3. On 6 September 2016, the Company entered into the Capital Contribution Agreement with AVIC Guizhou Aviation Aircraft Co., Ltd. (“**AVIC Guizhou Aircraft**”), Shenzhen Dazhong Flight Entrepreneurship Investment LLP (“**Dazhong Flight**”), Shanghai Aviation Electronics Company (“**Shanghai Aviation Electronics**”), AVIC Tianjin Aviation Electro-Mechanical Co., Ltd. (“**Tianjin Aviation**”), AVIC International Aero-development Corporation (“**AVIC International Aero-Development**”) and AVIC Jincheng Nanjing Mechanics-electronics-hydraulics Research Center (“**AVIC Jincheng**”), pursuant to which, the Company and its wholly-owned subsidiary Tianjin Aviation agreed to contribute RMB70 million and RMB9 million in cash in the establishment of AviChina Intelligent Surveying & Mapping. Upon establishment of AviChina Intelligent Surveying & Mapping, the Company, AVIC Guizhou Aircraft, Dazhong Flight, Shanghai Aviation Electronics, Tianjin Aviation, AVIC International Aero-Development and AVIC Jincheng directly held 31.75%, 27.22%, 20.85%, 9.07%, 4.08%, 3.63% and 3.40% of the equity interest in AviChina Intelligent Surveying & Mapping, respectively. As such, the Group held 35.83% of the equity interest in AviChina Intelligent Surveying & Mapping in total, which became a subsidiary of the Company. As at the agreement date, AVIC was the controlling shareholder of the Company, AVIC Guizhou Aircraft, Shanghai Aviation Electronics, AVIC International Aero-Development and AVIC Jincheng were subsidiaries of AVIC. Therefore, AVIC Guizhou Aircraft, Shanghai Aviation Electronics, AVIC International Aero-Development and AVIC Jincheng were all connected persons of the Company, and the entering into of the Capital Contribution Agreement among the Company and Tianjin Aviation and with the above connected persons constituted a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcements of the Company dated 6 September 2016.

OTHER SIGNIFICANT EVENTS

1. On 3 February 2016, AVIC Forstar S&T Company Limited, a subsidiary of JONHON Optronics, was formally quoted on the National Equities Exchange and Quotations system. The stock name of AVIC Forstar is “Forstar” and the stock code is “835640”. For details, please refer to the announcements of the Company dated 26 August 2015, 13 January 2016 and 3 February 2016.
2. On 3 July 2016, as there had been considerable changes in relevant policies, after comprehensive consideration of factors in all aspects and after prudent discussion and analysis, the parties to the agreement, after negotiation, had reached a consensus to terminate the Framework Agreement on Capital Increases in AVIC Shenyang Aircraft Industrial (Group) Co., Ltd. and AVIC Chengdu Aircraft Industrial (Group) Co., Ltd. entered into on 18 August 2015 by the Company, AVIC Capital Co., Ltd., China Avionics Systems Co., Ltd., AVIC Aircraft Co., Ltd. and AVIC Electromechanical Systems Co., Ltd., as the capital increase participants, and AVIC Shenyang Aircraft Industrial (Group) Co., Ltd. and AVIC Chengdu Aircraft Industrial (Group) Co., Ltd. as the capital increase targets. For details, please refer to the announcements of the Company dated 3 July 2016.

3. On 27 October 2016, JONHON Optronic, a subsidiary of the Company, proposed to adopt a restricted share incentive scheme (the “**Restricted Share Incentive Scheme**”) and to grant the first batch of the restricted shares thereunder to certain participants (the “**Proposed Initial Grant**”). The Board approved the proposed adoption of the Restricted Share Incentive Scheme and the Proposed Initial Grant. On 18 January 2017, pursuant to the Restricted Share Incentive Scheme, JONHON Optronic launched the Initial Grant, and granted a total of 6,001,000 restricted shares to 266 selected participants, representing approximately 0.9960% of the issued share capital of JONHON Optronic as at the date of the Initial Grant. The grant price under the Initial Grant was RMB28.19 per restricted share (the “**Initial Grant**”). Upon implementation of the Initial Grant, the equity interest in JONHON Optronic held by the Company was diluted from 41.57% to 41.16%. For details, please refer to the announcements of the Company dated 27 October 2016 and 18 January 2017.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Maurice Savart applied for resignation to the Board as a non-executive Director due to other work commitment, and Mr. Kiran Rao was nominated as the candidate for the new non-executive Director. At the annual general meeting of the Company convened on 13 June 2016, Mr. Kiran Rao was appointed as the new non-executive Director of the Company and a member of the Development and Strategy Committee of the Board, and Mr. Maurice Savart ceased to be a non-executive Director and a member of the Development and Strategy Committee of the Board.

