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)

2019
Annual Report

Contents

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 Hong Kong Stock Exchange since 30 October 2003 (stock code: 2357). As at the date of this report, the shareholders of the Company mainly include AVIC and Airbus Group (空中客車集團).

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

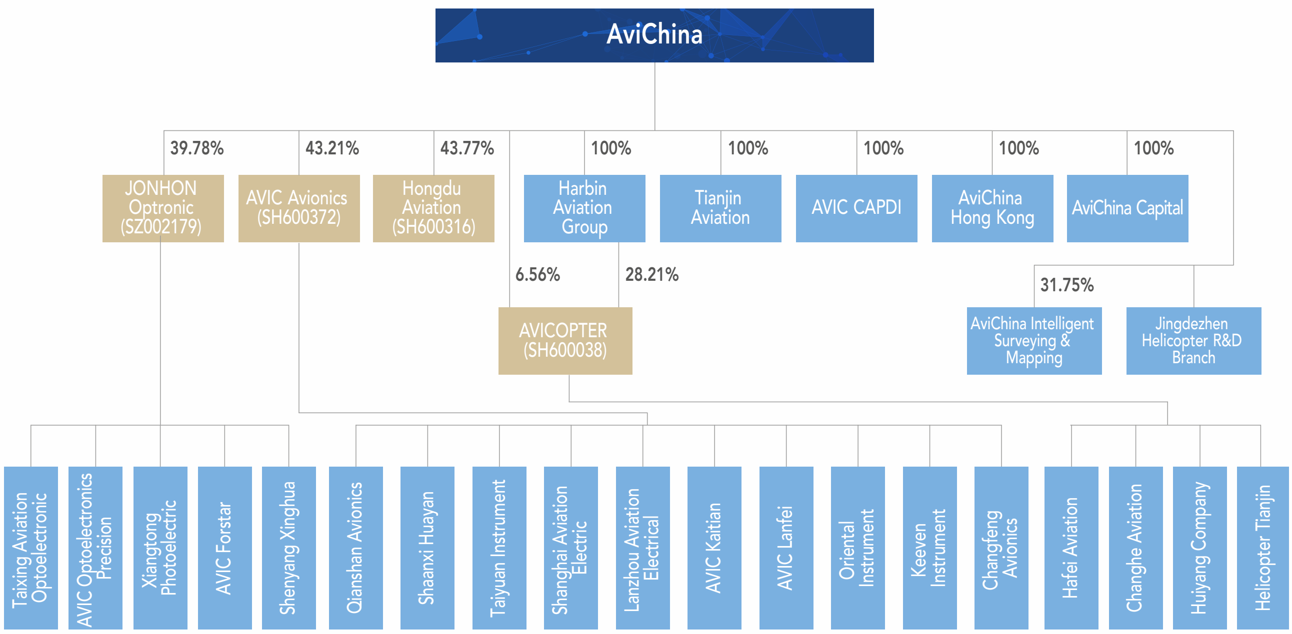
- the development, manufacture, sales and upgrade of defense products and civil aviation products such as provision of helicopters, trainer aircraft, general-purpose aircraft and regional jets for domestic and overseas customers; and

- the co-development and manufacture of aviation products with foreign aviation products manufacturers.

PRINCIPAL PRODUCTS OF THE GROUP

The Z-8, Z-9, Z-11 helicopters series (including AC series); L15, K8 and CJ6 (PT6) 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 S.p.A; aviation parts and components, avionics products and its accessories; aviation engineering services, such as planning, design and consultation services, etc.

CORPORATE STRUCTURE OF THE GROUP
(As at 31 December 2019)



Financial Highlights

CONSOLIDATED PROFIT AND LOSS

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

	For the year ended 31 December		
	2019	2018 (restated)	Changes
Revenue	42,119	35,756	17.80%
Profit before income tax	3,234	2,898	11.59%
Profit attributable to the equity holders of the Company	1,377	1,286	7.08%
Gross profit margin	21.40%	21.80%	-0.40%
Earnings per share for profit attributable to the equity holders of the Company (RMB)			
– Basic	0.220	0.215	2.33%
– Diluted	0.220	0.215	2.33%

CONSOLIDATED ASSETS AND LIABILITIES

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

	As at 31 December		
	2019	2018 (restated)	Changes
Total assets	90,744	87,949	3.18%
Total liabilities	52,194	51,751	0.86%
Non-controlling interests	20,069	18,857	6.43%
Owner's equity (other than non-controlling interests)	18,481	17,340	6.58%

Financial information on the Group's comprehensive business in the recent five years starting from 1 January 2015 is summarized as follows:

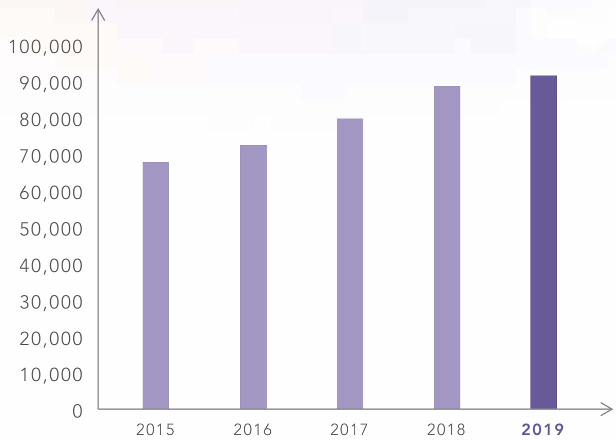
(Prepared under International Financial Reporting Standards)
(RMB million, other than basic and diluted earnings per share)

	As at 31 December/For the year ended 31 December				
	2019	2018 (restated)	2017	2016	2015
Total assets	90,744	87,949	78,933	71,628	67,112
Total liabilities	52,194	51,751	47,773	42,665	40,692
Non-controlling interests	20,069	18,857	16,451	15,161	13,760
Owner'equity (other than non-controlling interests)	18,481	17,340	14,709	13,802	12,660
Revenue	42,119	35,756	32,597	36,834	34,424
Profit before income tax	3,234	2,898	2,758	2,652	2,646
Profit attributable to the equity holders of the Company	1,377	1,286	1,222	1,160	1,143
Gross profit margin	21.40%	21.80%	22.84%	19.11%	19.43%
Earnings per share for profit attributable to the equity holders of the Company (RMB)					
– Basic	0.220	0.215	0.205	0.194	0.192
– Diluted	0.220	0.215	0.205	0.194	0.192

Financial Highlights

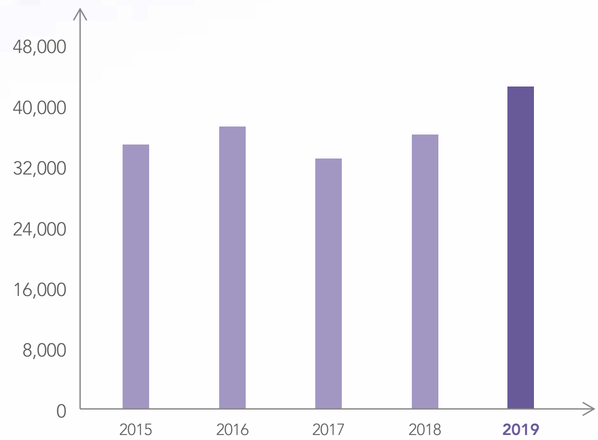
TOTAL ASSEST

(RMB million)



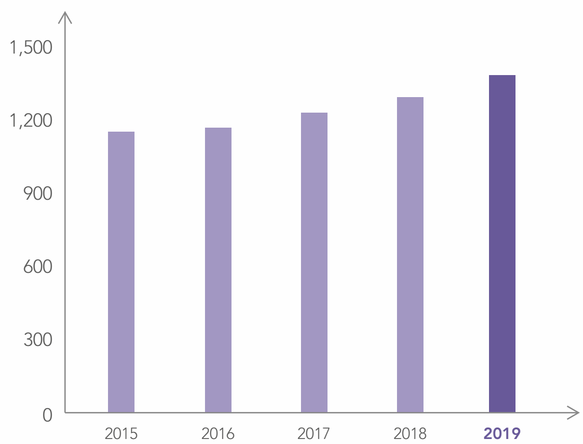
REVENUE

(RMB million)



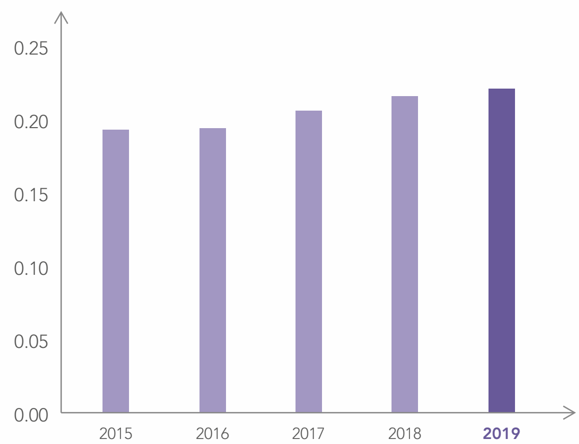
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(RMB million)



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

(RMB)



Chairman's Statement

To all shareholders:

On behalf of the Board of the Company, I am pleased to present the consolidated annual results of the Group for the year of 2019.

ANNUAL RUSULTS

For the year ended 31 December 2019, the Group recorded a revenue of RMB42,119 million and the profit attributable to equity holders of the Company amounted to RMB1,377 million, achieving growths in both revenue and profit.

BUSINESS REVIEW

During 2019, the global economic growth rate dropped to the trough for the past decade, the risks and challenges both domestically and internationally increased dramatically, mounting more downward pressure on the Chinese economy. Facing the sophisticated external environment, AVIC continued to deepen its reforms and strived for high-quality development by adhering to the development strategy in the new era. At the same time, AVIC further fulfilled its social responsibilities and pushed forward steady development of its various businesses. In the grand celebration with a military parade for the 70th anniversary of the founding of the People's Republic of China, multiple types of aircraft products researched, developed and produced by AVIC were showcased in the blue sky, which demonstrated the achievements made in the development of AVIC. AVIC has successfully convened the event of "Aviation Day (通航日)", aiming to explore the general aviation market through innovative measures. By establishing an Aerial Silk Road Alliance, AVIC has further implemented the "Aerial Silk Road" plan and opened new markets along the "Belt and Road". Following the spirit and belief of "Chasing dreams in the blue sky with loyalty and dedication", AVIC has achieved hard-earned prominent results, and has been listed in the 2019 Fortune Global 500 for eleven consecutive years and ranked the 151st in the list.

As a listed company in Hong Kong engaging in the aviation manufacturing business, the Company has been serving as an important platform for AVIC. The Company has set its strategic goal of becoming a flagship company to provide high-tech aviation products and services universally applied for military and civil purposes, and has been promoting the development of the aviation industry persistently. During 2019, the Company increased the speed and efficiency for access to and transfer of capital, and pushed forward the acquisition of 100% equity interests in AVIC Helicopter to optimize the helicopter industrial chain so as to enhance the overall competitiveness of its helicopter products. It has completed the asset swap of Hongdu Aviation, thereby optimizing its resources allocation and improving its quality as a listed company. By enhancing its capabilities in terms of aviation product development and system protection generally, the Group has expanded its defense product business. It has also paid constant attention to the development of core products and enhancement of core capabilities in respect of aviation parts and components, and it has strengthened its research and development capabilities. Meanwhile, it has optimized its investments in high-tech aviation industry, improved industry layout for its unmanned aerial vehicle business, and fully participated in the construction of 5G platforms. Besides, the Company has been dedicated to improving its corporate governance and investor relations by proactively performing its social responsibilities and promoting brand building. In the list of "Top 100 HK Stocks (港股100強)" for 2018 among Hong Kong listed companies issued by Top 100 Hong Kong Listed Companies Research Centre, the Company ranked 33rd in terms of overall competitiveness and ranked 11th in terms of companies with most investment value. Moreover, the Company has received a number of major awards, including the "New Fortune HK Listed Company with the Best IR in 2018", the "China's (Global) Top 100 Listed Companies Award" and the "Golden Bauhinia Award of China Securities – Best Listed Company".

All the past experiences comprise a prologue to tomorrow. The Board will tackle the problems by proactively conducting review and drawing conclusion. We are well aware that the civil aviation market and international cooperation are yet to be further developed by the Group, and the operation quality and synergistic development within the Group still have much room for improvement. Amidst the rapid development and changes of the global economic structure and governance systems, we will cautiously assess the current situations, confront with the problems and embrace new challenges positively.

OUTLOOK

The year 2020 marks the conclusion for the 13th Five-year Plan for National Economic and Social Development ("**13th Five-year Plan**") in relation to the establishment of a comprehensive fairly well-off society in China, which is also a crucial year for the transformation and upgrade of the Chinese economy. Due to the current global economy and the COVID-19 outbreak across the world, significant escalation of risks and challenges are seen both domestically and internationally. Having said that, we are confident that, the positive outlook for the Chinese economy in the long term will remain unchanged. Adhering to the strategic goal of becoming a power nation in aviation, AVIC will also deepen, strengthen and reinforce the transformation of the aviation industry through participation in the pilot reform scheme for the state-owned capital investment companies. It will also make consistent efforts to deepen the reform with a view to reshaping its leading innovation ability, advanced cultural power and remarkable competitiveness, and continuing to pursue high-quality development with unremitting efforts.

In 2020, the Company will also actively embrace challenges and seize opportunities to push forward the development of its various businesses in accordance with its strategic goals and overall plan. The Company will also optimize the industrial structure and improve the management structure and model. Besides, the Company will proceed with the completion of the acquisition of AVIC Helicopter and proactively promote the integration of the helicopter business to give full play to the synergy of the helicopter business. Focusing on the aviation industry chain and seizing investment opportunities, the Company will optimize its corporate governance structure and encourage vitality for the company's development on a continuous basis, at the same time actively exploring opportunities for operation with foreign capital so as to give full play to the integrated overseas resources platform. The Company will also exert vigorous efforts in investment, financing and equity operation to further optimize its capital structure and shareholder structure. Moreover, it will promote the building up and development of its technological innovation capacities through reasonable use of the incentive mechanism, and actively participate in the market-oriented development of civil aviation. Meanwhile, the Group will continue to promote the development and integration of the comprehensive risk system, staying committed to fulfilling its social responsibilities with a view to developing a corporate image of a responsible and dedicated company that is reliable for customers, caring for shareholders and trustworthy for partners with devoted staff members.

In 2020, the Board of the Company, as always, will lead the Company to actively push forward various tasks and continue with our unwavering focus on the goal of becoming a flagship company to provide high-tech aviation products and services universally used for military and civil purposes. All our staff and I have full confidence for the new year. We will remain confident, dedicate ourselves, make persistent efforts and create value to return to our shareholders.

ACKNOWLEDGMENT

Finally, on behalf of the Board, I would like to extend my sincere 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.

Chen Yuanxian
Chairman
Beijing, 30 March 2020

Management Discussion and Analysis

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.

SUMMARY

As a result of the completion of the asset swap of Hongdu Aviation in 2019, a subsidiary of the Company, the corresponding financial data of the Group in the corresponding period of the preceding year was restated pursuant to the relevant regulations. In 2019, the businesses of the Group were continuously divided into aviation entire aircraft segment, aviation parts and components segment, and aviation engineering services segment. The revenue, gross profit margin and other key financial performance indicators of each of the Group's business segment are analyzed in this report to intuitively demonstrate its respective operation and development.

Unless otherwise stated, the corresponding financial data in the corresponding period of the preceding year referred in this report has been restated.

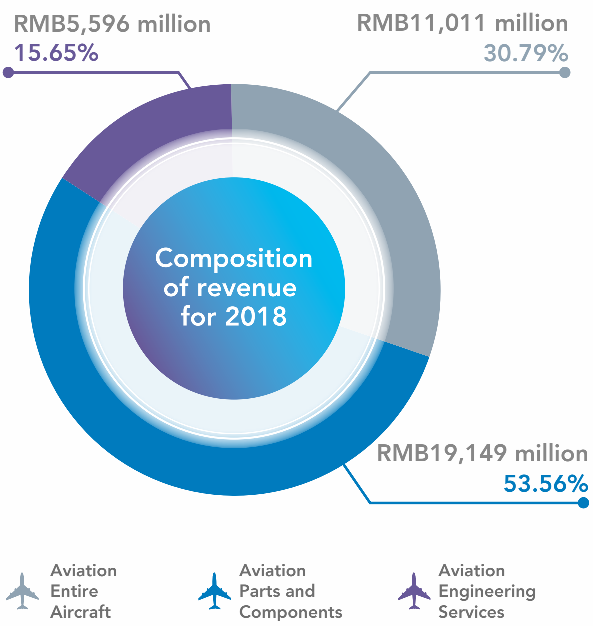
For the year ended 31 December 2019, the Group recorded a revenue of RMB42,119 million, representing an increase of RMB6,363 million or 17.80% as compared with that of RMB35,756 million in the corresponding period of the preceding year. The profit attributable to equity holders of the Company amounted to RMB1,377 million, representing an increase of RMB91 million or 7.08% as compared with that of RMB1,286 million in the corresponding period of the preceding year.

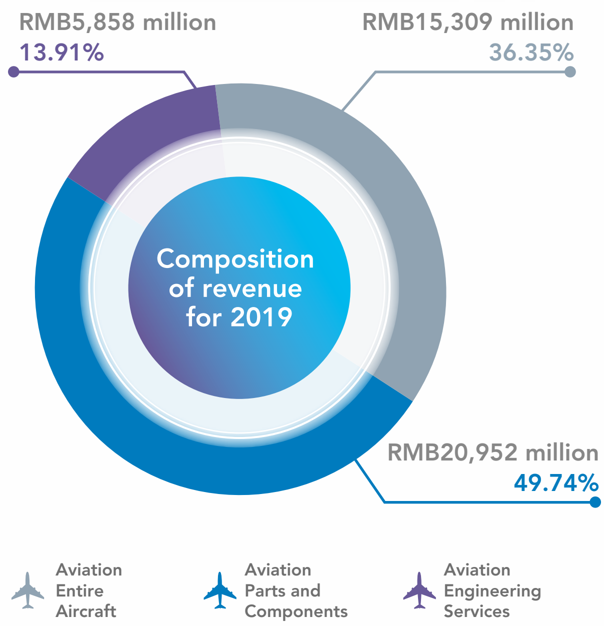
The following shows the comparison between the consolidated operating results of the Group for the year ended 31 December 2018 and those for the year ended 31 December 2019:

CONSOLIDATED OPERATING RESULTS

1 Composition of revenue

The revenue of the Group for the year 2019 was RMB42,119 million, representing an increase of 17.80% as compared with that of RMB35,756 million in the corresponding period of the preceding year. During the period, each of the Group's business segments recorded an increase in revenue to different extent.





The revenue of the Group's aviation entire aircraft business for the year 2019 amounted to RMB15,309 million, representing an increase of RMB4,298 million or 39.03% as compared with that of RMB11,011 million in the corresponding period of the preceding year, which was mainly attributable to the increase in sales volume of helicopter and trainer products. The revenue of the aviation entire aircraft business for the year 2019 accounted for 36.35% of the total revenue of the Group, representing an increase of 5.56 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 for the year 2019 amounted to RMB20,952 million, representing an increase of RMB1,803 million or 9.42% as compared with that of RMB19,149 million in the corresponding period of the preceding year, which was mainly attributable to the increase in the revenue of avionics and optronic products of the Group. The revenue of the aviation parts and components business for the year 2019 accounted for 49.74% of the total revenue of the Group, representing a decrease of 3.81 percentage points as compared with that in the corresponding period of the preceding year.

The revenue of the Group's aviation engineering services business for the year 2019 amounted to RMB5,858 million, representing an increase of RMB262 million or 4.68% as compared with that of RMB5,596 million in the corresponding period of the preceding year. The revenue of the aviation engineering services business for the year 2019 accounted for 13.91% of the total revenue of the Group, representing a decrease of 1.74 percentage points as compared with that in the corresponding period of the preceding year.

The Group mainly conducts its business in Mainland China and its revenue is mainly generated from Mainland China as well.

2 Selling and distribution expenses

The Group's selling and distribution expenses for the year 2019 amounted to RMB687 million, representing an increase of RMB17 million or 2.54% as compared with that of RMB670 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase in staff cost of sales persons resulting from market exploration by JONHON Optronic and AVIC Avionics, subsidiaries of the Company. In 2019, the selling and distribution expenses accounted for 1.63% of the revenue of the Group, representing a decrease of 0.24 percentage point as compared with that in the corresponding period of the preceding year.

3 Administrative expenses

The Group's administrative expenses for the year 2019 amounted to RMB5,295 million, representing an increase of RMB766 million or 16.91% as compared with that of RMB4,529 million in the corresponding period of the preceding year. Such increase was mainly attributable to the Group's increased investment in research and development ("**R&D**"), which was RMB578 million or 34.78% as compared with that of last year. In 2019, the administrative expenses accounted for 12.57% of the revenue of the Group, representing a decrease of 0.10 percentage point as compared with that in the corresponding period of the preceding year.

4 Operating profit

The operating profit of the Group for the year 2019 amounted to RMB3,397 million, representing an increase of RMB307 million or 9.94% as compared with that of RMB3,090 million in the corresponding period of the preceding year. The increase in the revenue and the growth in the gross profit contribution both led to an increase in the operating profit during the reporting period as compared with that of the preceding year.

5 Finance costs, net

The Group's net finance costs in 2019 amounted to RMB391 million, representing a decrease of RMB13 million or 3.22% as compared with that of RMB404 million in the corresponding period of the preceding year, which was mainly attributable to the increase in the interests generated from the bank deposits of certain subsidiaries of the Company as compared with that of the preceding year. Please refer to note 7 to the financial statements for details.

6 Income tax expenses

The Group's income tax expenses in 2019 amounted to RMB298 million, representing a decrease of RMB25 million or 7.74% as compared with that of RMB323 million in the corresponding period of the preceding year. 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 for the year 2019 amounted to RMB1,377 million, representing an increase of RMB91 million or 7.08% as compared with that of RMB1,286 million in the corresponding period of the preceding year. The increase in the revenue and the growth in the gross profit contribution both led to an increase in the profit attributable to equity holders of the Company during the reporting period as compared with that in the corresponding period of the preceding year.

GUARANTEED AND SECURED LOANS

As at 31 December 2019, the Group's total secured borrowings amounted to RMB558 million, of which RMB150 million was secured by notes receivables and accounts receivables with a net book value of approximately RMB151 million, RMB408 million was secured by a future receivable right.

Convertible bonds and borrowings placed under guarantees amounted to RMB3,570 million, of which RMB1,222 million represented guarantees amongst the members of the Group, RMB216 million represented guarantees provided by fellow subsidiaries, RMB3 million represented guarantees provided by non-connected parties and RMB2,129 million represented guarantees provided by AVIC.

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 arising from transactions involving assets, liabilities and operating activities of the Group 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.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no significant contingent liabilities.

CASH FLOW AND FINANCIAL RESOURCES

1 Liquidity and capital resources

As at 31 December 2019, the Group's cash and cash equivalents amounted to RMB13,060 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 2019 and 2018 were as follows:

Unit: RMB million (except for percentage)

Main items of cash flow	2019	2018 (restated)	Changes (amount)	Changes rate (percentage)
Net cash flows from operating activities	2,664	551	2,113	383.48%
Net cash flows (used in) investing activities	(2,084)	(1,536)	(548)	35.68%
Net cash flows from financing activities	334	2,038	(1,704)	-83.61%

2 Operating, investing and financing activities

Net cash inflows from operating activities of the Group for 2019 amounted to RMB2,664 million, representing an increase of net inflows by RMB2,113 million as compared with the net cash inflows of RMB551 million in the corresponding period of the preceding year, which was mainly attributable to the increase in collection of the receivables during the reporting period.

Net cash outflows from investing activities of the Group for 2019 amounted to RMB2,084 million, representing an increase of net outflows by RMB548 million as compared with the net cash outflows of RMB1,536 million in the corresponding period of the preceding year, which was mainly attributable to the increase of investment during the reporting period as compared with that of last year.

Net cash inflows from financing activities of the Group for the year 2019 amounted to RMB334 million, representing a decrease of net inflows by RMB1,704 million or 83.61% as compared with the net cash inflows of RMB2,038 million in the corresponding period of the preceding year. The main reason was that there were placing of shares by the Company and the issuance of convertible bonds by JONHON Optronic in 2018 while there was no such financing activities during the reporting period.

As at 31 December 2019, the Group's total borrowings and convertible bonds amounted to RMB10,837 million, of which the short-term borrowings, the current portion of long-term borrowings, the non-current portion of long-term borrowings and the convertible bonds amounted to RMB6,403 million, RMB262 million, RMB2,043 million and RMB2,129 million, respectively.

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

Maturity	RMB million
Within one year	262
In the second year	734
In the third to fifth year	2,741
After the fifth year	697
Total	4,434

As at 31 December 2019, the Group's bank borrowings amounted to RMB4,304 million with a weighted average interest rate of 4% per annum, accounting for 49.43% of the total borrowings. Other borrowings amounted to RMB4,404 million with a weighted average interest rate of 4% per annum, accounting for 50.57% of the total borrowings. The convertible bonds amounted to RMB2,129 million.

As at 31 December 2019, there was no significant balance of borrowings denominated in foreign currencies.

GEARING RATIO

As at 31 December 2019, the Group's gearing ratio was 11.94% (as at 31 December 2018: 15.06% (as restated)), which was arrived at by dividing the total borrowings and convertible bonds by the total assets as at 31 December 2019.

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 2019 was RMB15,309 million, representing an increase of 39.03% 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 amounted to RMB12,766 million, representing an increase of RMB2,522 million or 24.62% as compared with that in the corresponding period of the preceding year, and accounted for 83.39% of the total revenue of the aviation entire aircraft business as the sales volume of helicopters increased; (2) the revenue derived from the trainer aircraft business, which amounted to RMB2,440 million, representing an increase of RMB1,706 million or 232.43% as compared with that in the corresponding period of the preceding year, and accounted for 15.94% of the total revenue of the aviation entire aircraft business as the sales volume of the trainer aircraft increased significantly; (3) the revenue derived from the general purpose aircraft business, which amounted to RMB103 million, representing an increase of RMB71 million or 221.88% as compared with that in the corresponding period of the preceding year, and accounted for 0.67% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group for the year 2019 accounted for 36.35% of the Group's total revenue, representing an increase of 5.56 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 the year 2019 was 9.77%, representing a slight decrease as compared with that in the corresponding period of the preceding year. Such decrease was mainly attributable to the change in the structure of the entire aircraft products.

THE AVIATION PARTS AND COMPONENTS BUSINESS

Revenue

The Group's revenue derived from the aviation parts and components business for the year 2019 was RMB20,952 million, representing an increase of 9.42% as compared with that in the corresponding period of the preceding year. The above revenue includes the revenue derived from the avionics business, which amounted to RMB15,746 million, representing an increase of RMB1,492 million or 10.47% as compared with that in the corresponding period of the preceding year, and accounted for 75.15% of the total revenue of the aviation parts and components business.

The revenue derived from the aviation parts and components business for the year 2019 accounted for 49.74% of the Group's total revenue, representing a decrease of 3.81 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 the year 2019 was 31.59%, representing an increase of 1.35 percentage points as compared with that in the corresponding period of the preceding year.

THE AVIATION ENGINEERING SERVICES BUSINESS

Revenue

The Group's revenue derived from the aviation engineering services business for the year 2019 was RMB5,858 million, representing an increase of 4.68% as compared with that in the corresponding period of the preceding year. The revenue derived from the aviation engineering services business in 2019 accounted for 13.91% of the Group's total revenue, representing a decrease of 1.74 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 the year 2019 was 15.39%, representing a decrease of 0.64 percentage point as compared with that in the corresponding period of the preceding year.

BUSINESS REVIEW AND OUTLOOK

In 2019, faced with increasing downward economic pressure and complicated political and economic environment domestically and internationally, AVIC, the controlling shareholder of the Company, adhered to the strategic goal of building up a strong aviation country, implemented the development strategy of the aviation industry in the new era and vigorously promoted the transformation and upgrade as well as high-quality development of AVIC. Satisfactory progress has been achieved by AVIC in various key missions.

With the aim to build up a flagship company providing high-tech aviation products and services universally used for military and civil purposes, the Group implemented the innovation-driven strategy to concretely improve its high-tech innovation capabilities. It has accelerated the speed and efficiency for connecting with and converting into capital, and completed the asset swap of Hongdu Aviation, thereby improving its quality as a listed company. The Group has also pushed forward the helicopter business reorganization to enhance its competitiveness in the helicopter industry. Aiming at strategic emerging industries, the Group actively carried out investment, financing and equity operation by seizing opportunities in industrial investment and utilizing the industrial investment platform. The Group has strengthened internal management to increase management efficiency. The Group has endeavored to improve its corporate governance capacities and build up its brand image with the goal to aligning with world-class standard. In 2019, in the list of "Top 100 HK Stocks (港股100強)" issued by Top 100 Hong Kong Listed Companies Research Centre, the Company ranked 33rd in terms of overall competitiveness and ranked 11th in the list of companies with most investment value. It was also awarded the "Best Investment Value Award for Hong Kong-listed Companies (港股上市公司最具投資價值獎)" and the "Golden Bauhinia Award of China Securities – Best Listed Company (中國證券金紫荊獎最佳上市公司獎)". Meanwhile, the Company was admitted to the List of China (Global) Top 100 Listed Companies for 2019, and JONHON Optronic was admitted to the List of China Top 100 Listed Companies for 2019 and was successively admitted to the list of "Core Asset Top 50 (核心資產50強)".

In 2019, the Group actively participated in various operations and missions with its helicopter products and demonstrated superior performance. AC313 helicopter (13-ton mid-size civilian helicopter) and AC311 helicopter (2-ton light civilian helicopter) have efficiently completed the aerial fire extinction for the forest fire in Jingdezhen, Jiangxi Province. AC311A helicopter carried out trial flights in the plateau regions of Yunnan, showing excellent flight capability and laying a solid foundation for airworthiness certification and market access and application. AC313 helicopter successfully carried out test flights for air emergency rescue to tackle with different types of disasters, proving AC313 helicopter's sound emergency rescue capacities for different types of disasters such as fire extinction for high-rise buildings and calamity relief. AC312E helicopter (4-ton helicopter with two engines and with multiple functions) completed the pilot aircraft type rating test certified by Civil Aviation Administration of China at Jiansanjiang Airport and participated in the joint military drill for anti-terrorism and emergency response in Harbin, highlighting its advantages in low altitude airspace, flexibility and swift movement. AC352 helicopter (7-ton mid-size helicopter with multiple functions) carried out test flights for various faulty scenarios of engine installation at Jiansanjiang, marking its first step towards test flights for airworthiness certification. The Group also held the fourth Open Day under the theme of "getting close to helicopter", displaying the national achievements in terms of helicopter development and professional capacities of national helicopters over seven decades since the founding of the People's Republic of China.

In 2019, trainer aircraft products of the Group drawed more attention from the public. The production and delivery of K8 trainer and CJ6 trainer was carried out smoothly. On the 1st Nanchang Flight Exposition, CJ6 primary trainer, K8 trainer and L15 advanced trainer aircraft completed their first shaped formation flight in Nanchang, which fully demonstrated the development and achievements of the Group's trainer products. L15 advanced trainer aircraft won the first prize in 2019 National Science and Technology Progress Prizes.

In 2019, the Group steadily advanced the market expansion of general-purpose aircraft. Y-12F aircraft completed the test flights for certification of European Union Aviation Safety Agency (EASA) at Jiansanjiang Shidi Airport. The access to EASA airworthiness certification will facilitate the expansion of Y-12F aircraft into the European market.

In 2019, by consistently implementing the innovation-driven strategy, the Group has achieved encouraging achievements for the aviation parts and components business in terms of technological innovation. Series of technological achievements of JONHON Optronic made new breaking to stand up to international leading level. JONHON Optronic received the special prize for Scientific and Technological Progress Awards of National Defense from the Ministry of Industry and Information Technology, and assisted in the construction of national pillars such as domestically built aircraft carrier, Jielong 1 and Long March 11 carrier rockets, high-speed maglev trains and comprehensively promoted the R&D and flight test of the state-produced Large Scale Aircraft. In the field of communication, JONHON Optronic followed up with the construction of 5G and comprehensively participated in the global 5G platform project of the customers. JONHON Optronic has broken the international monopoly of high speed backplane connector products and batch supplying it in the global platform of customers. In respect of new energy vehicle, JONHON Optronic was also successfully listed into the top global suppliers of vehicle companies and its charging connectors and liquid cooling products also entered into the supplying chain of top customers in the world. Shaanxi Huayan carried out technological innovation by optimizing the designs, overcoming the difficulties in relation to production processes and improving the operation methods, which has effectively improved its working efficiency and the qualification rate of products. Lanzhou Aviation Electrical held the launching ceremony for the application of its first industrial robot proactively promoting smart manufacturing. Shanghai Aviation Electric won the first prize in the 2019 Collection of Achievements of China Enterprise Reform and Development (2019中國企業改革發展優秀成果

一等獎) with the "Research on Innovative Airborne System and Correlated Manufacturing System for Civilian Aircraft (民用飛機機載系統正向研製體系創新研究)". Meanwhile, Qianshan Avionics successfully delivered the first set of assembling parts of the flight data recorder researched and manufactured for Shunfeng's drones according to the scheduled timeframe.

In 2019, the Group's production of ancillary aviation products achieved smooth progress. Hongdu Aviation completed the airworthiness inspection of a work package in C919 project. Changhe Aviation successfully passed the on-site visual inspection of pre-production verification (PPV) for outer flaps and front beams of the C919 project, and on-site review of the professional PPV on rudders made with composite materials for Boeing 787.

In 2019, the Group continued to expand its market influence in the aviation engineering service industry. AVIC CAPDI also successively participated in projects in relation to terminal area, airfield area and supporting facilities of airports, facilitated the successful flight test in Beijing Daxing International Airport and received an "Excellence Innovation Award (卓越創意獎)". Designed with the concept of "Floral Dance in the Sky (飛天花舞)" and embodied the unique Yellow River culture, the Olympic Center Project in Lanzhou received 10 outstanding survey and design awards in the industries of engineering surveying, architectural design and municipal public constructions as recognized by China Engineering & Consulting Association (中國勘察設計協會) in 2019. AVIC CAPDI also won four prominent awards in the 9th "Yuan Ye Cup (園冶杯)" international competition.

Notwithstanding challenges imposed by the worldwide outbreak of the novel coronavirus epidemic, intense trade tensions and financial turmoil in 2020, the situation that Chinese economy is on an uptrend in the long term remains unchanged. Meanwhile, the year 2020 is also a critical year for China's establishment of a comprehensive well-off society and marks the conclusion for the 13th Five-year Plan. To tackle with more severe difficulties and challenges, AVIC will firmly adhere to the strategic goal of building up a strong aviation country and make consistent efforts to deepen the reform with a view to taking the development of China's aviation industry to new heights on an ongoing basis. Taking advantage of the opportunities presented by AVIC's pilot program of state-owned capital investment companies and the 14th Five-year Plan, the Group will continue to strive towards the goal of becoming a flagship company to provide high-tech aviation products and services generally used for military and civil purposes, overcome difficulties together with its shareholders and pursue high-quality corporate development:

1. The Company will further implement the strategy of financial-industrial combination and give full play to the integrated financial-industrial platform to carry out multi-dimensional and mutually beneficial cooperation and optimize the industrial structure, in order to build an aviation supply chain system with international competitiveness;

2. The Company will accelerate the development driven by innovation in accordance with national industrial development deployment policy and strengthen its innovation capabilities to stimulate the industrial development;

3. The Company will complete the acquisition of equity interests in helicopter business and consolidate the helicopter industry chain, with a view to swiftly consolidating the synergetic advantages through capital operation, and promoting further development of the helicopter business;

4. The Company will exert vigorous efforts in investment and financing, equity operation and capital integration and keep on optimizing its capital structure, so as to enhance its quality as a listed company;

5. The Company will give full play to its overseas platform to pursue opportunities for overseas capital operation and seek for international collaboration in the areas such as airborne equipment and unmanned aerial vehicle; and

6. The Company will improve its risk control system, enhance its governance capability on a continuous basis, strictly observe the strategy of "Rule of Law" and operate in compliance.

USE OF PROCEEDS

As at 31 December 2019, a total of RMB4,934 million of the proceeds raised by the Company had been used in the manufacturing and R&D of advanced trainer aircraft, helicopters and aviation composite materials as well as the acquisition of aviation assets and the equity investments. In the end of 2018, the net proceeds raised by the Company through H share placing were approximately HK$1,346 million. In 2019, an amount of RMB377 million had been used to invest in the aviation business such as aviation cabin interior trimming business. As at 31 December 2019, the remaining balance of the proceeds amounted to approximately RMB799 million. In the future three years, in accordance with the Company's development strategy, the Company proposes to use such proceeds for investment in aviation businesses, the industrialization projects of aviation research institutes and military-civilian fund for aviation industry, the funding of acquisitions of aviation equity interest or aviation assets and for general corporate purposes.

EMPLOYEES

As at 31 December 2019, the Group had 44,910 employees. The Group has provided appropriate emoluments, benefits and trainings to its employees.

Employees breakdown (by business segments)

	Number of employees	Percentage to total number of employees (%)
Aviation entire aircraft business	14,237	31.70
Aviation parts and components business	27,738	61.76
Aviation engineering services business	2,888	6.43
Other businesses	47	0.11
Total	44,910	100

For the year ended 31 December 2019, the total staff costs of the Group amounted to RMB7,626 million, representing an increase of RMB417 million or 5.78% as compared with those of RMB7,209 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 requires its staff to have a high level of knowledge and skills. 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 2019, 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, expanded domestic and foreign training channels, reconstructed training system and mechanism, improved corresponding management systems and resources allocation mechanism. During the year, the Company continuously organized trainings in various aspects such as knowledge for aviation industry, listing rules, accounting standards, compliance management, investment management to related staff of the Group. Through trainings, the employees can learn the latest laws, regulations and work skills in time, continuously enriching and improving themselves, which in turn will enhance the Group's competitiveness so as to adapt to the ever-changing market demand.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Chen Yuanxian (陳元先)

Chairman of the Development and Strategy Committee and Chairman of the Nomination Committee

59, chairman of the Board, a holder of the doctorate degree and researcher. He is the vice general manager of AVIC. 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. Mr. Chen has commenced his career in the aviation industry since 1982 as a technician, and was promoted as a vice director, deputy chief engineer and chief engineer of China Research Institute of Aero-Accessories* in subsequent years. He has 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 and director of Strategic Planning Department of AVIC in September 2008. In March 2013, he was appointed as a director and chief economist of AVIC. Mr. Chen was also a director of AVIC Capital from June 2012 to December 2015. Mr. Chen was a non-executive Director of the Company from June 2009 to May 2012. From March 2014 to May 2017, Mr. Chen served successively as the vice general manager and chief financial officer, the general manager and chief financial officer of the Company. Mr. Chen served as the general manager of the Company from March 2018 to March 2019. Mr. Chen has been the executive Director of the Company since June 2018, and the chairman of the Board of the Company since March 2019.