Mr. Guo Chongqing applied for resignation to the Board as a non-executive Director due to his age, and Mr. He Zhiping was nominated as the candidate for the new non-executive Director. At the extraordinary general meeting of the Company convened on 25 August 2016, Mr. He Zhiping was appointed as the new non-executive Director of the Company, and Mr. Guo Chongqing ceased to be a non-executive Director.

Due to other business commitment and allocation of more time to new positions, (i) Mr. Chen Guanjun applied to resign as a supervisor and other related positions of the Company with effect from the appointment of his replacement as approved at the extraordinary general meeting of the Company convened on 27 October 2016 (the “**EGM**”); (ii) Mr. Tan Ruisong resigned as the general manager of the Company with effect from 25 August 2016; (iii) Mr. Zhang Kunhui and Mr. Lv Jie resigned as the vice-general managers with effect from 25 August 2016; (iv) Mr. Yan Lingxi resigned as the secretary of the Board, company secretary and authorized representative of the Company with effect from 25 August 2016.

Meanwhile, on 25 August 2016, the Board announced that (i) Mr. Zheng Qiang was nominated as the supervisor candidate of the Company by AVIC; (ii) Mr. Chen Yuanxian was appointed as the general manager with a term of office commencing from 25 August 2016 until the expiry of the term of the 5th Session of the Board or his dismissal by the Board; (iii) Mr. Tang Jun was appointed as the vice general manager with a term of office commencing from 25 August 2016 until the expiry of the term of the 5th Session of the Board or his dismissal by the Board; (iv) Mr. Gan Liwei was appointed as the secretary of the Board with a term of office commencing from 25 August 2016 until the expiry of the term of the 5th session of the Board or his dismissal by the Board; and (v) Mr. Xu Bin was appointed as the company secretary and authorized representative of the Company with effect from 25 August 2016.

At the EGM of the Company convened on 27 October 2016, Mr. Zheng Qiang was appointed as the Supervisor of the Company. At the Supervisory Committee meeting following the EGM, Mr. Zheng Qiang was appointed as the chairman of the 5th session of the Supervisory Committee. After the conclusion of the EGM and the Supervisory Committee meeting, the 5th session of the Supervisory Committee comprises the following members: Mr. Zheng Qiang (chairman of the Supervisory Committee and Shareholder representative Supervisor), Mr. Liu Fumin (Shareholder representative Supervisor) and Ms. Li Jing (employee representative Supervisor).

FINAL DIVIDEND

The Board recommended the payment of a final dividend for the year 2016 in an aggregate amount of RMB119,322,436.72, representing a dividend of RMB0.02 per share (2015: RMB0.02 per share), calculated based on the existing number of total issued shares of 5,966,121,836 shares as at the date of this report, subject to adjustment based on the number of total issued Shares as at the Record Date(as defined below) (if any).

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 Monday, 29 May 2017 (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 Wednesday, 24 May 2017 to Monday, 29 May 2017(both days inclusive), during which period no transfer of H shares of the Company will be registered. In order to be entitled to receive the final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, by not later than 4:30 p.m. on Tuesday, 23 May 2017.

In accordance with Article 151 of the Articles of Association, the dividend will be declared in RMB to the shareholders. The dividend payable to shareholders of the domestic shares will be paid in RMB within three months after the dividend declaration date. The dividend payable to H shareholders is calculated and declared in RMB and will be paid in Hong Kong Dollars within three months after the dividend declaration date. The amount to be paid in Hong Kong Dollars will be converted based on the average closing exchange rate between RMB and Hong Kong Dollars issued by the People's Bank of China for the five working days prior to the declaration of dividends at the annual general meeting of the Company to be held on Thursday 18 May 2017 (the "**AGM**"). Subject to the approval of the Company's shareholders at the AGM, the aforementioned dividend is expected to be paid by the Company on Friday 18 August 2017.

The AGM will hold on Thursday, 18 May 2017. The H share register of members of the Company will be closed from Tuesday, 18 April 2017 to Thursday, 18 May 2017 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of the Company's H shares and domestic shares whose names appear on the Company's register of members at the opening of business on Thursday, 18 May 2017 are entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, holders of the Company's H shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, not later than 4:30 pm on Thursday, 13 April 2017.

AUDIT COMMITTEE

The Board has established an audit committee and set out the “Terms of Reference of the Audit Committee” in accordance with the “Guide for the Effective Audit Committee” issued by the Hong Kong Institute of Certified Public Accountants and other regulations.

The audit committee had reviewed the Group’s annual results and consolidated financial statements for the year ended 31 December 2016.

CORPORATE GOVERNANCE

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 2016 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, except for the deviation that the chairman of the Board was not able to attend the annual general meeting of the Company held on 13 June 2016 for healthy reason and Mr. Tan Ruisong, vice chairman of the Board, attended and chaired the annual general meeting on his behalf and answered the questions raised at that meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Hong Kong Listing Rules and the Shares Trading Management Rules of the Company as its own guidelines for securities transactions by Directors, Supervisors and relevant employees of the Company. Upon specific enquiries with directors and supervisors, the Board confirms that all directors and supervisors of the Company had complied with the Model Code under the Hong Kong Listing Rules for the year ended 31 December 2016.