Mr. Wang Xuejun (王學軍)

Member of the Development and Strategy Committee and the Audit Committee

47, general manager, a researcher level senior economist. Mr. Wang graduated from Renmin University of China with a bachelor degree in economics specializing in international finance in July 1995, and graduated from Economy and Management School of Tsinghua University with a MBA degree in July 2002. Mr. Wang commenced his career in aviation in 1995. He had been a section chief, vice director and director of the Capital Management Department of AVIC since 2008. Mr. Wang had been the non-executive Director of the Company from June 2018 to March 2019. Mr. Wang has been the executive Director and general manager of the Company since March 2019.

Non-executive Director

Mr. Yan Lingxi (閆靈喜)

Member of the Development and Strategic Committee

49, a master degree holder and a senior engineer. Mr. Yan graduated from 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, respectively. He was appointed as the deputy director and the director of the corporate assets management department of AVIC II. From June 2012 to September 2016, Mr. Yan had been a director of AVIC Avionics. From August 2014 to September 2016, Mr. Yan had been a director of AVICOPTER. From October 2016 to February 2018, Mr. Yan had successively been the head of the office of the board of directors and the deputy director of capital management department of AVIC, and a director of the Board, the deputy general manager and the secretary of the board of directors of AVIC Capital. From April 2003 to October 2016, Mr. Yan had been the director of the securities and legal department, the secretary of the Board and the assistant to the general manager of the Company, respectively. Mr. Yan was the standing deputy general manager of the Company from February 2018 to March 2019. He has been the director of the capital management department of AVIC since March 2019. He has been the non-executive Director of the Company since May 2019.

Mr. Lian Dawei (廉大為)

Member of the Remuneration Committee

57, a doctorate degree holder and a researcher level senior engineer. Mr. Lian graduated from the Department of Urban Construction of Harbin Institute of Architectural Engineering with a bachelor of engineering degree majoring in heating and ventilation, and successively obtained his master degree in technology economy and management from Tsinghua University and doctorate degree in engineering and project management from Beijing Jiaotong University. Mr. Lian had successively been the deputy division director, division director, department chief, vice president and president of China Aviation Planning and Design Institute, the general manager of AVIC CAPDI, etc. Mr. Lian has been the chairman of the board of AVIC CAPDI since August 2016. He has been the non-executive Director of the Company since May 2019.

Mr. Xu Gang (徐崗)

Member of the Development and Strategic Committee

48, a doctorate degree holder. Mr. Xu graduated from Tianjin University with a bachelor degree in information management system engineering. Mr. Xu also holds a master degree in business administration from Roosevelt University in Chicago and a doctorate degree in economics from Nankai University. In 1995, Mr. Xu worked for the Tianjin Economic and Technology Development Area Administrative Committee. He was nominated as the deputy head of the Investment Promotion Bureau of Tianjin Free Trade Zone in 2003 and was promoted as its head in 2005, when he started to actively participate in the Airbus A320 Series Final Assembly Line programme jointly initiated by Airbus and its Chinese partners. From 2008 to 2011, Mr. Xu was the deputy general manager of Airbus Tianjin A320 Series Final Assembly Line and the head of the Investment Promotion Bureau of Tianjin Free Trade Zone Administrative Committee. In 2011, he was appointed as the chairman of board of Airbus Tianjin Final Assembly Line and the vice president of Tianjin Free Trade Zone Administrative Committee. From 2014 to 2017, Mr. Xu was appointed as the Party Secretary of Tianjin Youth League. From January 2018, Mr. Xu has served as chief executive officer of Airbus China and the head of Airbus China, responsible for all commercial aircraft operations and helicopter, defense and aerospace operations of Airbus in China. He has been the non-executive Director of the Company since May 2019.

Independent Non-executive Directors

Mr. Liu Renhuai (劉人懷)

Member of Audit Committee, Remuneration Committee and Nomination Committee

79, 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, deputy director of the division of engineering management of Chinese Academy of Engineering, director of the guiding committee on education of mechanics for colleges and universities of the Ministry of Education, director of the management department of the Science & Technology Commission of Ministry of Education, chairman of Chinese Vibration Engineering Society, vice chairman of Chinese Mechanics Society and vice chairman of Chinese Society for Composite Materials from 1995 to 2016. 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 served 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) and an independent non-executive director of CSSC Offshore & Marine Engineering (Group) Co., Ltd (an A+H company whose shares are listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange). Mr. Liu has been the independent non-executive Director of the Company since June 2014.

Mr. Liu Weiwu (劉威武)

Chairman of the Remuneration Committee, member of the Audit Committee and Nomination Committee

56, a master degree holder. Mr. Liu is the deputy general manager of China Merchants Energy Shipping Co., Ltd* and a director of China VLCC Company Limited*. Mr. Liu was the head of treasury division of financial department of Guangzhou Ocean Shipping Company, the manager of financial department of Hong Kong Mingwah Co., Ltd*, and the deputy general manager of financial department of China Merchants Group Limited from August 2004 to February 2009. Mr. Liu had successively been the director, the chief financial officer and the deputy general manager of China Merchants Energy Shipping Co., Ltd* since February 2009. Mr. Liu has been the independent non-executive Director of the Company since June 2018.

Mr. Wang Jianxin (王建新)

Chairman of the Audit Committee, member of the Remuneration Committee and Nomination Committee

46, a doctorate degree holder and researcher. Mr. Wang graduated from Jishou University with a Bachelor of Science degree in June 1994, and graduated from Zhongnan University of Finance and Economics with a master degree in accountancy in March 2001.He graduated from Shanghai University of Finance and Economics with a doctorate degree in accountancy in June 2004. Mr. Wang had been a section chief of Chinese Academy of Fiscal Science, the vice director of Yunnan Provincial Department of Finance and the chairman of Yunnan Institute of Certified Public Accountants, etc. He is now a researcher and doctoral supervisor in Chinese Academy of Fiscal Science. He is also the independent director of AVIC Capital, Nantian Electronics Information Co., Ltd., and Homa Appliances Co., Ltd. Mr. Wang has been the independent non-executive Director of the Company since June 2018.

SUPERVISORS

Mr. Zheng Qiang (鄭強)

56, chairman of the supervisory committee, a master degree holder and a researcher. He graduated from Northwestern Polytechnical University with a master degree majoring in aircraft design in 1988. Mr. Zheng commenced his career in aviation industry from 1988, and served as an engineer, deputy director and director of Civil Aircraft Division of China Aviation System Engineering Research Institute ("CASERI"); deputy chief engineer and director of Aircraft System Engineering Research Division of CASERI since March 1996; deputy director- general and director-general of CASERI since October 1996; deputy head and head of Civil Aircraft Department of AVIC I since August 2001; and assistant to the general manager of AVIC I since September 2004. Mr. Zheng was appointed as vice general manager of the Company from June 2009 to June 2015. Mr. Zheng also served as director at AVICOPTER from August 2014 to March 2015. Mr. Zheng has been appointed as director of the management innovation office of AVIC since June 2015. From April 2017 to October 2019, Mr. Zheng was a supervisor of Sichuan Chengfei Integration Technology Corporation Limited. Mr. Zheng has been appointed as director of AVIC Capital since May 2017. Mr. Zheng has been the Supervisor of the Company since October 2016.

Mr. Guo Guangxin (郭廣新)

50, a bachelor degree holder. Mr. Guo graduated with a bachelor of engineering from the department of computer and science technology in Harbin College of Shipbuilding Engineering in1991 and majoring in computer application technology. Mr. Guo served successively as a member of technology department then a senior staff member of disciplinary committee in Heilongjiang Branch of Industrial and Commercial Bank of China* from July 1991 to April 2000. Mr. Guo served successively as the deputy head of the equity management department, the head of the debt comprehensive operation department, the head of the comprehensive management department and the assistant to senior manager of the innovation business department in Harbin Branch of China Huarong Asset Management Co., Ltd.* from April 2002. Mr. Guo has been a senior manager of Business Division VII in Heilongjiang Branch of China Huarong Asset Management Co., Ltd.* since 2016. Mr. Guo has been the Supervisor of the Company since June 2018.

Mr. Shi Shiming (石仕明)

40, a master degree holder, a senior accountant and a national reserve leader in accounting. Mr. Shi graduated from Zhongnan University of Economics and Law in 2002, and graduated with a master of accounting from Renmin University of China in 2009. Mr. Shi worked in Hongdu Group from July 2002 to March 2003 and has worked in the Company since March 2003. He is currently the head of finance and planning department of the Company. Mr. Shi has been the Supervisor of the Company since June 2018.

SENIOR MANAGEMENT

Mr. Tao Guofei (陶國飛)

Deputy General Manager & Chief Financial Officer

55, a first level senior accountant. Mr. Tao graduated from Xiamen University in 1985 with a bachelor's degree, majoring in accounting; and graduated from Huazhong University of Science and Technology in 2001 with a master's degree, majoring in computer technology. Mr. Tao had been the vice chief accountant, assistant to the chairman of the board, chief accountant, deputy general manager and a director of the board of Hongdu Group from 1985 when he commenced his career in aviation industry to December 2008. He had been a director of the board, deputy general manager and chief accountant of China Aviation Industry General Aircraft Co. Ltd. from December 2008 to April 2018. Mr. Tao is also a director of AVICOPTER. Mr. Tao has been the deputy general manager & chief financial officer of the Company since April 2018.

Mr. Gan Liwei (甘立偉)

Board Secretary

55, a researcher. He graduated from Beijing University of Aeronautics and Astronautics in 1987 with a bachelor's degree, majoring in system engineering and management engineering, and got a master's degree in 1998 majoring in industrial foreign trade management. Mr. Gan commenced his career in aviation industry in 1987, successively being the engineer and senior engineer of AVIC China Aero-Polytechnology Establishment, deputy division chief, division chief, assistant chief engineer and deputy director of AVIC Economics & Technology Research Establishment, deputy director of the Development and Research Department of AVIC II. He was the director of the Administrative Department of the Company from April 2003. He has been the standing vice general manager of AviChina Hong Kong since March 2015. Mr. Gan is also a director of AVIC Avionics. Mr. Gan has been the board secretary of the Company since August 2016.

Report of the Board

The Board of Directors of AviChina hereby presents its Report of the Board together with the audited financial statements of the Group for the year ended 31 December 2019.

BUSINESS OF THE GROUP

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

For details of the business and future business development of the Group, please refer to the section headed "Business Review and Outlook" from page 17 to page 20 of this annual report.

ENVIRONMENTAL POLICIES

The Company has made and implemented the following environmental protection policies, aiming to continuously improve the level of its environmental governance of the Group: (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. For details, please refer to the section headed "Environmental, Social and Governance Report" on page 72 to page 99 of this annual report.

RESULTS, DIVIDEND AND DIVIDEND POLICY

The results of the Group for 2019 are set out in the Consolidated Statement of Profit or Loss on page 107 of this annual report.

The Board recommended the payment of a final dividend for the year 2019 in an aggregate amount of RMB187,353,655.08, representing a dividend of RMB0.03 per share (2018: RMB0.03 per share), calculated based on the existing number of total issued shares of 6,245,121,836 shares of the Company as at the date of this report, subject to adjustment (if any) based on the number of total issued shares 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 Wednesday, 3 June 2020 (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 Friday, 29 May 2020 to Wednesday, 3 June 2020 (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 Thursday, 28 May 2020.

In accordance with Article 152 of the Articles of Association of the Company, the dividend will be declared in RMB to the shareholders. The dividend payable to shareholders will be paid within three months after the dividend declaration date. The dividend 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 business days prior to the declaration of dividends at the annual general meeting of the Company to be held on Friday, 22 May 2020 (the "**2019 AGM**"). Subject to the approval of the Company's shareholders at the 2019 AGM, the aforementioned dividend is expected to be paid by the Company on or before 18 August 2020.

The 2019 AGM will be held on Friday, 22 May 2020. The H share register of members of the Company will be closed from Saturday, 2 May 2020 to Friday, 22 May 2020 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of the Company's H Shares whose names appear on the Company's register of members at the opening of business on Friday, 22 May 2020 are entitled to attend and vote at the 2019 AGM. In order to be eligible to attend and vote at the 2019 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 register, not later than 4:30 pm on Wednesday, 29 April 2020.

According to the Company Law of the People's Republic of China, relevant laws and regulations, and the Articles of Association, the profits after payment of the relevant taxation shall be distributed in the following order:

- make up of losses;
- transfer to statutory common reserve fund;
- transfer to discretionary common reserve fund;
- payment of dividends to ordinary shares.

The determination to pay such dividends will be made at the discretion of the Board and will be based upon the operating results, cash flows, financial positions, capital requirements and other relevant circumstances that the Board deems relevant and proposed at the general meeting for shareholders' approval.

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 24 July 2019.

In addition, pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui [2014] No. 81) and the Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Program (Cai Shui [2016] No. 127), for domestic individual shareholders who invest in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-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 whose securities investment funds investing in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-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 and Shenzhen-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 structure of share capital as at 31 December 2019 was as follows:

Class of Shares	Number of Shares as at 31 December 2019	Percentage of total number of Shares in issue as at 31 December 2019 (%)
Domestic Shares	0	0
Overseas listed foreign invested shares (H Shares)	6,245,121,836	100
Total	**6,245,121,836**	**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 2019, pursuant to the register kept under Section 336 of the Securities and Futures Ordinance (the "**SFO**"), shareholders holding 5% or more equity interests in the class shares and underlying shares of 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 in issue	Nature of Shares held
AVIC (Note 1)	H Shares	Beneficial owner, Interest in controlled corporation	3,499,531,569	56.04%	Long position
	Domestic Shares (Note 2)	Beneficial owner	1,250,899,906	83.36%	Long position
Tianjin Free Trade Zone Investment Company Limited* (天津保稅區投資有限公司) ("**Tianjin Free Trade Zone Investment**")	Domestic Shares (Note 2)	Beneficial owner	249,769,500	16.64%	Long position
Airbus Group (Note 3)	H Shares	Beneficial owner	312,255,827	5.00%	Long position

Notes:

1 Out of the 3,499,531,569 H Shares held by AVIC, 3,297,780,902 H Shares are held as beneficial owner and 183,404,667 H Shares are held through AVIC Airborne Systems, its wholly-owned subsidiary, and 18,346,000 H Shares are held by AVIC through China Aviation Industry (Hong Kong) Company Limited, its wholly-owned subsidiary.

2 Pursuant to the equity acquisition and share issuance agreement dated 28 November 2019, the Company proposed to issue a number of 1,500,669,406 Domestic Shares as the consideration for the acquisition, among which, a number of 1,250,899,906 and 249,769,500 Domestic Shares will be issued to AVIC and Tianjin Free Trade Zone Investment, respectively. As of the date of the report, the transaction is undergoing. The percentage in the column "approximate percentage of shareholdings to the same class of Shares in issue" in the table is based on the assumption that the Company has completed the issuance of 1,500,669,406 Domestic Shares.

3 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 2019, the Company had not been notified of any interests and short positions in 5% or more 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 LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2019.

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 2019, 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 2019 are set out in the Consolidated Statement of Changes in Equity and Note 36 to the financial statements.

DISTRIBUTABLE RETAINED EARNINGS

As at 31 December 2019, the Company had distributable retained earnings of RMB641,404,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's total purchases from the five largest suppliers for the aviation business accounted for 14.67% of the Group's total purchases, of which, purchases from the largest supplier accounted for 4.30% of the Group's total purchases. The Group's sales to the five largest customers accounted for 46.35% of the Group's total sales, of which, sales to the largest customer accounted for 20.07% of the Group's total sales.

Purchases from the five largest suppliers in the aviation entire aircraft segment accounted for 30.07% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 9.26% of the total purchases in that segment. Sales to the five largest customers in the aviation entire aircraft segment accounted for 91.10% of the total sales in that segment, of which, sales to the largest customer accounted for 43.06% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation parts and components segment accounted for 6.85% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 1.51% of the total purchase in that segment. Sales to the five largest customers in the aviation parts and components segment accounted for 24.58% of the total sales in that segment, of which, sales to the largest customer accounted for 7.12% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation engineering services segment accounted for 17.48% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 6.52% of the total purchase in that segment. Sales to the five largest customers in the aviation engineering services segment accounted for 37.18% of the total sales in that segment, of which, sales to the largest customer accounted for 12.14% of the total sales in that segment.

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

SUBSIDIARIES

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

DIRECTORS

Details of the Directors are set out from pages 22 to 26 of this annual report. Details of changes of the Directors during the year 2019 are set out from pages 46 to 47 of this annual report.

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

1. On 31 May 2019, Hongdu Aviation and Hongdu Group entered into the Asset Swap Agreement, pursuant to which Hongdu Aviation agreed to (i) acquire the Acquisition Assets from Hongdu Group(the "**Acquisition**"); and (ii) dispose of the Disposal Assets to Hongdu Group (the "**Disposal**"). The Acquisition Assets are Hongdu Group's defence business related assets. The Disposal Assets are Hongdu Aviation's parts and components manufacturing business related assets. The consideration for the acquisition of the Acquisition Assets is RMB1,362,424,500, such consideration shall be satisfied by Hongdu Aviation transferring the Disposal Assets to Hongdu Group. The consideration for the disposal of the Disposal Assets is RMB2,208,462,300, such consideration shall be satisfied by Hongdu Group (i) transferring the Acquisition Assets to Hongdu Aviation; and (ii) paying the difference between the consideration for the Acquisition and the Disposal (being RMB846,037,800) to Hongdu Aviation in cash. The Asset Swap Transactions comprise both the Acquisition and the Disposal. Pursuant to the relevant requirements of the Hong Kong Listing Rules, the Company classifies the Asset Swap Transactions by reference to the larger of the Acquisition or the Disposal in terms of percentage ratios, and complies with the applicable requirements of the Hong Kong Listing Rules based on such classification. As the highest applicable percentage ratio in respect of the Asset Swap Transactions exceeds 5% but is less than 25%, the Asset Swap Transactions constitute a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. In addition, as the highest percentage ratio (other than profits ratio) in respect of the Asset Swap Transactions is 5% or above, the Asset Swap Transactions also constitute a non-exempt connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the Asset Swap Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules. The Asset Swap Transactions have been approved on the extraordinary general meeting convened on 23 August 2019. For details, please refer to the announcements of the Company dated 31 May 2019 and 23 August 2019, and the circular dispatched to the shareholders dated 23 July 2019.

2. On 28 November 2019, the Company entered into the Equity Acquisition and Share Issuance Agreement with AVIC and Tianjin Free Trade Zone Investment, pursuant to which, the Company conditionally agreed to acquire (i) 68.75% and 31.25% equity interests in AVIC Helicopter held by AVIC and Tianjin Free Trade Zone Investment, respectively; (ii) 10.21% equity interests in Harbin Aircraft Industry Group Co., Ltd.* (哈爾濱飛機工業集團有限責任公司) ("**Harbin Aircraft**") held by AVIC; and (iii) 47.96% equity interests in Changhe Aircraft Industries (Group) Co., Ltd.* (昌河飛機工業(集團)有限責任公司) ("**Changhe Aircraft**") held by AVIC, at a total consideration of approximately RMB5,687,537,050.94. Upon completion of the Proposed Acquisition, each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft will become a wholly-owned subsidiary of the Company. As confirmed by relevant regulatory authorities in the PRC and each party to the Equity Acquisition and Share Issuance Agreement, the consideration for the Proposed Acquisition is proposed to be settled by issuance of the Domestic Shares of the Company to AVIC and Tianjin Free Trade Zone Investment. As at the date of the Equity Acquisition and Share Issuance Agreement, AVIC is the controlling shareholder of the Company, and thus it is a connected person of the Company. The Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder are connected transactions of the Company under the Hong Kong Listing Rules. Therefore, the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder also are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. As at the date of the report, the above transactions have been approved on the extraordinary general meeting convened on 13 February 2020. For details, please refer to the announcements of the Company dated 12 October 2018, 13 October 2019, 28 November 2019 and 13 February 2020, and the circular dispatched to the shareholders dated 6 January 2020.

3. On 4 December 2019, AVIC Airborne Systems entered into the Equity Transfer Agreement with AVIC Avionics, pursuant to which, AVIC Avionics agreed to sell and AVIC Airborne Systems agreed to acquire, 100% of the equity interest in Shaanxi Baocheng for a consideration of RMB481,981,016.05. Immediately upon completion of the Transfer, AVIC Avionics will no longer hold any equity interest in Shaanxi Baocheng. As at the date of the Equity Transfer Agreement, AVIC Avionics is a subsidiary of the Company and AVIC is the controlling shareholder of the Company. AVIC Airborne Systems is a wholly-owned subsidiary of AVIC and is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The entering into of the Equity Transfer Agreement between AVIC Avionics and AVIC Airborne Systems constitutes 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 4 December 2019.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

(a) Continuing connected transactions between the Company and connected persons in 2019

For the year ended 31 December 2019, the Group engaged in continuing connected transactions with AVIC, 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 43.21% 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 34.77% 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 connected person of the Company.

With AVIC

During the year 2019, the Group carried out the following continuing connected transactions with AVIC Group pursuant to the four continuing connected transaction agreements entered into between the Company and AVIC:

1 On 30 August 2017, the Company entered into the mutual supply of products agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group and the Group agreed to mutually provide manufacturing raw materials, parts and components, finished and semi-finished aviation products (including but not limited to aviation entire aircraft and aviation parts and components) required by aviation products used in their respective production and business operation activities and their related sale and ancillary services for a term of three years ending 31 December 2020.

2 On 30 August 2017, 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 2020 and the Group also agreed to provide certain services relating to the production and business operations of AVIC Group including but not limited to engineering technologies, engineering general contracting and equipment general contracting services for a term of three years ending 31 December 2020.

3 On 30 August 2017, the Company entered into the trademarks and technology cooperation framework agreement with AVIC to continue certain continuing connected transactions, pursuant to the agreement, AVIC Group and the Group agreed to mutually provide, among others, certain licenses of trademarks and technology cooperation services to each other for a term of three years ending 31 December 2020.

4 On 30 August 2017, the Company entered into the land use rights and properties leasing agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group and the Group agreed to mutually lease certain land and properties for manufacturing and operation for a term of three years ending 31 December 2020.

With AVIC Avionics and AVICOPTER

5 On 30 August 2017, the Company entered into products and services mutual supply and guarantee agreement with AVIC Avionics and AVICOPTER to continue certain continuing connected transactions. Pursuant to which, the Group agreed to provide aviation parts and components, raw materials, and relevant production, labor and guarantee(s) services, as well as engineering technology, engineering general contracting, equipment general contracting services, etc. to AVIC Avionics Group and AVICOPTER Group for a term of three years ending 31 December 2020; and AVIC Avionics Group and AVICOPTER Group agreed to provide aviation parts and components and related ancillary services, engineering and equipment sub-contracting services to the Group for a term of three years ending 31 December 2020.

With AVIC Finance

6 On 30 August 2017, the Company 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 for a term of three years ending 31 December 2020.

Entrusted Loan Framework Agreement entered into between AVIC CAPDI, AVIC Finance and AVIC Construction and Development Technology

7 On 30 August 2017, AVIC CAPDI, a wholly-owned subsidiary of the Company, entered into the entrusted loan framework agreement ("**Entrusted Loan Framework Agreement**") with AVIC Finance and AVIC Construction and Development (Beijing) Technology Co., Ltd.* (中航建發(北京) 科技有限公司) ("**AVIC Construction and Development Technology**"), pursuant to which, AVIC CAPDI has agreed to grant the entrusted loans, each of which would have a term of not more than one year, to AVIC Institute of Geotechnical Engineering Co., Ltd.* (中航勘察設計研究院有限公司) ("**AVIC Geotechnical**") and China Aviation Changsha Design and Research Co., Ltd.* (中航長沙設計研究院有限公司) ("**AVIC Changsha Design**"), both being subsidiaries of AVIC Construction and Development Technology, through AVIC Finance for three years ending 31 December 2019. The daily balance of the outstanding entrusted loans under the Entrusted Loan Framework Agreement shall not be more than RMB300 million for each of the years from 2017 to 2019. As AVIC is the controlling shareholder of the Company and AVIC Finance, AVIC Construction and Development, AVIC Geotechnical and AVIC Changsha Design are subsidiaries of AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, AVIC Finance, AVIC Construction and Development, AVIC Geotechnical and AVIC Changsha Design are connected persons of the Company and the grant of the entrusted loans under the Entrusted Loan Framework Agreement to AVIC Geotechnical and AVIC Changsha Design constitutes continuing connected transactions of the Company.

Financial Service Framework Agreement with AVIC Trust

8 On 10 July 2018, the Company entered into the Financial Service Framework Agreement with AVIC Trust, pursuant to which, the Group will, from time to time, utilize the financial services provided by AVIC Trust as and when the Group deems necessary for a term of three years ending 9 July 2021. Such services include the tailored financial products offered by AVIC Trust to the Group which will enhance the Group's capital operation efficiency. After the entering into of the Financial Service Framework Agreement, the Group proposed to purchase assembled fund trust plan products issued by AVIC Trust as the trustee pursuant to the individual purchase agreements to be entered into by the Group and AVIC Trust. The maximum daily balance for the financial products to be purchased by the Group during the three years ending 9 July 2021 under the Financial Service Framework Agreement is RMB800 million. AVIC is the controlling shareholder of the Company and AVIC Trust is a subsidiary of AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, AVIC Trust is a connected person of the Company and the entering into of the Financial Service Framework Agreement with AVIC Trust constitutes continuing connected transactions of the Company.

For details of the aforementioned continuing connected transactions, please refer to the announcements of the Company dated 30 August 2017 and 10 July 2018 and the circular dated 16 November 2017.

The annual caps of the year 2019 for the continuing connected transactions and the actual transaction amounts incurred by the Group in 2019 are set out below. For the year ended 31 December 2019, such continuing connected transactions of the Group were calculated on a consolidated basis as follows:

	2019	
	Actual Amount (RMB million)	Annual Cap (RMB million)
1 Mutual Supply of Products Agreement		
(a) Annual expenditure of the Group	8,197	22,100
(b) Annual revenue of the Group	22,530	44,000
2 Mutual Provision of Services Agreement		
(a) Annual expenditure of the Group	353	2,900
(b) Annual revenue of the Group	2,610	10,500
3 Land Use Rights and Properties Leasing Agreement		
(a) Annual expenditure of the Group	56	71
(b) Annual revenue of the Group	21	27
4 Trademarks and Technology Cooperation Framework Agreement		
(a) Annual expenditure of the Group	142	910
(b) Annual revenue of the Group	197	390
5 Products and Services Mutual Supply and Guarantee Agreement		
(a) Annual expenditure of the Group	924	1,700
(b) Annual revenue of the Group	1,079	2,600

	2019 Maximum daily outstanding balance of deposit (RMB million)	Cap for the maximum daily outstanding balance of deposit (RMB million)
6 Financial Services Framework Agreement with AVIC Finance		
(a) Maximum daily outstanding balance of deposits (including accrued interests) placed by the Group with AVIC Finance	8,698	11,000

	Actual Amount (RMB million)	Annual Cap (RMB million)
(b) Other financial services provided by AVIC Finance to the Group	144	4,000

	2019 Maximum daily actual outstanding balance (RMB million)	Cap for the maximum daily outstanding balance (RMB million)
7 Entrusted Loan Framework Agreement entered into between AVIC CAPDI, AVIC Finance and AVIC Construction and Development Technology		
Maximum daily outstanding balance of entrusted loans of the Group	30	300
8 Financial Service Framework Agreement with AVIC Trust		
The maximum daily balance for the financial products of AVIC Trust to be purchased by the Group	570	800

The Company has reviewed the above non-exempt continuing connected transactions and relevant internal control procedures, the results of which have been submitted to independent non-executive Directors. The Company also provided sufficient materials to independent non-executive Directors for review.

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 favorable 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 Company and its shareholders as a whole; and

(d) the amounts of the transactions have not exceeded the respective caps as set out above.

The Company's auditors have reviewed the above continuing connected transactions, and have confirmed in a letter to the Board stating that:

(a) the transactions were approved by the Board;

(b) the 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.

According to the Hong Kong Listing Rules, both the above transactions and part of the related party transactions mentioned in note 40 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.

(b) *Other continuing connected transaction agreement entered into by the Company in 2019*

Framework Agreement entered by AVIC CAPDI and AVIC Renewable Energy

On 23 August 2019, AVIC CAPDI, a wholly-owned subsidiary of the Company, entered into the Framework Agreement with AVIC Renewable Energy, pursuant to which, AVIC CAPDI agreed to grant the Entrusted Loans (each for a term of not more than one year) to AVIC Renewable Energy through AVIC Finance for the three years ending 31 December 2022. The daily balance of the outstanding entrusted loans under the Framework Agreement shall not be more than RMB300 million during the three years ending 31 December 2022. Pursuant to the Framework Agreement, AVIC CAPDI also agreed to provide Guarantees to AVIC Renewable Energy for the economic businesses with banks and financial institutions for the three years ending 31 December 2022. The daily balance of the outstanding guarantees under the Framework Agreement shall not be more than RMB300 million during the three years ending 31 December 2022. As at the date of the Framework Agreement, AVIC is the controlling shareholder of the Company, and AVIC Renewable Energy is a subsidiary of the Company, which is owned as to over 10% by AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, AVIC Renewable Energy is a connected person of the Company and the grant of the Entrusted Loans and Guarantees under the Framework Agreement by AVIC CAPDI to AVIC Renewable Energy will constitute continuing connected transactions of the Company. For details, please refer to the announcement of the Company dated 23 August 2019.

One-Off Connected Transactions

1. On 30 January 2019, AviChina Hong Kong entered into the Loan Agreement with AVICT Global Holdings Limited* (航信環球控股有限公司) ("**AVICT Global**") and AVICT Dragon Holdings Limited* (航龍控股有限公司) ("**AVICT Dragon Holdings**"), pursuant to which, AviChina Hong Kong has agreed to grant the loan with an amount of not more than HK$260 million to AVICT Global for a term of twelve months, and AVICT Dragon Holdings has agreed to grant the debt transfer right to AviChina Hong Kong in connection with the loan. As at the date of the Loan Agreement, AVIC is the controlling shareholder of the Company. Both AVICT Global and AVICT Dragon Holdings are beneficially controlled by AVIC Trust, a subsidiary of AVIC. AviChina Hong Kong is a wholly-owned subsidiary of the Company. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVICT Global and AVICT Dragon Holdings is a connected person of the Company. Each of the grant of the loan by AviChina Hong Kong to AVICT Global and the grant of the debt transfer right by AVICT Dragon Holdings to AviChina Hong Kong constitutes a connected transaction of the Company. For details, please refer to the announcement issued by the Company on 30 January 2019.

2. On 22 April 2019, AviChina Intelligent Surveying & Mapping entered into the Joint Venture Agreement with Jincheng Group Limited* (金城集團有限公司) ("**Jincheng Group**") and Nanjing Tianyue Investment Partnership (Limited Partnership)* (南京天躍投資合夥企業 (有限合夥)) in relation to the proposed formation of AVIC Jincheng Unmanned System Co., Ltd.* (中航金城無人系統有限公司) ("**AVIC Jincheng**"). Pursuant to the Joint Venture Agreement, AviChina Intelligent Surveying & Mapping agreed to make a capital contribution of RMB100.32 million in cash, representing 44% of the total capital contribution of AVIC Jincheng. As at the date of the Joint Venture Agreement, AviChina Intelligent Surveying & Mapping is a subsidiary of the Company. Jincheng Group is a subsidiary of AVIC, the controlling shareholder of the Company, and Jincheng Group is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The entering into of the Joint Venture Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement issued by the Company on 22 April 2019.

3. On 31 May 2019, the board of directors of Hongdu Aviation, approved, among other things, that Hongdu Aviation would not exercise the right of first refusal to acquire the 45% equity interest in China Aviation Lithium Battery Co., Ltd.* (中航鋰電(洛陽)有限公司) ("**Lithium Battery Luoyang**"). The Board of the Company has also approved the above non-exercise the right of first refusal by Hongdu Aviation. As of the date of the approval by the Board, Lithium Battery Luoyang is a subsidiary of Sichuan Chengfei Integration Technology Corporation Limited* (四川成飛集成科技股份有限公司) ("**Chengfei Jicheng**"), which is held as to 1.92% by Hongdu Aviation and 63.98% by Chengfei Jicheng, respectively. Pursuant to the Company Law of the PRC, Hongdu Aviation, as a shareholder of Lithium Battery Luoyang, under the same condition, is entitled to the right of first refusal with respect to any transfer of equity interest in Lithium Battery Luoyang by Chengfei Jicheng to any other persons (excluding the existing shareholders of Lithium Battery Luoyang), pursuant to which Hongdu Aviation has a pre-emptive right to purchase the equity interest. Thus, Hongdu Aviation has a pre-emptive right to purchase the 45% equity interest in Lithium Battery Luoyang transferred by Chengfei Jicheng to China Aviation Lithium Battery (Luoyang) Co., Ltd.* (中航鋰電科技有限公司) in a consideration of RMB1,094.2823 million. Hongdu Aviation is a subsidiary of the Company. Chengfei Jicheng is a subsidiary of AVIC, the controlling shareholder of the Company, and Chengfei Jicheng is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The non-exercise of the right of first refusal constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement issued by the Company on 31 May 2019.

4. On 9 July 2019, AVIC Heavy Machinery Company Limited * (中航重機股份有限公司) ("**AVIC Heavy Machinery**") entered into the Counter Guarantee Agreement with AVIC Renewable Energy, pursuant to which AVIC Renewable Energy agreed to provide the counter guarantee in favour of AVIC Heavy Machinery to create security for the joint liability guarantee provided by AVIC Heavy Machinery in favour of Jinzhou (Baotou) Renewable Energy Co., Ltd. * (金州(包頭)可再生能源有限公司) for the loan. As at the date of the Counter Guarantee Agreement, AVIC Renewable Energy is a non-wholly-owned subsidiary of the Company. AVIC Heavy Machinery is a subsidiary of AVIC, the controlling shareholder of the Company, and AVIC Heavy Machinery is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The entering into of the Counter Guarantee Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement issued by the Company on 9 July 2019.

5. On 25 July 2019, the Company entered into the Partnership Agreement with AVIC, AVIC Capital, AVIC Rongfu, China Life Guangde (Tianjin) Equity Investment Fund Partnership (Limited Partnership)* (國壽廣德(天津)股權投資基金合夥企業(有限合夥)) ("**Guangde Investment Fund**") and Zhenjiang Dingqiang Intelligent Manufacturing Investment Partnership (Limited Partnership)* (鎮江鼎強智能製造投資合夥企業(有限合夥)) ("**Zhenjiang Investment**") in relation to the formation of Beijing AviChina Phase I Aviation Industrial Investment Fund (Limited Partnership)* (北京中航一期航空工業產業投資基金 (有限合夥)) (the "**Fund**", subject to the industrial and commercial registration) with an initial total capital commitment of RMB4 billion. Pursuant to the Partnership Agreement, the Company and AVIC Rongfu agreed to make a capital contribution of RMB600 million and RMB50 million in cash, representing 15% and 1.25% of the total capital contribution of the Fund, respectively. Upon establishment, the partnership interest in the Fund will be held as to 15%, 10%, 15%, 1.25%, 50% and 8.75% by the Company, AVIC, AVIC Capital, AVIC Rongfu, Guangde Investment Fund and Zhenjiang Investment, respectively. As at the date of the Partnership Agreement, AVIC is the controlling shareholder of the Company and AVIC Capital is a subsidiary of AVIC. AVIC Rongfu is a subsidiary of the Company, which is directly and indirectly held as to over 10% by AVIC. Therefore, each of AVIC, AVIC Capital and AVIC Rongfu is a connected person of the Company. The Fund is also a connected person of the Company by virtue of AVIC's partnership interest and management power in the Fund. Each of the formation of the Fund and the payment of management fees by the Fund to AVIC Rongfu constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcements issued by the Company on 26 February 2018, 2 July 2019 and 25 July 2019.

6. On 22 October 2019, AviChina Hong Kong, AVICT Global and AVICT Dragon Holdings entered into the Supplemental Agreement, pursuant to which the parties agreed to extend the repayment date of the loan under the Loan Agreement dated 19 October 2018 from 22 October 2019 to 22 October 2020, with a fixed interest rate of 7% per annum for the above extension period. As at the date of the Supplemental Agreement, AVIC is the controlling shareholder of the Company. Both AVICT Global and AVICT Dragon Holdings are beneficially controlled by AVIC Trust, a subsidiary of AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVICT Global and AVICT Dragon Holdings is a connected person of the Company. Each of the grant of the loan by AviChina Hong Kong to AVICT Global and the grant of the debt transfer right by AVICT Dragon Holdings to AviChina Hong Kong contemplated under the Loan Agreement (as supplemented by the Supplemental Agreement) constitutes a connected transaction of the Company. For details, please refer to the announcements issued by the Company on 19 October 2018 and 22 October 2019.

For other one-off connected transactions of the Group, please refer to "Material Acquisitions and Disposals of Subsidiaries and Associated Companies During the Reporting Year" of this session from page 35 to page 36.

OTHER SIGNIFICANT EVENTS DURING THE REPORTING YEAR

1. As at 18 June 2019, the term of the Company's Shareholding Increase Plan in JONHON Optronic, a subsidiary of the Company, expired, and the Company had completed the shareholding increase. During the period, the Company purchased a total number of 1,711,300 shares of JONHON Optronic through centralized bidding system of Shenzhen Stock Exchange, accounting for approximately 0.22% of the total share capital of JONHON Optronic, at an average purchasing price of RMB34.77 per share, with a total amount of RMB59,500,012.90 (including transaction fees). Before the implementation of the Shareholding Increase Plan, the Company held 325,632,280 shares of JONHON Optronic, representing approximately 41.17% of the total issued shares of JONHON Optronic. Upon completion of the Shareholding Increase Plan, the Company held 327,343,580 shares of JONHON Optronic. After completion of the 2018 equity distribution plan of JONHON Optronic, the number of shares of JONHON Optronic held by the Company increased from 327,343,580 to 425,546,654, representing approximately 41.39% of the total issued shares of JONHON Optronic. The Company will not reduce its shareholding in JONHON Optronic during the 6 months upon implementation of such shareholding increase and any period as prescribed by laws. For details, please refer to the announcements issued by the Company on 18 December 2018 and 19 June 2019.

2. The existing registered address of the Company in the PRC will be changed from "8th floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing, the PRC" to "2nd floor, Building 27, No. 26 Xihuan South Street, Beijing Economic Technological Development Area, Beijing, the PRC" with effect from the approval of the proposed amendments to the Articles of Association by the shareholders at the shareholders' general meeting convened on 23 August 2019. For details, please refer to the announcements issued by the Company on 9 July 2019 and 23 August 2019.