THE ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2016 will be dispatched to the shareholders of the Company and published on the websites of the Hong Kong Stock Exchange and the Company (<http://www.avichina.com>) in due course.

PROPOSED CHANGE OF NON-EXECUTIVE DIRECTORS

Mr. Gu Huizhong has tendered a resignation to the Board to retire as the non-executive Director and related duties due to his age, and Mr. Gao Jian she also has applied to the Board for the resignation from his position as the non-executive Director and related duties due to other business commitment. According to Article 89 of the Articles of Association in relation to the composition of the Board, the Board shall consist of nine Directors. Accordingly, the Company proposed that, two new non-executive Directors who would fill their vacancies shall be elected at the AGM in accordance with the requirement with respect to the composition of the Board as provided in the Articles of Association. The terms of office of Mr. Gu Huizhong and Mr. Gao Jianshe will not be terminated until the appointment of the candidates for new non-executive Directors have been approved at the AGM.

Each of Mr. Gu Huizhong and Mr. Gao Jianshe has confirmed to the Company that he has no disagreement with the Board and there are no matters that need to be brought to the attention of the shareholders of the Company in connection with his resignation as a non-executive Director.

The Board takes this opportunity to express sincere gratitude for the contributions that Mr. Gu Huizhong and Mr. Gao Jianshe have made for the Company during their terms of service.

As recommended by AVIC, the controlling shareholder of the Company, and as nominated by the Nomination Committee of the Board, Mr. Wu Xiandong and Mr. Li Yao have been nominated as the candidates of non-executive Directors at the board meeting convened on 15 March 2017 with a term of office commencing from the date on which their proposed appointments to be approved at the AGM until the date on which the resolution relating to the election of the sixth session of the Board will be considered at the annual general meeting to be convened in 2018. The salary of Mr. Wu Xiandong and Mr. Li Yao will be determined by the Remuneration Committee of the Company by reference to their qualifications, experience and the prevailing market conditions, subject to the authorization of the AGM. As at the date of this announcement, no service contract has been entered into between each of Mr. Wu Xiandong and Mr. Li Yao and the Company.

The biographical details of Mr. Wu Xiandong and Mr. Li Yao are set out as follows:

Mr. Wu Xiandong, 53, a researcher level senior engineer. Mr. Wu is also a vice general manager of AVIC. Mr. Wu received bachelor degree from Beijing University of Aeronautics and Astronautics, Ph.D. degree from the Moscow Aircraft Institute of Russia and post-doctoral from Beijing University of Aeronautics and Astronautics. Mr. Wu commenced his career in aviation industry in July 1987. He used to be the general manager of Harbin Aviation Electro-Mechanical Manufacturing Company, the director of Assets and Enterprises Management Department of AVIC II, an assistant to the general manager of AVIC II, and a vice general manager of AVIC II. Mr. Wu had been the vice chairman of the board and the general manager of the Company from April 2003 to October 2008, and the executive Director of the Company from October 2008 to May 2012.

Mr. Li Yao, 52, a researcher level senior accountant. Mr. Li is also the chief accountant of AVIC. Mr. Li graduated from Beijing University of Aeronautics and Astronautics and received Master's Degree from Tsinghua University. Mr. Li commenced his career in aviation industry since July 1986. He had served as the deputy director of the Financial & Audit Department of AVIC II, the chairman of Jiangxi Changhe Automobile Co., Ltd., the Director, the general manager and the chairman of AVIC Assets Management Division, the director of the Planning and Finance Department of AVIC and the deputy chief accountant of AVIC. Mr. Li had been the vice general manager & CFO of the Company from April 2003 to April 2010.

As far as the Directors are aware, save as disclosed above, as at the date of this announcement, each of Mr. Wu Xiandong and Mr. Li Yao did not hold any directorships in other public listed companies nor did they hold any position with the Company or other members of the Group in the last three years. Each of Mr. Wu Xiandong and Mr. Li Yao does not have any relationship with any Director, supervisor, senior management or substantial or controlling shareholders of the Company. As at the date of this announcement, save for 191,811 H shares (representing 0.003 % of the issued share capital of the Company as at the date of this announcement) held by Mr. Wu Xiandong and 174,910 H shares (representing 0.003 % of the issued share capital of the Company as at the date of this announcement) held by Mr. Li Yao, neither Mr. Wu Xiandong nor Mr. Li Yao has any interests or short positions within the meaning of Part XV of the Securities and Futures Ordinance in the shares, underlying shares or debentures of the Company.

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

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

Beijing, 15 March 2017

As at the date of this announcement, the board of directors comprises executive Directors Mr. Lin Zuoming and non-executive Directors Mr. Tan Ruisong, Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. He Zhiping and Mr. Kiran Rao as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai.

* *For identification purposes only.*