3. On 16 July 2019, the Company and Fuguo Zhongzheng Military Industry Leading Exchange Traded Fund* (富國中證軍工龍頭交易型開放式指數證券投資基金) ("**ETF Fund**") confirmed that, the Company has subscribed for the interest in ETF Fund ("**Subscription**") in consideration of 13,512,700 A shares in Zhonghang Electronic Measuring Instruments Co., Ltd* (中航電測儀器股份有限公司)("**ZEMIC**") (representing approximately 2.29% equity interest in ZEMIC) and 2,430,500 A shares in AVIC SHENYANG Aircraft Company Limited * (中航沈飛股份有限公司) ("**AVIC Shenyang Aircraft**") (representing approximately 0.17% equity interest in AVIC Shenyang Aircraft) held by the Company. The average price of the A shares in ZEMIC and AVIC Shenyang Aircraft for the Subscription is RMB9.10 per share and RMB29.37 per share, respectively. Upon completion of the Subscription, the Company holds 84 A shares in ZEMIC and 1 A shares in AVIC Shenyang Aircraft, representing approximately 0.00% equity interest of each of ZEMIC and AVIC Shenyang Aircraft, respectively. On 29 July 2019, the Company and ETF Fund confirmed that the Subscription had been completed. The ETF Fund finally accepted that the Company subscribed for 130,252,505 partnership interest in the ETF Fund in consideration of 6,469,200 A shares in ZEMIC (representing approximately 1.10% equity interest in ZEMIC) and 2,430,500 A shares in AVIC Shenyang Aircraft (representing approximately 0.17% equity interest in AVIC Shenyang Aircraft) held by the Company. The average price of the A shares in ZEMIC and AVIC Shenyang Aircraft for the Subscription is RMB9.10 per share and RMB29.37 per share, respectively. Upon completion of the Subscription, the Company holds 7,043,584 A shares in ZEMIC and 1 A share in AVIC Shenyang Aircraft, representing approximately 1.19% and 0.00% equity interest of ZEMIC and AVIC Shenyang Aircraft, respectively. For details, please refer to the announcements issued by the Company on 16 July 2019 and 29 July 2019.

4. On 26 December 2019, JONHON Optronic granted 31.4934 million restricted shares to 1,182 incentive objects of the A-share restricted stock incentive plan (Phase Two). The grant date was 26 December 2019, and the grant price was RMB23.43 per share. The source of the shares was targeted issuance of new shares to the incentive objects. For details, please refer to the announcements of the Company dated 27 October 2016, 18 January 2017, 18 November 2019, 9 December 2019 and 27 December 2019.

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 2019 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

On 18 May 2017, Ernst & Young and Ernst & Young Hua Ming LLP were no longer to be the international and PRC auditors of the Company, respectively, and SHINEWING (HK) CPA Limited and ShineWing Certified Public Accountant LLP were appointed as the international and PRC auditors of the Company. Saved as disclosed above, there is no change of the auditor of the Company in the past three years.

According to the Financial Reporting Council Ordinance (Cap 588) of Hong Kong effective on 1 October 2019, SHINEWING (HK) CPA Limited engaged by the Company is a registered international auditor, and ShineWing Certified Public Accountant LLP is a recognised PRC auditor.

The financial statements for the year 2019 have been audited by SHINEWING (HK) CPA Limited.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Due to other work commitment, Mr. Tan Ruisong tendered a resignation to the Board to retire as the chairman of the Board. At the Board meeting held on 20 March 2019, Mr. Chen Yuanxian, an executive Director of the Company, was elected as the chairman of the sixth session of the Board.

Due to other work commitment, each of Mr. Tan Ruisong, Mr. Li Yao and Mr. Patrick de Castelbajac tendered a resignation to the Board to retire as Director and other positions in the special committees under the Board, respectively. At the annual general meeting convened on 17 May 2019, Mr. Yan Lingxi, Mr. Lian Dawei and Mr. Xu Gang were elected as the non-executive Directors of the sixth session of the Board, respectively.

Meanwhile, Mr. He Zhiping applied to the Board to resign from his positions as a non-executive Director and a member of the development and strategy committee, due to other work arrangement. The resignation of Mr. He Zhiping took effect on 17 May 2019.

Due to other work commitment, Mr. Chen Yuanxian and Mr. Yan Lingxi applied to the Board for resignation as the general manager and standing deputy general manager of the Company, respectively, in March 2019. At the Board meeting held on 20 March 2019, the Board resolved to appoint Mr. Wang Xuejun as the general manager of the Company, with a term commencing from the date of approval of such resolution to the date on which the Board removes his duty. Upon his appointment as the general manager, the Board resolved to re-designate Mr. Wang Xuejun from a non-executive Director to an executive Director.

BOARD REPORT

As of the date of this report, the sixth session of the Board consists of the following members: Mr. Chen Yuanxian (chairman, executive Director), Mr. Wang Xuejun (executive Director), Mr. Yan Lingxi (non-executive Director), Mr. Lian Dawei (non-executive Director), Mr. Xu Gang (non-executive Director), Mr. Liu Renhuai (independent non-executive Director), Mr. Liu Weiwu (independent non-executive Director) and Mr. Wang Jianxin (independent non-executive Director).

The sixth session of the Supervisory Committee is composed of the following members: Mr. Zheng Qiang (shareholder representative Supervisor), Mr. Guo Guangxin (shareholder representative Supervisor) and Mr. Shi Shiming (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', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN BUSINESSES WHICH CONSTITUTE COMPETITION WITH THE COMPANY

As at 31 December 2019, none of the Directors or Supervisors or senior management had any interest in any businesses which may constitute competition, directly or indirectly, with the Company.

RELATIONSHIPS AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN FINANCE, BUSINESSES AND KINSHIP

None of the Directors or Supervisors or senior management had any relationship with each other in finance, businesses and kinship besides working relationship.

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

Save as disclosed in this annual report, 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, subsidiaries of the Company, its holding company or subsidiary of the Group 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 2019, 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 Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers".

Name	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Directors					
Chen Yuanxian	H Share	Beneficial owner	255,687	0.004%	Long position
Yan Lingxi	H Share	Beneficial owner	267,740	0.004%	Long position
Supervisors					
Zheng Qiang	H Share	Beneficial owner	239,687	0.004%	Long position
		Interest of spouse	1,000	0.000%	Long position
Shi Shiming	H Share	Beneficial owner	35,984	0.0006%	Long position

Note: As at 31 December 2019, Mr. Zheng Qiang and his spouse jointly held 126,400 A shares in AVIC Capital, representing approximately 0.0014% of the total issued share capital of AVIC Capital. AVIC Capital is a subsidiary of AVIC, and therefore it is an associated corporation (within the meaning of Part XV of the SFO) of the Company.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of remuneration of the 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 2019, 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 2019.

COMPLIANCE WITH LAWS AND REGULATIONS

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 including but not limited to the laws and regulations regarding quality, safety production, environmental protection, intellectual property and labor. Meanwhile, as a joint stock limited company incorporated in the PRC with limited liability and listed on the Hong Kong Stock Exchange, the Company is governed by various applicable domestic laws and regulations including the Company Law of the People's Republic of China, as well as the Hong Kong Listing Rules and the SFO.

The Group has implemented internal control measures to ensure its compliance with such laws and regulations. During the year ended 31 December 2019, within the knowledge of the Directors, 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 business.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

PRINCIPAL RISKS AND UNCERTAINTIES

For details of the financial risks of the Group, please refer to note 44 to the financial statements in this annual report. For details of the exchange rate risks of the Group, please refer to the section headed "Management Discussion and Analysis" in this annual 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,

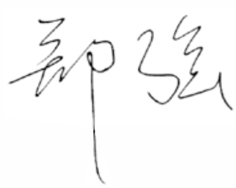
During the year of 2019, the Supervisory Committee strictly complied with the Company Law of the People's Republic of China, the Articles of Association and the Procedural Rules for Meetings of the Supervisory Committee and duly adhered to the principles of honesty and integrity in performing the supervisory duties and also in good faith safeguarded the shareholders' interests in a diligent, pragmatic and serious manner.

In 2019, the Supervisory Committee convened two meetings, at which eight resolutions were reviewed and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2018 annual report, 2019 interim report, the profits distribution plans for 2018 and the first six months of 2019. The Supervisory Committee also attended the Board meetings and general meetings held in 2019 to effectively monitor the convening and resolutions of the Board meetings and general meetings. Through convening Supervisory Committee meetings and attending various meetings, the Supervisory Committee performed its duties of reviewing all communicating votes of the Board, supervising the major operating activities of the Company, as well as the performance of Directors and senior management officers in discharging their duties, and remind the Board and senior management of the potential risks in a timely manner. At the same time, the Company revised the Articles of Association, the Rules of Procedure of the Board, and the Measures for the Management of Information Disclosure in 2019, perfecting the corporate governance related systems, and making the corporate governance more standardized and more efficient.

The Supervisors attended two meetings of the Audit Committee for the year 2019 and heard the report of the auditors of the Company, and communicated with the independent non- executive Directors and auditors in respect of the Company's major operating matters to acquire overall financial knowledge of the Company. Through the communication and discussion with the senior management of the Company, the Supervisory Committee considered the financial report submitted to the general meeting had objectively and fairly reflected the financial position and operating results of the Company and the accounts of the Company has standard specification, clear record and compete figures.

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 2019, the Board and the senior management of the Company had duly performed various duties, guaranteed the smooth operation of various businesses of the Company and enhanced the sustainable development capacities of the Company.

In 2020, the Supervisory Committee will continue to supervise on the operation of the risk control system of the Company, act in a diligent manner, and give full play to its supervisory roles in respect of the operation and management of the Company, financial position of the Company and the performance of the Directors and senior management of the Company. The Supervisory Committee will persistently strengthen the self-construction of the Supervisory Committee, to better safeguard the Company's and its shareholders' interests and to promote the Company to develop in a healthy and sustainable manner.



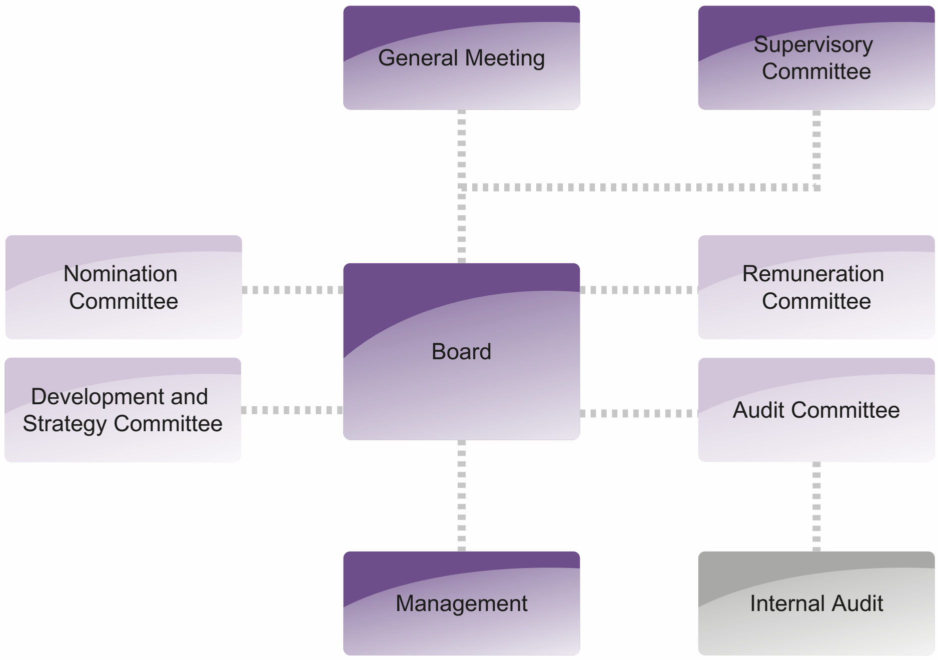
Chairman of the Supervisory Committee
Zheng Qiang

Beijing, 30 March 2020

Corporate Governance Report

The Company strictly complies with related applicable laws, regulations and rules as well as the Articles of Association to operate normally. During the reporting period, pursuant to the regulatory documentations including the Articles of Association, Rules Governing the Operation of General Meetings, Rules Governing the Operation of Board Meetings, 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, the Rules on Information Disclosure and Measures for Connected Transactions Management, the Company continuously enhanced its corporate governance standard through the co-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 in management through holding, strengthen strategic synergy among subsidiaries, actively develop aviation business and improve the aviation industry chain. The details of the business and financial review of the Group for the year 2019 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: Under the complicated international political and economic situation in 2019, the Company analyzed risks and its management at Board meetings, Supervisory Committee meetings and the meetings of the relevant specialized committees. The Board conducted continuous assessment on potential influence of ever-changing external environment and of those amendments to national laws, regulations and regulatory rules on the business of the Company.

– Improvement of the capacity of Directors and senior management: The Company provided information in relation to the supervision and the operations of the Company 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 Directors studied and discussed a series of topics including corporate governance and the management of the state-owned assets. The Company also arranged for a series of forums on the hot topics and important issues relating to the aviation business.

– Compliance with laws and regulations: During this year, to emphasize the importance of compliance with the PRC laws and regulations, the Company revised certain articles of the Articles of Association, Rules of Procedure of the Board and the Measures for the Management of Information Disclosure as well as improve the related governance system of the Company to govern more normally and operate more efficiently; Meanwhile, the Company continued to revise and update the rules and regulations of the Company according to the business model of the Company and the new requirements of laws and regulations to assure the Company's operation in compliance with rules and regulations. In respect of risk management and internal control, the Company worked on exploring and establishing a risk management and internal control system suitable for the business development and operation model of the Company, and continued to review and evaluate the underlying risks which may affect the realization of the Company's operation goals, so as to comprehensively improve the Company's risk management and internal control ability.

– Corporate governance report: The Board reviewed the corporate governance report 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 2019 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 Company is managed by the Board. The Board is responsible for leading and monitoring the Company and are collectively responsible for the overall management and supervision of the Company's affairs.

DIRECTORS

As at the date of this report, the Board comprises eight Directors, including two executive Directors, namely, Mr. Chen Yuanxian (Chairman) and Mr. Wang Xuejun (General Manager), three non-executive Directors, namely Mr. Yan Lingxi, Mr. Lian Dawei, and Mr. Xu Gang, and three independent non-executive Directors, namely, Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin. 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 the Company and its shareholders 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 an annual confirmation from each independent non-executive Director on their independence. Based on such confirmation and the relevant information available to the Board, the Company believes that each independent non-executive Director remains independent.

The Company adopts the formal procedures for 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 criteria include appropriate professional knowledge and industry experience, personal ethics, integrity and skills, and commitment of adequate time.

Each Director (including any non-executive Director) holds office for a period of three years, and is eligible for re-election upon 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 22 to 26 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.

The Company has made appropriate insurance arrangements for the legal actions that the Directors and senior management may face during the reporting period.

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, 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. The general manager is responsible for achieving 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 power delegated to the general manager 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 GENERAL MANAGER

The roles of the chairman and the general manager have been clearly segregated to ensure a balance of power and authority. The current chairman of the Company, Mr. Chen Yuanxian, is responsible for leading the Board to ensure the effective operation of the Board. The current general manager, Mr. Wang Xuejun, 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 general manager. Meanwhile, duties reserved to the chairman and those delegated to the general manager are also clearly set out in the Authorization System for Legal Person.

DIRECTORS TRAINING

Every newly appointed Director will receive relevant training based on his experience and background so as to deepen his understanding of the culture and operation of the Group. The training generally consists of introduction for organization, businesses and governance practice of the Group. During the reporting period, the newly appointed Directors Mr. Yan Lingxi, Mr. Lian Dawei, and Mr. Xu Gang had received training upon their respective appointment into the Board of the Company, and obtained materials and professional advices required for Directors' duty performance provided by the Company from time to time.

In addition, every Director will receive information in relation to guidelines on ethnics and other major governance matters upon joining the Board. Director training is a constant process to ensure that 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 covered 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 the Directors can continuously update and further improve their relevant knowledge and skills. During the reporting period, the 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 enterprise management, corporate governance, management of state-owned assets, knowledge for aviation industry 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 the Hong Kong Listing Rules, and organized workshops and discussions on such new rules for the Board members, the board secretary and other relevant personnel participating in the daily operation and management of the Company.

In addition, the Directors also proactively 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", the military-civilian integration development strategy, entrepreneurial spirit, etc. The trainings received by each Director during the reporting period were as follows:

	Training Scope		
Directors	Corporate Governance	Laws and Regulations	Business Management
Executive Directors			
Mr. Chen Yuanxian	√	√	√
Mr. Wang Xuejun*	√	√	√
Non-executive Directors			
Mr. Yan Lingxi	√	√	√
Mr. Lian Dawei	√	√	√
Mr. Xu Gang	√	√	√
Independent Non-executive Directors			
Mr. Liu Renhuai	√	√	√
Mr. Liu Weiwu	√	√	√
Mr. Wang Jianxin	√	√	√

* Mr. Wang Xuejun was designated from a non-executive Director to an executive Director of the Company on 20 March 2019.

BOARD MEETINGS

The Board convenes four regular meetings every year. Matters to be considered at these regular Board meetings have been provided in writing. Further, extraordinary 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 People's Republic of China and the Articles of Association.

The company secretary assists the Chairman in preparing the resolutions 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. 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 manner. This ensures that the Directors and specialized committee members are well-informed of the Company's latest development so as to facilitate discharging their duties.

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 when 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 inquires 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 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 2019, the Company convened two meetings of the Audit Committee, one meeting of the Remuneration Committee and one meeting of the 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 Hong Kong Stock Exchange.

Eight meetings were held by the Board during 2019. The attendance record of every Director at the Board meetings in 2019 is set out below:

Directors	Times of meeting should attend	Times of attendance	Times of attendance by proxy
Executive Directors			
Mr. Tan Ruisong*	2	2	0
Mr. Chen Yuanxian	8	8	0
Mr. Wang Xuejun**	8	8	0
Non-executive Directors			
Mr. Li Yao*	2	2	0
Mr. He Zhiping*	2	2	0
Mr. Patrick de Castelbajac*	2	1	1
Mr. Yan Lingxi*	6	5	1
Mr. Lian Dawei*	6	6	0
Mr. Xu Gang*	6	6	0
Independent Non-executive Directors			
Mr. Liu Renhuai	8	7	1
Mr. Liu Weiwu	8	7	1
Mr. Wang Jianxin	8	8	0

* Mr. Tan Ruisong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac tendered a resignation as the Director of the Company to the Board, respectively. The resignation took effect from 17 May 2019. At the 2019 AGM held on the same date, Mr. Yan Lingxi, Mr. Lian Dawei and Mr. Xu Gang were appointed as the non-executive Director of the six session of the Board of the Company, respectively.

** Mr. Wang Xuejun was designated from a non-executive Director to an executive Director of the Company on 20 March 2019.

In 2019, Directors who did not attend the Board meeting in person due to other business commitments all read the related meeting materials and appointed other Directors as proxies to present their opinions and exercise their voting rights on their behalf at the meeting.

DEVELOPMENT AND STRATEGY COMMITTEE

As at the date of the report, the Development and Strategy Committee of the Company comprises the Directors, namely Mr. Chen Yuanxian, Mr. Yan Lingxi, Mr. Wang Xuejun and Mr. Xu Gang. Mr. Chen Yuanxian is the chairman of the Development and Strategy Committee.

Main responsibilities of the Development and Strategy Committee of the Company include: to learn and know the comprehensive condition regarding the operation of the Company, to learn, analyze and know the current environment of the industry at home and abroad, to learn and know related national policies, research on short-term, mid-term and long-term development strategies of the Company and relevant issues, to provide consultation and suggestions to the Company on its long-term development strategies, major investments and reforms, to consider and approve special research reports on development strategies and to 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 2019 on matters relating to the committee's development, the Company's future development strategies and international cooperation. No formal meeting was held by the committee during the reporting period.

REMUNERATION COMMITTEE

As at the date of the report, the Remuneration Committee of the Company comprises the Directors, namely Mr. Liu Weiwu, Mr. Lian Dawei, Mr. Liu Renhuai and Mr. Wang Jianxin. Mr. Liu Weiwu is the chairman of the 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 2019, the Remuneration Committee held one meeting to consider and approve the resolutions relating to the remuneration standard of new Directors and new senior management and the remuneration standard of Directors, Supervisors and senior management in 2019.

For the year ended 31 December 2019, remunerations of senior management members by band are set out as follows:

Remuneration Band	Number
RMB700,000-800,000 (inclusive)	2
RMB800,000-900,000	1

Details of remunerations of Directors and Supervisors for the year ended 31 December 2019 are set out in Note 8 to the financial statements.

During the reporting period, the Remuneration Committee held one meeting and the attendance record of the meeting 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. Liu Weiwu	Chairman of the Remuneration Committee, independent non-executive Director	1	1	0
Mr. Liu Renhuai	Independent non-executive Director	1	1	0
Mr. Wang Jianxin	Independent non-executive Director	1	1	0
Mr. Lian Dawei*	Non-executive Director	1	1	0
Mr. Li Yao*	Non-executive Director	0	0	0

* On 17 May 2019, Mr. Lian Dawei was appointed as the new non-executive Director of the Company and the member of the Remuneration Committee; Mr. Li Yao ceased to be the non-executive Director of the Company and the member of the Remuneration Committee.

AUDIT COMMITTEE

As at the date of this report, the Audit Committee comprises four members, namely, Mr. Wang Jianxin, Mr. Liu Renhuai and Mr. Liu Weiwu who are independent non-executive Directors, and Mr. Wang Xuejun who is an executive Director. Mr. Wang Jianxin is the chairman of the Audit Committee. Mr. Wang Jianxin, Mr. Liu Weiwu and Mr. Wang Xuejun have appropriate professional qualifications in accounting or related financial management expertise as required by the Hong Kong Listing Rules.

The Board has established the Audit Committee and has formulated and amended 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, performing its internal audit function, 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.

The Audit Committee mainly assists the Board for performing duties in risk management and internal control, including evaluating and determining the nature and extent of the risks that the Company is willing to take in achieving its business objectives, overseeing management in the design and implementation of the risk management and internal control systems, so as to ensure the effectiveness of the risk management and internal control systems and in compliance with the Hong Kong Listing Rules and responsibilities (including the responsibilities to publish the financial results) stipulated under the applicable laws and regulations, and to verify the integrity of financial statements of the Company. In respect of internal audit function, the Audit Committee, on behalf of the Board, shall be directly responsible for selecting and monitoring the external auditors and the responsible persons of the internal audit institution and internal control institution of the Company, and assessing the independence, qualifications and performance of the external auditors. The Audit Committee has the power to propose, through passing a resolution, to the Board on dismissing the external auditors and the responsible persons of the internal audit institution and internal control institution. To ensure co-ordination among the work of internal audit institution, internal control institution and external auditors, and to ensure that the operation of the internal audit function and internal control function are adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness.

During 2019, the Audit Committee:

– reviewed the financial statements and the annual results announcement for the year ended 31 December 2018;

– reviewed the interim financial statements and relevant interim results announcement for the six months ended 30 June 2019;

– reviewed the Company's profit distribution plan for the year 2018 and the interim profit distribution plan for the year 2019;

– reviewed the proposal relating to the appointment of international and domestic auditors of the Company for the year 2019 and determination of their respective remunerations;

– reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2019, and regarded the systems being effective and sufficient;

– reviewed the Company's financial reporting system and risk management and internal control procedures; and

– reviewed the reports on operating results of the Company for the year 2018 and the first half of 2019, the internal control report of the Company for the year 2018, and listened to the report from the external auditors on its audit work in the year 2018 and on its review of 2019 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 2019.

The Audit Committee held two meetings during 2019. 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 risk management, internal control 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 record 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 proxy
Mr. Wang Jianxin	Chairman of the Audit Committee, independent non-executive Director	2	2	0
Mr. Li Yao*	Non-executive Director	1	0	1
Mr. Liu Renhuai	Independent non-executive Director	2	2	0
Mr. Liu Weiwu	Independent non-executive Director	2	2	0
Mr. Wang Xuejun*	Executive Director	1	1	0

* On 20 March 2019, Mr. Wang Xuejun was designated from a non-executive Director to an executive Director of the Company. On 17 May 2019, Mr. Wang Xuejun was appointed as the member of the Audit Committee of the Board, and Mr. Li Yao ceased to be the non-executive Director of the Company and the member of the Audit Committee of the Board.

EXTERNAL AUDITORS

In 2019, the annual payment made by the Company to the Company's external auditors in relation to auditing services amounted to RMB2.57 million. Such payment had been approved by the Audit Committee, the Board and the general meeting. In addition, the payment made by the Company to the Company's external auditors in relation to auditing services for other reorganization project amounted to RMB2.73 million. Saved for above, the Company's external auditors did not provide other non-auditing services to the Company and the Company did not make the payment in relation to non-auditing services.

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 104 to 106 of this annual report.

NOMINATION COMMITTEE

As at the date of the report, the Nomination Committee of the Company comprises the Directors, namely Mr. Chen Yuanxian, Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin. Mr. Chen Yuanxian is the Chairman of the 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 the 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. The procedures for appointment of a new Director of the Company are: for any Director candidate recommended by the shareholders pursuant to the Articles of Association, the Nomination Committee shall nominate such Director candidate for consideration and approval by the Board, which is then put forward for election at a general meeting.

In order to achieve the purpose of the diversity of the Board, the Nomination Committee has established the following selection criteria for Directors:

– to select candidates with objective criteria, taking into account comprehensive factors such as the gender, age, culture, educational background as well as professional experience of the Board members;

– to select candidates for Directors according to the business characteristics and future development needs of the Company.

During the reporting period, members of the Nomination Committee had carefully studied the nomination standards and procedures for the Directors, Supervisors and senior management of the Company.

The Nomination Committee held one meeting in 2019. The Nomination Committee discussed the composition and size of the Board and professional committees, and approved resolutions relating to change of Directors and resolutions relating to the adjustment of members of the senior management team of the Company. The attendance record 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 proxy
Mr. Tan Ruisong*	Chairman of the Nomination Committee, executive Director	1	1	0
Mr. Chen Yuanxian*	Chairman of the Nomination Committee, executive Director	1	1	0
Mr. Liu Renhuai	Independent non-executive Director	1	1	0
Mr. Liu Weiwu	Independent non-executive Director	1	1	0
Mr. Wang Jianxin	Independent non-executive Director	1	1	0

* On 17 May 2019, Mr. Chen Yuanxian was appointed as the chairman of the Nomination Committee of the Board; and Mr. Tan Ruisong ceased to be the executive Director of the Company and the member of the Nomination Committee of the Board

COMPANY SECRETARY

Mr. Xu Bin is the Company Secretary and authorized representative of the Company.

During the reporting period, Mr. Xu Bin has attended relevant trainings with aggregated time of over 15 hours.

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 a 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 2019 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. The Shares Trading Management Rules of the Company is stricter than the Model Code to a certain degree. All Directors and Supervisors have been provided with a copy of the Model Code and the Shares Trading Management Rules upon appointments. Prior to 60 days and 30 days before convening the board meeting approving the annual or interim results announcement of the Company, respectively, 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 2019 upon specific enquiries with them.

Employees who is likely to 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 2019.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors are responsible for monitoring the preparation of the consolidated financial statements for every financial year and ensuring those consolidated 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 consolidated financial statements for the year ended 31 December 2019, 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 prudent and reasonable judgment and estimation and prepared the consolidated financial statements on a going concern basis.

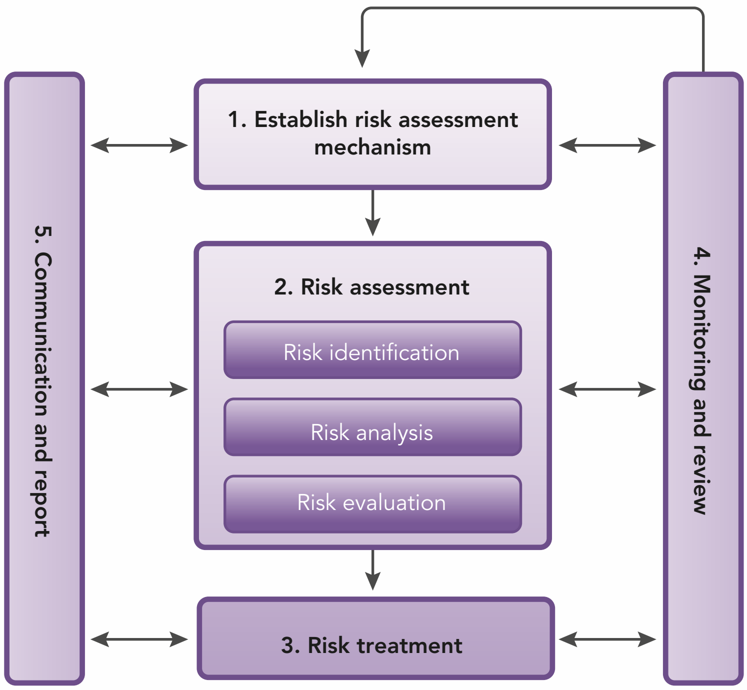
In accordance with the requirements of the Hong Kong Listing Rules, the Company has timely announced its annual and interim results within three and two months respectively after the end of the relevant financial periods.

INTERNAL CONTROL

The Board is responsible for maintaining a steady, proper and effective risk management and internal control system for the Group to safeguard its assets. The responsibilities and obligations of the risk management and internal control system of the Group are clearly defined and complete systems have been established. Through the Audit Committee, the Board keeps continuous monitoring on the risk management and internal control system of the Group, performs the internal audit function, and reviews the effectiveness of the risk management and internal control system of the Group annually, including change in the nature and extent of the significant risks with one year, and the relevant handling capability of the Group, the ability of the management for monitoring the risk and internal control, the reporting of the monitoring results, significant weakness in monitoring and relevant foreseeable consequences and severity, and the effectiveness of the procedures for financial reporting and Hong Kong Listing Rules. The Directors are regularly informed of the major risks which may affect the performance of the Group through the Audit Committee.

The institution of the Company in charge of internal control and audit acts as a supporting institution of its Audit Committee to monitor and provide guidance on how the Company and its subsidiaries establish and improve their respective risk management and internal control systems, to supervise and review the implementation of regulations on risk management and internal control systems in a timely manner and to organize the conduction of internal audit and perform audit responsibilities.

The Group has embedded its risk management systems into the core operating practices of the business. In daily management, the Group formulate control strategies, and formulate specific strategies and management methods related to risk management and internal control requirements. In accordance with the relevant requirements of the Group, subsidiaries establish and improve their own risk management and internal control management systems, combined with external regulatory requirements and actual business conditions. Based on the results of risk assessment, the Group and all subsidiaries optimize business processes, improve business systems, and take necessary control measures to control the risks of business activities within an acceptable level. The respective subsidiaries of the Group continuously review and assess the status of potential risks which may impact on their ability to achieve their business objectives, and determine the nature and extent of such risks they are willing to take in achieving their business objectives. The Group adopts the relevant risk management principles in China as its approach to manage its business and operational risks and monitor its internal control. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:



Notes:

1 Set up the risk assessment mechanism of the Group;

2 Each subsidiary identifies risks which may potentially impact the achievement of its business objectives, and analyzes and evaluates the significance of such risks;

3 Each subsidiary assesses the adequacy of existing monitoring and control, determines and implements treatment plans for mitigating such risks;

4 Each subsidiary monitors the risk mitigating measures;

5 The risk management departments track the progress of risk mitigating measures, and report the consolidated view of risks to the Audit Committee on a regular basis.

The Board is responsible for the aforesaid risk management and internal control systems, and for reviewing the effectiveness of such systems. The Board further explains that the aforesaid systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide a reasonable assurance, rather than an absolute assurance, against material misrepresentation and losses.

The Group strictly complies with the requirements of the Hong Kong Listing Rules and relevant laws and regulations on inside information management, and has established Rules on Information Disclosure, Confidentiality Management Rules on Information Disclosure and Investor Relations and Press Spokesman System (Trial) to strictly supervise the dealing and publishing of inside information to keep such information in confidentiality before being disclosed, and be disclosed in an accurate and timely manner.

In 2019, in accordance with the provisions and requirements of The Basic Standard for Enterprise Internal Control of the PRC and its supporting guidelines, in order to ensure the effectiveness of internal control design and operation, timely location of defects in internal control, and continuously improve the ability to prevent and control risks in various business links. The major subsidiaries of the Company issued internal control evaluation reports after evaluating the effectiveness of their own internal control and appointed accounting firms to conduct independent audit on their internal control in 2019. 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 evaluation on the internal control and the state of establishment of the internal control system of other subsidiaries and the risk management status of each subsidiary, institutions of the Company which was responsible for internal control and audit evaluated the risk management and 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 risk management and internal control system of the Group for the year ended on 31 December 2019, including all the significant financial, operational and regulatory control and risk management functions, and was satisfied that such system was effective and sufficient. The Company also attaches high importance to continuously improve the Company's risk management and internal control system according to the business development model of the Company and the new requirements of laws and regulations, so as to adapt to new situations and new environment.

SUPERVISORY COMMITTEE

The Supervisory Committee is accountable to the general meetings of the Company. The sixth session of the Supervisory Committee comprises two shareholder representative Supervisors (Mr. Zheng Qiang and Mr. Guo Guangxin) and one employee representative Supervisor (Mr. Shi Shiming). In 2019, the Supervisory Committee held two meetings and considered and approved eight 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 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 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 laws 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 2019, the Company convened two general meetings, at which thirteen resolutions in total 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. Chen Yuanxian	2	2
Mr. Wang Xuejun**	2	2
Mr. Yan Lingxi*	2	2
Mr. Lian Dawei*	2	2
Mr. Xu Gang*	2	2
Mr. Liu Renhuai	2	2
Mr. Liu Weiwu	2	1
Mr. Wang Jianxin	2	2
Mr. Tan Ruisong*	0	0
Mr. Li Yao*	0	0
Mr. He Zhiping*	0	0
Mr. Patrick de Castelbajac*	0	0

* Mr. Tan Ruisong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac tendered a resignation as the Director of the Company to the Board, respectively. The resignation took effect from 17 May 2019. At the 2019 AGM held on the same date, Mr. Yan Lingxi, Mr. Lian Dawei and Mr. Xu Gang were appointed as the non-executive Director of the six session of the Board of the Company, respectively.

** Mr. Wang Xuejun was designated from a non-executive Director to an executive Director of the Company on 20 March 2019.

Pursuant to the relevant provisions of the Company Law of the People's Republic of China 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 People's Republic of China, 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 for shareholders' approval 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 dispatch 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 Board Secretary, whose contact details are as follows:

AviChina Industry & Technology Company Limited
Postal Code: 100029
6/F, Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the PRC
Telephone: 86-10-58354335
Facsimile: 86-10-58354300/10
E-mail Address: avichina@avichina.com

ARTICLES OF ASSOCIATION

For the year 2019, to emphasize the importance of compliance with the PRC laws and regulations and reflect the latest status of the registered capital, share capital structure and domicile of the Company, the Company amended certain articles of the Articles of Association of the Company. For details of the revision of the Articles of Associations, please refer to announcements of the Company dated 20 March 2019, 17 May 2019, 9 July 2019 and 23 August 2019 and the circulars of the Company dated 10 April 2019 and 23 July 2019.

The amended Articles of Association was uploaded on the websites of the Company and the Hong Kong Stock Exchange on 23 August 2019.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

The board secretary is responsible for information disclosure of the Company. The Company has formulated and enforced its Rules on Information Disclosure and Confidentiality Management Rules on Information Disclosure and Investor Relations and Press Spokesman System (Trial) to ensure information disclosed by the Company is accurate, complete and made in a timely manner, and meanwhile, strictly supervise the dealing and publishing of inside information to keep such information in confidentiality before being disclosed. 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 relations management. During the reporting period, due to the change of information disclosure methods required by the Hong Kong 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 updates and publishes 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 website.

The Company also emphasized the mutual communication with its investors. During 2019, the Company maintained continuous dialogues and communications with shareholders pursuant to the requirements of the Corporate Governance Code. In addition to the analyst symposiums and investor conference calls, the Company also held various investor relationship activities such as the "National Strategy New Blue Chip Forum" and "National Strategy • Focus on New Blue Chips and 2018 Annual Results Conference of AviChina". A specific department of the Company is in charge of the communication with shareholders, investors and other participants of the capital market. 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. Besides updating the website of the Company timely and periodically, the Company also opened a Wechat public account to provide investors with a convenient channel to learn the recent situation of the Company.

Environmental, Social & Governance Report

This report is the fourth Environmental, Social & Governance ("**ESG**") report published by the Group and covers the ESG performance for the period from 1 January 2019 to 31 December 2019, part of which exceeds the aforesaid scope. The report follows the provisions of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Main Board Listing Rules on Hong Kong Stock Exchange (the "**ESG Reporting Guide**"). Unless otherwise specified, the financial data quoted in this report are derived from the audited financial report. Other data are derived from the internal official documents of the Company and relevant statistics. The report was reviewed by the Board who is responsible for the authenticity and validity of the information disclosed.

This report has been prepared in accordance with the reporting principles stipulated in the "ESG Reporting Guide" of Hong Kong Stock Exchange:

Materiality: The materiality matrix disclosed in the report explains the process and ultimate results of the determination of material issues in details. Key stakeholders and targeted measures for communication have also been listed out. For details, please refer to "Stakeholders Engagement" and "Determination of Material ESG Issues" in the section headed "ESG Management".

Quantitative: All references and standards, calculation methods and parameters used for the environmental data disclosed in the report have been indicated.

Balance: Both positive and negative information have been disclosed objectively in this report to ensure unbiased content.

Consistency: The indicators disclosed in this report are presented to the extent possible in the form of comparative data of 2 consecutive years or more based on actual management conditions. The scope of disclosure of the report includes AVICHINA and its subsidiaries. Due to business adjustments, Shaanxi Baocheng ceased to be a subsidiary of AviChina in 2019, as such, the scope of data covered in this report is slightly different from that of previous years.

The year 2019 marked the 70th anniversary of the founding of the People's Republic of China, which is also a crucial year for completing the building of a moderately prosperous society in all respects. The Group was dedicated to becoming a flagship company to provide high-tech aviation products and services universally applied for military and civil purposes. While promoting high-quality corporate development, the Group actively explored new models for sustainable development with an aim to continuously enhance the level of management in respect of sustainable development, thereby balancing the benefits of the economy, the environment and the society with its best endeavours.

1 ESG MANAGEMENT

The Group actively improves the internal work management system, understands the expectations and demands of stakeholders, regulates integrity practices, and continuously promotes the full integration of the ESG concept into the Company's management and operations.

1.1 Stakeholders Engagement

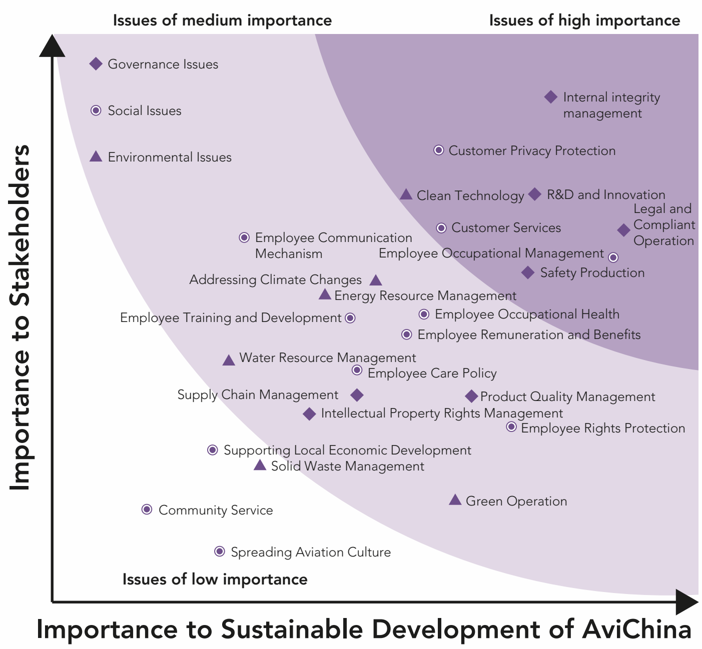
Stakeholders' expectations and feedbacks are important for the Group to formulate responsibility management strategy decisions and judge management effectiveness. The Group has established an effective communication mechanism with stakeholders, and continuously engaged in communication and dialogues in 2019 with a total of six types of stakeholders including governmental and regulatory bodies, shareholders/investors, customers and partners, environment, employees, community and the public to gain insights to and respond to the expectations of stakeholders in a timely manner.

Stakeholders	Expectations and Requirements	Communication and Response Methods
Governmental and Regulatory Bodies	To implement national policies, laws and regulations To promote local economic development To drive local employment To advance industrial development	Submission of documents Advice and suggestions Special report Negotiation and cooperation
Shareholders/ Investors	Returns on investment Compliant operation Production safety	Company announcements Telephone reception Visitor reception
Customers and Partners	Legal and compliant operation Internal integrity management Innovation and R&D Product quality management	Business communications Exchanges and seminars
Environment	Addressing climate change Compliant emissions Energy conservation and emission reduction Protection of ecological systems	Work report Report submissions Investigations and inspections
Employees	Rights and interests maintenance Occupational health Compensation and benefits Career development	Workers congress Collective bargaining Democratic communication platform
Community and the Public	Improvement of the community environment Participation in public welfare undertakings Provision of public and transparent information	Company websites Company announcements Interviews and communications Public welfare activities

1.2 Determination of Material ESG Issues

The Group strictly follows the ESG Reporting Guide of Hong Kong Stock Exchange to implement the determination procedures of material ESG issues, compared the issues disclosed in the sustainable development reports of peer companies and conducted keyword analysis on the Group's news from public media in 2019, and screened and identified 24 ESG issues for the year. The Company conducted an anonymous survey and invited the Company's management and various stakeholders to rate the importance of the ESG issues respectively. A total of 1,829 valid questionnaires were collected. Based on the survey results, the materiality matrix on ESG of the Group in 2019 is determined as follows:

ESG Materiality Matrix of AviChina in 2019



1.3 Integrity Governance

The Group strictly abides by the laws and regulations such as the *Supervision Law of the People's Republic of China*, and has continuously improved and optimized the construction of the integrity governance and anti-corruption systems in CCP working style, formulated various internal management systems such as the *Provisions of the Construction of Corporate Integrity Governance in CCP Working Style and Anti-corruption Coordination Group (Pilot)*, established a leadership workforce of the Company to conduct regular supervision and inspections on the implementation of anti-corruption work.

The Group has established comprehensive anti-corruption reporting procedures and publicized the reporting channels to all employees such as reporting mailboxes and hotlines in accordance with the *Regulations on Discipline Inspection, Letters and Visits*, which fully protects the privacy and legitimate rights and interests of the informers.

In 2019, the subsidiaries carried out various forms of anti-corruption training with a combination of regular cadre meetings and lectures on special integrity governance, and implemented discipline education by means of cultural advocacy, case compilation and warnings so as to improve the integrity and self-discipline of management staff. In 2019, there were no corruption cases in the Group.

Case study: Keeven Instrument adopted multiple measures to strengthen party-building work in relation to the promotion of integrity work style

In 2019, Keeven Instrument carried out party-building work for promoting integrity work style in various forms:

- Signing of commitment letter: The Group organized the staff to sign the "*Commitment Letter for Honest Practices*" and displayed the same on the intranet of the Company, achieving 100% signing and displaying in a timely manner;
- Organizing themed educational activities: The Group organized leaders and relevant personnel of the Company to visit Chen Yun Memorial, the national integrity training base, to earnestly study the theories of anti-corruption and integrity education;
- Strengthening daily promotion: The Company regularly disseminates reminders on integrity education to leading cadres and employees via SMS messages, WeChat and the intranet of the Company to guide the entire workforce to stay alert, comply with regulations and rules and duly perform their duties.

2 SUSTAINABLE OPERATION

With the rapid development of China's aviation industry, the Group unswervingly promotes high-quality development, keeps a foothold on safe quality, optimizes the internal and external operation management systems and accelerates technology innovation so as to make efforts in the R&D of aviation equipment and the development of civil aviation industry. At the same time, the Group focuses on the aviation core businesses aiming at strategic emerging industries and steadily advances the sustainable development of industrial integration which helps to achieve the strategic goals of aviation power in the new era.

2.1 Product Responsibility

The Group always adheres to the quality of aviation, manufactures advanced and sophisticated high-tech products, cultivates efficient and convenient modern aviation services and leverages its technological leadership advantages to facilitate the upgrading of quality standards and support the advanced development of China's aviation industry. In 2019, the Group continued to implement product quality system certification, strengthen the construction of customer information security systems, improve the supply chain management system, enhance the management and construction of internal systems as well as the management and control of external subcontracting quality and therefore forming a relatively mature and complete product service management system.

2.1.1 Strengthening quality management and control

The Company strictly abides by the *Product Quality Law of the People's Republic of China* (中華人民共和國產品質量法), *Regulations on the Administration of Production Licenses of Industrial Products* (工業產品生產授權管理條例), *Rules for the Domestic Transportation of Civil Aviation Goods* (民用航空貨物國內運輸規則) and other national laws and regulations applicable to the Company's product quality. In 2019, the subsidiaries actively implemented the change of quality management system standards, established a product quality management system in accordance with GJB9001C-2017 and AS9100 for aerospace civilian product standards, and obtained relevant certifications to meet the latest quality system standards.

In order to promote the implementation of the quality management system, in 2019, each subsidiary improved and updated the *Corporate Quality Manual* on the basis of the main products, and formulated the quality management operation and procedural documents, and enhanced the management and control requirements in aspects such as project risks, procedure standards and satisfaction. All subsidiaries integrated the management standards throughout the entire process of scientific research, production, manufacturing, testing, analysis and processing so as to achieve the standardization, process-orientation and systemization of product quality management and thus contributing to problem-free environment.

In addition, the Group adopts a combination of self-examination and external inspection and certification to promote the assessment and diagnosis of quality issues and strengthen the third-party quality certification which provides a fundamental basis for future management improvement. Second-party audits on certain products were conducted and customer requirements for product quality were incorporated into the quality management system to further strengthen quality management enhancement and promote the Group's sustainable development.

Case study: AVIC CAPDI commenced work in relation to internal quality inspection

In 2019, AVIC CAPDI organized 2,485 self-inspections on consultation and design projects at institutional level. Among these, 229 were random inspections on the procedures of consultation and design projects with 699 issues of various types identified. The average number of issues per project decreased from 5.9 in 2018 to 4.8, signifying a relatively significant improvement in terms of both the efforts made in project inspection and the quality control over the procedures of projects.

2.1.2 Protection of client information

The Group attaches great importance to customer services. In 2019, the Group has continuously improved the customer service management system, formulated the *Procedures of Operation Management and Control* and other internal systems, and fully implemented management regulations such as the *Product After-sales Service Management System* and *Regulations on Customer Communication and Services* to enhance the customer relationship management, protection of customer information and customer satisfaction, and clearly define the customer complaint channels and handling mechanisms, forming a closed management loop.

The defensive nature of the aviation technology industry heightens the significance of customer information security and business secret management. The Group strictly implements the existing management measures such as the *Customer Management Control Procedures, Information Security Management Procedures, Measures for Administration of Business Secrets of Civilian Products and International Markets Department*, issues the *Management Principles on Corporate Operational Secrets*, treats customer information and important customer privacy as corporate trade secrets and adopts physical and technical protection measures, strictly limiting the spread of business secrets according to the "minimization" principles to prevent illegal use, leakage and sale of customer information and privacy.

The Group gets access to an independently operated network to ensure all confidential information and customer privacy and other information are stored and transmitted in a network environment that is physically isolated from the Internet. Relevant information must be authorized for approval and internal data must be recorded for external distribution and traceable. The Internet customer service management system of the Group conducts permission management through back-end system to ensure customers could only browse and read the relevant information of their own civil aircraft but not the aircraft information of other users and therefore guaranteeing the effective management and control of customer information and privacy.

In order to enhance the safety awareness of employees, the Group organizes regular trainings and assessments, signs confidentiality agreements with employees before employment, strengthens the management of entry and termination as well as immigration and emigration of secret personnel to prevent the leakage of confidential information which ensures the safety of customer information and privacy. At the same time, the Group has established a supervision and inspection mechanism, and conducted inspection on a regular basis to identify risks in a timely manner, prevent and resolve the risks in advance, and promptly undergo punishment and investigate responsibility for certain non-compliance circumstances.

2.1.3 Supply chain management

In addition to the production of aerospace industry products, the Group also relies on global suppliers to provide high-quality and reliable equipment and products. Therefore, supply chain management is a crucial part of the sustainable operation of the Group. We strictly follow the internal policies such as *Procurement and Supplier Management Procedures, Outsourcing and Commission Quality Control Procedures* and *External Supplier Evaluation Regulations*, to apply different requirements on the quality of suppliers from various product types. The Group implements supplier admission and exit mechanism, controls product quality from the source, and regulates the procurement process through online procurement platform, monitors the validity of supplier qualifications through ERP to reduce operational risks, ensure legal compliance, and achieve standardized management of global multi-channel supply.

Table: Supplier Quality System Requirements by Product Category

Category of Contracted Product	Requirements on Supplier Quality System
Outsourcing and Commission of Civil Aircraft	National Quality Management System Certification
Outsourcing and Commission of Subcontracted Aviation Products	AS9100 Quality Management System Certification
Aviation Weapon and Equipment Products	Quality Management System Certification of Weapon and Equipment
Large Parts of Weapon and Equipment (Sub-system and above)	Contracted Unit Registration Certification of Equipment or Scientific Research and Production License of Weapon and Equipment

As of 31 December 2019, the Group had a total of 7,063 global suppliers, of which 6,944 are domestic suppliers, accounting for 98.3%. The remaining overseas suppliers are located in Europe, North America, South America, Oceania and other Asian countries.

In 2019, the Group was committed to the sustainable development of the supply chain, the promotion of the establishment of supplier management committee and the improvement of the supplier grading and evaluation management system, actively established a two-way communication channel with suppliers, and took measures such as risk prevention, special audits and issue returning to zero, to help suppliers build capacities. Due to the fluctuations in the international and external environment, the Group actively identified supply chain risks, transferred its procurement of key components from overseas regions to China that achieved domestic substitution, and took the opportunity to deepen cooperation and facilitate the growth of domestic suppliers.

The Group fully recognizes the environmental and social risks in the supply chain which will affect the sustainable and stable operations, and strengthens the consideration of environmental and social risk factors of suppliers. According to business situation, each subsidiary prioritizes suppliers possessing ISO14001 energy management system and OHSAS18000 occupational health and safety management system certifications, signs environmental protection agreements as well as social responsibility agreements with suppliers or incorporates the environmental protection and social responsibility into supply guarantee agreements. For example, JONHON Optronic sends the requirements of international hazardous substance testing certification (including EU RoHS, REACH testing certification) to suppliers, requires its suppliers that the materials delivered must satisfy the corresponding standards to ensure the products meet the environmental protection standards, thereby achieving sustainable supply.

2.2 R&D and Innovation

Guided by the aim to become a flagship company providing high-tech products and services universally applied for military and civil purposes, AviChina continues to increase investment in R&D, conduct research on aviation frontier and basic technologies, strengthen the in-depth integration of informationization and industrialization, improve intellectual property management, provide long-term incentives for scientific research and thus safeguarding the innovation results.

2.2.1 Enhancing scientific research strength

Focusing on the aviation businesses as well as new and high-tech industries including new materials, electronics, communications, energy and precision manufacturing, the Group actively participated in the research and development of national aviation key aircraft models, successfully completed the national innovative scientific research projects, made substantial breakthroughs in both aviation basic research and technology R&D and application, and achieved significant self-dependent innovation results.

Selected Scientific Research and Innovation Achievements of AviChina in 2019

JONHON Optronic	• The "Integrated Transmission Connector with High Speed, High Frequency and Optical Interconnection (高速率、高頻率、光互連集成傳輸連接器)" received the Third Prize of the Science and Technology Award of the Chinese Society of Aeronautics and Astronautics
	• Completed 12 technological achievement accreditation for national defense, among which the "High Speed Matrix BGA Closed Connector (高速率矩陣式BGA封裝連接器)" was accredited as internationally advanced technology, and the "Aerospace-grade Rectangular Electric Connector with Modularized Casing Made of Composite Material (宇航級複合材料外殼模塊化矩形電連接器)" was accredited as nationally advanced technology
Changhe Aviation	• The electromagnetic compatibility laboratory has passed the certification and was issued with the relevant certificates as a national laboratory and a national defense laboratory. The laboratory possesses the ability to conduct electromagnetic compatibility tests on finished goods, sub-systems and entire helicopters independently
Taiyuan Instrument	• The Pressure vector wind gauge (壓力矢量測風儀) jointly developed with Fujian Atmospheric Exploration Technology Support Center successfully passed the finalization of design, which has laid a solid foundation for in-depth exploration of the meteorological observation market
	• The "Engineering and Industrialization of High Precision Micro Silicon Resonant Pressure Sensor (高精度微型矽諧振壓力感測器工程化與產業化)" was named an outstanding project by the Ministry of Science and Technology of the PRC
	• The technological achievement accreditation for the "Integrated Data Collection and Processing System for Human-related Weather Modification Observation Aircrafts (人影飛機綜合資料採集處理系統)" was completed, which filled in the gap of this field in the country and received the Third Prize from the Chinese Society of Aeronautics and Astronautics

Selected Scientific Research and Innovation Achievements of AviChina in 2019

AVIC Lanfei	• The Diamond CU42 unmanned aircraft of CETC equipped with rudder control system produced by AVIC Lanfei made a successful trial flight, which was the first time for the rudder control products of AVIC Lanfei to be successfully equipped and applied on large twin-engine unmanned aircraft with long flight time in China
Hafei Aviation	• Undertook the development of advanced multi-purpose medium helicopter AC352, helicopter AC312E and the large components of passenger aircraft C919. Helicopter AC312E obtained the CAAC model certificate at the end of December 2019 and completed the batch production and delivery during the same year. Technological breakthroughs have been achieved for the production of components of passenger aircraft C919, hence, the production efficiency has been enhanced significantly and the development and delivery have been completed successfully

The Group is committed to promoting the autonomous control of localization and enhancing the independent innovation capacity of national aviation science and technology. In 2019, Changhe Aviation has formulated the project plan and working guidelines for autonomous control development, processed 995 imported equipment and completed 132 verifications, symbolizing an orderly advancement of autonomous control work. In addition, the Group accelerated the construction of the new layout of industrial integration development, grasped the opportunities of strategic emerging industries and services to cultivate new growth prints. In 2019, AVIC CAPDI participated in the whole construction process of the terminal area, airfield area and supporting facilities of Beijing Daxing International Airport to facilitate the successful trial fight thereat. At the same time, AVIC CAPDI won the bid of overall development planning project of Wuhan Circular Airport Economic Experimental Zone, which was a representative and forward-looking consulting and planning project of both domestic and international airport economic zones. This project was also a testament to AVIC CAPDI's market strength in the corresponding field and a leading exploration in wide airport consulting and planning aspects, which provided new ideas for the diversified business development.

Case study: JONHON Optronic made deployment for emerging industries in advance and led technological advancements with its technological strengths

JONHON Optronic made deployment for 5G projects in advance by establishing cooperation relationships with leading 5G equipment suppliers in the world, and carrying out preliminary research work on several key models, such as optical interconnection products, power products and radio frequency products. In addition, JONHON Optronic continued to accumulate technological advantages in the field of connectors for new energy vehicles and obtained the admission qualifications and project orders from numerous nationally- and internationally- renowned automobile enterprises.

The technological advantages of JONHON Optronic in the relevant fields were well-supported by its technological strengths. JONHON Optronic possesses a number of research and development platforms, including the National Enterprise Technology Center, Henan Engineering and Technological Center and Henan Engineering Laboratory. In 2019, JONHON Optronic's technology center successfully passed the evaluation and ranked 246th among 1,563 National Enterprise Technology Center nationwide, up by 59 ranks as compared with last year.

In 2019, JONHON Optronic actively undertook various technological projects at national, provincial and municipal level and completed the application for a total of 14 Technology Awards of the Group, two Henan Technological Improvement Awards, two Science and Technology Award of the Chinese Society of Aeronautics and Astronautics and 14 Henan Technological Improvement Awards for National Defense. In particular, 7 projects including the "10Gbps High-speed Weather-resistant High-intensity I/O Connector (10Gbps高速耐環境高密度I/O連接器)" received the Technology Awards of AVIC Group, the "Integrated Transmission Connector with High Speed, High Frequency and Optical Interconnection (高速率、高頻率、光互連集成傳輸連接器)" received the Third Prize of the Science and Technology Award of the Chinese Society of Aeronautics and Astronautics, and 14 projects including the "Integrated Installation System for Airborne Electronic Equipment (機載電子設備集成安裝系統)" received the Henan Technological Improvement Awards for National Defense. Moreover, it has completed 12 technological achievements accreditation for national defense, among which 7 projects including the "High-Speed Matrix BGA Closed Connector (高速率矩陣式BGA封裝連接器)" was accredited as internationally advanced technology, and 5 projects including the "Aerospace-grade Rectangular Electric Connector with Modularized Casing Made of Composite Material (宇航級複合材料外殼模塊化矩形電連接器)" was accredited as nationally advanced technology.

2.2.2 Deepening cooperation between industry, academia and research sectors

In 2019, the Group focused on the construction of innovative scientific research platforms, and its subsidiaries actively applied for qualifications from national and local research and technology centers, explored external cooperation opportunities, strengthened cooperation between industry, academia and research sectors and accelerated the transformation and implementation of scientific research results. At the same time, through the establishment of dedicated research and development department, the Group closely kept up with market needs, enhanced design technology capabilities, strengthened military and civil products and pre-research R&D abilities and thus enhancing the technological strength.

Table: Application of Technology Centers by the Group in 2019

Lanzhou Aviation Electrical	Its technology center passed the National Enterprise Technology Center accreditation and was awarded the honorary title of "Outstanding Enterprise Technology Center of Gansu"
Taiyuan Instrument	Its technology center was rated as "Outstanding Provincial Technology Center of 2019" by the Ministry of Industry and Information Technology of Shanxi Province
Taixing Aviation Optoelectronic	It successfully applied for the provincial enterprise technology center
AVIC Kaitian	It was approved as the first batch of provincial engineering technology research centers and national enterprise technology centers of Sichuan Province in 2019

Case Study: Lanzhou Aviation Electrical cooperated with universities to facilitate the integration between industry, academia and research sectors

Lanzhou Aviation Electrical has formed an effective industry-academia-research model through school-enterprise cooperation which helps enterprises to improve the R&D quality and efficiency. In 2019, Lanzhou Aviation Electrical has carried out in-depth cooperation with Northwestern Polytechnical University and the co-built Wanxi Mechanical and Electrical R&D Center officially commenced operation. At the same time, Lanzhou Aviation Electrical and Lanzhou University of Technology established a joint training base for postgraduates. Driven by the industry-academia-research model, Lanzhou Aviation Electrical successfully commenced the construction of Avionics and Control Laboratory, Motor Technology Laboratory, Mechanical Transmission Laboratory and Lighting Technology Laboratory, and all the above-mentioned laboratories have entered the stage of equipment procurement.

Case study: Keeven Instrument established seven research and development departments to expand the scope of technological innovation to cover substantially all of its in-service aircrafts

In 2019, Keeven Instrument focused on its principal business and kept abreast of the market demand to adjust the organizational structure of its design departments. As such, it has established seven research and development departments in an effort to achieve breakthroughs for and conduct preliminary research on key technologies. It has achieved significant breakthroughs for a series of core technologies and commenced an aggregate of 214 scientific researches for new products of 41 types, covering substantially all of its in-service aircrafts. It has also completed the accreditation of 8 products and signed 19 agreements in relation to ancillary products and technologies of new aircrafts.

In addition to strict adherence to quality standards, each subsidiary carried out the formulation of industrial standards applicable to sectors such as aviation standards and final assembly standards, and participated in the formulation of hundreds of relevant industrial standards, effectively propelling the standardized production and management of aviation industry products and promoting the quality enhancement of aviation industry products.

2.2.3 Intellectual property management

Intellectual property management is an important means of guaranteeing the Group's scientific and technological research and development achievements. The Group has formulated a top-tier layout for intellectual property rights, and formed a working mechanism led by high-level leaders, focusing on the scientific layout of core technologies and products with a progressive plan to apply for various patents and achievements.

The Group strictly abides by the *Patent Law of the People's Republic of China, Anti-unfair Competition Law of the People's Republic of China* and other national laws and regulations, and effectively encourages technological innovation and protects scientific research results through the formulation and implementation of the *Intellectual Property Protection Regulations, Measures for Administration of Patents* and other related measures.

Each subsidiary has established an intellectual property taskforce, consisting of technical personnel and legal consultants with relevant qualifications who are responsible for the daily management of intellectual property of the Company, integrating the intellectual property work into the establishment, implementation, acceptance and other aspects of scientific research projects, linking the application index to the performance of scientific research project of each R&D unit, and promoted the conversion of the scientific research achievements into patents in a timely manner by project and node. In 2019, the application of the Group for invention patents has steadily increased, and the quality of technical solutions has been gradually enhanced, which has strengthened the role of patents in supporting the R&D of product and securing market expansion, basically realized the coverage of patents in various key projects, and therefore resulting in patent layouts in both domestic and international key markets. At the same time, the Group respects the intellectual property achievements of other enterprises and institutions and fully minimizes the risk of infringement through patent retrieval and analysis.

As of 31 December 2019, the Group applied for 1,760 patents and was authorised 963 patents, seeing an increase of 42% and 34% respectively compared with last year. The intellectual property management has shown remarkable results.

Case Study: Hafei Aviation was awarded the honorary title of "National Intellectual Property Model Unit"

Hafei Aviation attaches great importance to intellectual property management and conducts patent risk analysis and research on corresponding measures regarding Y-12F and other aircraft models and proposes clear layout and objectives of patents and software copyright regarding key technologies and important products. It has also formulated regulations and systems such as *Regulations on the Management of Intellectual Property Rights, Regulations on Patent Management, Measures for Administration of Trade Secrets and Regulations on the Management of Computer Software Copyright,* which meets the needs of protecting the company's intellectual property. Hafei Aviation has established a scientific, systematic and standardized system for intellectual property management, and successfully passed the national intellectual property implementation system certification and won the honorary title of "National Intellectual Property Model Unit" leveraging on its excellent intellectual property management capabilities.

3 ENVIROMENTAL RESPONSIBILITY

The Group always adheres to the green development philosophy of efficient, clean and low-carbon. It actively responds to the national promotion of "ecological civilization construction" and has established a sound environmental management system, adheres to green production and operation, accelerates the low-carbon transformation, and puts energy saving and emission reduction into practice with an aim to build an environmentally-friendly and resource-saving modern green enterprise.

3.1 Improving Environmental Management Mechanism

The Group strictly abides by relevant laws and regulations such *as the Environmental Protection Law of the People's Republic of China*, insists on improving the environmental management system and intensifying environmental management and supervision strength. Requested by the Group, each subsidiary has established an environmental protection committee which is responsible for formulating internal systems and standards related to environmental protection, clarifying the environmental management objectives, and standardizing and supervising the implementation of environmental protection work. The Group strictly implements an environmental protection system in which new projects, reconstruction projects and expansion projects can be designed, constructed and put into use simultaneously, and conducts environmental impact assessment and environmental acceptance work properly. At the same time, in order to better perform the environmental monitoring during production, the Group advocates the establishment of environmental monitoring stations and entrusts third-party agencies to carry out environmental monitoring work on a regular basis.

In 2019, the Group continued to carry out the certification work of environmental management system and its subsidiaries successively completed the 2019 environmental management system certification. At the same time, the establishment of "green aviation industry" by the Group has also been proceeding in an orderly manner. As of 31 December 2019, newly added subsidiaries such as Lanzhou Aviation Electrical, Taiyuan Instrument and Changfeng Avionics passed the "Green Aviation Industry Enterprise" basic-level certification of the aviation industry and obtained certificates for their respective qualifications.

The Group has formulated emergency response plans for environmental emergencies, clarified responsibilities at all levels and handled division of labour, and conducted emergency drills on a regular basis to effectively reduce the risk of environmental accidents.

3.2 Strengthening Emissions Management

The Group has formulated strict internal emission management system, such as *Management System for Solid Waste* by Hafei Aviation, *Management System for Industrial Solid Waste, Management System for Energy Conservation and Emission Reduction, and Measures for Administration of Hazardous Goods* by AVIC Lanfei and *Control Procedures for Water Pollution and Control Procedures for Noise Pollution* by JONHON Optronic, in strict accordance with *the Environmental Protection Law of the People's Republic of China, Water Pollution Prevention and Control Law of the People's Republic of China, Air Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste* and *Law of the People's Republic of China on Environmental Noise Pollution Prevention and Control.* The Group continuously strengthens the management of pollutants, properly disposes of waste, reduces pollutant emissions through a number of technological reforms, thereby minimizing the impact of production operations on the environment.

3.2.1 Emission reduction

In 2019, the Group reduced the pollutant generation by exhaust gas such as sulfur dioxide, nitrogen oxides and soot by elimination of worn equipment, adoption of environmentally-friendly materials, and regular maintenance and technical reforms of emission equipment and devices. In addition, by improving the sewage treatment workplace, the Group enhances the utilization rate of circulating water, effectively lowers the concentration of COD and pollutants in sewage, and reduces the wastewater discharge and thus avoiding any pollution to the environment.

Measures of Emission Reduction by Subsidiaries

- Keeven Instrument effectively reduced the emissions of dust and particulates by renovation of venting system of spray room of surface treatment plant and increasing the number of activated carbon filter device.
- Shaanxi Huayan conducted coal-to-gas upgrade and reforms for its boilers, which significantly reduced the pollutant emissions such as sulfur dioxide in the exhaust gas.
- AVIC Lanfei carried out technological renovation for the low-nitrogen burners of the 60-ton natural gas boilers to effectively reduce the concentration of nitrogen oxides in the exhaust gas.
- Hafei Aviation invested RMB1.887 million to renovate the sewage treatment stations of various surface treatment workplaces, which significantly improved the treatment capacity of wastewater containing heavy metal and reduced the content of heavy metal pollutants in wastewater.

Table: The Group's Waste Gas Emission and Wastewater Discharge

Type of emissions/discharges	2018	2019
Total waste gas emissions (ten thousand standard cubic meters)	490,713	554,292
Sulfur dioxide emissions (tons)	87	57
Nitrogen oxide emissions (tons)	241	323
Total soot emissions (tons)	119	107
Total wastewater discharge (tons)	3,438,792	4,065,833
COD discharge (tons)	223	239

In order to effectively minimize environmental pollution, some subsidiaries have formulated emergency plans for severely polluted weather and implemented its emission limitation and reduction measures based on air quality and weather conditions, and thus fulfilling corporate responsibility. For instance, during air pollution pre-warning period, Hafei Aviation reduced coal consumption by adopting natural gas burners and shutting down the heating system of certain minor plants so as to achieve emission reduction.

3.2.2 Solid waste disposal

The Group classifies the general solid waste into recyclable and non-recyclable solid waste. Regarding recyclable solid waste produced in the course of production, the Group advocates the concept of "turning waste into wealth and treasure" through recycling, and domestic waste is handed over to professional sanitation companies for centralized disposal.

The Group continues to improve its hazardous waste disposal plan and carries out whole-process management and control over the generation, collection, storage and transfer of hazardous wastes. It classifies hazardous wastes in strict accordance to national standards, formulates management and transfer plans for hazardous waste according to environmental protection requirements, truthfully reports the production of hazardous wastes and fills out the five-link list of hazardous waste transfer. In addition, the Group establishes an independent warehouse for hazardous waste with proper storage, and the hazardous waste is transferred and disposed by a qualified third party on a regular basis.

For packaging materials in the production process, the Group reduces the packaging materials through recycling, and at the same time minimizes waste generation. The packaging materials of the Group are mainly plastics, metals, papers and composite materials.

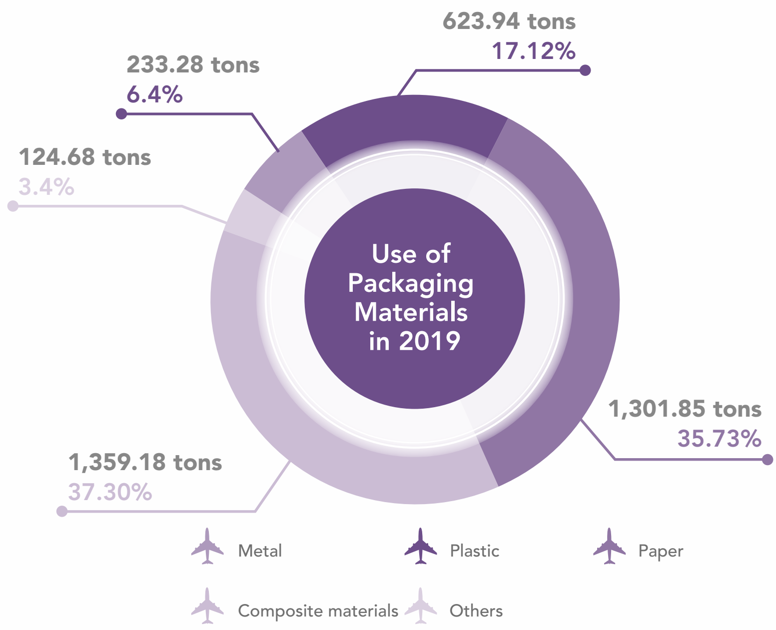


Diagram: Use of Packaging Materials in 2019 (Unit: tons)

Table: The Group's Solid Waste Disposal

Type of disposal	2018	2019
General industrial solid wastes (tons)	13,140	22,971
Density of general industrial solid wastes (kg per RMB10,000 revenue)	3.7	5.5
Hazardous waste (tons)	1,789	2,164
Density of hazardous waste (kg per RMB10,000 revenue)	0.51	0.51
Use of packaging materials (tons)	3,764	3,643
Density of packaging materials used (kg per RMB10,000 revenue)	1.1	0.9

3.2.3 Noise control

In accordance with the requirements of the *Emission Standard for Industrial Enterprise Noise*, the Group has taken measures to strictly control noise pollution by reducing mechanical vibrations of equipment, reducing traffic noise in factory area and improving greening. We also entrust qualified third-party agencies to monitor our factory noise pollution on a regular basis so as to minimize its impact on surrounding environment and residents. In 2019, the headquarters of JONHON Optronic in Luoyang reduced the noise production by replacing the air purification device of grinding machine in the molding branch so that the noise testing results met the requirements of national standards.

3.3 Saving Resource and Energy

The Group complies with relevant laws and regulations such as *the Energy Conservation Law of the People's Republic of China*, and has formulated internal resources and energy management systems and measures such as *Corporate Energy Saving Management System* by Taiyuan Instrument, *Integrated Energy Management System* and *Measures for Administration of Energy Conservation and Emission Reduction* by Shanghai Aviation Electric. By strengthening source control, technical reforms of equipment with high energy consumption, resource recycling and utilization, and promotion and education on energy conservation and environmental protection, the Group enhances the utilization efficiency of resources and energy and improves the environmental awareness of employees.

3.3.1 Energy-saving technology transformation

The Group advocates energy conservation, consumption reduction, and green environmental protection and its subsidiaries carry out energy conservation and consumption reduction by replacing old, worn and high energy consumption equipment and launching energy-saving technological reform projects, and monitor energy utilization throughout the production operation. Certain subsidiaries establish energy efficiency management platforms to conduct systematical management on energy utilization. In 2019, the Group's comprehensive energy consumption[1] was 106,000 tons of standard coal, and the comprehensive energy consumption per RMB10,000 revenue was 0.03 tons.

Table: The Group's Energy Consumption

Type of energy	2018	2019
GHG emissions[2] (ten thousand tons of equivalent CO_2 emissions)	49.5	50.8
GHG emissions intensity (tons of equivalent CO_2 emissions per RMB10,000 revenue)	0.14	0.12
Coal consumption (tons)	46,510	37,572
Gasoline consumption (tons)	867	961
Kerosene consumption (tons)	4,895	5,330
Diesel consumption (tons)	245	698
Natural gas consumption (ten thousand standard cubic meters)	1,562	1,416
Electricity consumption (ten thousand kWh)	32,930	36,685
Outsourcing thermal power (million kJ)	102,208	123,951

Case Study: Changhe Aviation changed to energy-saving LED lights

In 2019, Changhe Aviation completed the energy saving reforms of the LED lights and energy management of the hangar and replaced all lights in the hangar with energy-saving and environmentally-friendly LED lighting. While improving the lighting conditions of the hangar, energy conservation was also achieved. According to statistics, such project could save the electricity bills amounting RMB60,000 for Changhe Aviation annually.

1 Calculated based on electricity conversion coefficient of 0.1229 (kg standard coal/kWh), gasoline conversion coefficient of 1.4714 (kg standard coal/kg), diesel conversion coefficient of 1.4571 (kg standard coal/kg), kerosene conversion coefficient of 1.4714 (kg standard coal/kg), coal conversion coefficient of 0.7143 (kg standard coal/kg), natural gas conversion coefficient of 1.3300 (kg standard coal/cubic meters) and outsourcing thermal power conversion coefficient of 34.12 (kg standard coal/GJ) pursuant to the *General Principles for Integrated Energy Consumption Calculation* (GBT2589-2008) (《綜合能耗計算通則》(GBT2589-2008)).

2 Pursuant to the electricity coefficient provided by the *2017 China Regional Grid Baseline Emission Factor of Emission Reduction Projects* (《2017年度減排項目中國區域電網基線排放因子》), Northeast China is calculated based on 1.1082 tons of carbon dioxide emission per MWh of electricity consumed, North China is calculated based on 0.9680 tons of carbon dioxide emission per MWh of electricity consumed, Eastern China is calculated based on 0.8046 tons of carbon dioxide emission per MWh of electricity consumed, Central China is calculated based on 0.9014 tons of carbon dioxide emission per MWh of electricity consumed, Northwestern China is calculated based on 0.9155 tons of carbon dioxide emission per MWh of electricity consumed, and Southern China is calculated based on 0.8367 tons of carbon dioxide emission per MWh of electricity consumed; while the carbon dioxide emission of fossil fuels is calculated pursuant to the *2006 IPCC Guidelines for National Greenhouse Gas Inventories*.

Case Study: Hafei Aviation reduced energy consumption during working hours in a scientific management

In 2019, all production workplaces of Hafei Aviation minimized the occurrence of urgent orders, significantly enhanced the energy efficiency and reduced the energy consumption during working hours by improving the full load rate of high energy-consuming equipment and organizing the upper and lower production processes in a scientific approach. After the implementation, energy consumption during working hours was 1.44 kWh/hour in 2019, representing a decrease of 15.78% compared with the same period in 2018, and the energy conserved during working hours reached more than 4.5 million kWh.

Case Study: Oriental Instrument launched "Efficiency Enhancement" initiative

Oriental Instrument continued to launch "Efficiency Enhancement" activities to advocate the production and technology innovation, and reduced the loss and consumption of raw materials and energy during the production process by enhancing product quality. In 2019, the company initiated 19 researches and applications such as application of three-layer anti-conductive paints and research on galvanized black passivation processes, improved 35 production and technical problems with low efficiency, low qualification rate and long production cycle which achieved a total industrial output energy saving volume of 85 tons standard coals throughout the year.

3.3.2 Enhancing water resource management

The Group attaches great importance to water resource management, and actively implements water resource recycling and water-saving technical reforms for equipment. Certain subsidiaries adopt smart meter reading to effectively enhance water resource utilization. In 2019, the Group's total water consumption was 5,064,703 tons and the water consumption per RMB10,000 revenue was 1.20 tons.

Case Study: Shanghai Aviation Electric adopted cooling towers to save water and energy

In 2019, Shanghai Aviation Electric invested a total of RMB330,000 for a new loop cooling water tower. The company eliminated the single fan cooling equipment, implemented water cooling through cooling water tower to save energy while recycling and reusing cooling water, achieving water conservation.

Case Study: Taiyuan Instrument adopted smart meter reading to precisely control the water use

In 2019, in order to improve water efficiency and achieve accurate measurement and energy saving, Taiyuan Instrument dismantled old water meters, replaced certain water supply valves, installed smart water meters and added water supply valves and outdoor valves pits so as to gradually establish a smart meter reading system.

Case Study: Changfeng Avionics effectively saves resources by water reuse system

Changfeng Avionics constructed a water reuse system in the sewage treatment station. The electroplating wastewater was treated by the sewage treatment system and reused in the electroplating production line upon reaching Category C water standards at water reuse system, and the reclaimed water reuse rate reached over 50%.

3.3.3 Green operation

The Group adheres to greening concept, promotes green working environment and realizes low-carbon transformation to build a green enterprise in an all-round approach. At the same time, the Group strengthens promotion and education of green awareness in daily operation. By hanging energy-saving promotion slogans, distributing brochures, conducting theme activities on environmental protection and energy conservation, and organizing knowledge contests, the Group continues to enhance employees' awareness on energy saving and environmental protection, realizing green operation.

Case Study: AVIC CAPDI qualified 3-star standards of green design for its office building

The scientific research office building of AVIC CAPDI has qualified the 3-star standards of green design and 2-star standards of green operations. Its green measures are as follows:

- All lighting adopted LED bulbs and intelligent lighting automation technology;
- Air-conditioning engine rooms and key meeting rooms adopted variable refrigerant volume (VRV) system;
- Water pump adopted non-negative variable-frequency control technology;
- It established an energy management system to conduct real-time monitoring on water, electricity and gas utilization in the office area;
- It set up solar system for water heating.

Case Study: Hongdu Aviation launched themed activities of "Green Development with Energy Saving First"

In June 2019, Hongdu Aviation launched themed activities of "Green Development with Energy Saving First" in conjunction with "National Energy Conservation Promotion Week". During the event, the company hung the energy-saving publicity slogans, displayed exhibition boards, issued signs and books regarding electricity and water conservation, and conducted "Brainstorming for Energy Saving" incentive campaign as well as knowledge tests. In addition, the company also broadcasted energy-saving publicity videos on the intranet so as to remind all employees to save electricity, water and paper and thus avoiding waste, reducing costs and increasing efficiency.

4 EMPLOYEE CARING

The Group adheres to the philosophy of "talent is the foundation of an enterprise" and regards talent as the advantage and wealth of enterprise development. The Group implements various talent recruitment and management systems to safeguard employees' rights and interests and provide employees with quality training resources and career development plans so as to facilitate talent development. At the same time, the Group attaches great importance to the occupational safety and health of employees, cares for their physical and mental health, and strives to create a harmonious working atmosphere for employees.

4.1 Employee Recruitment

The Group adheres to a fair and equal employment policy, strictly follows the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China* and other laws and regulations, establishes sound internal staff management systems and has internally formulated and implemented the *Measures for Administration of Staff Recruitment* and *Measures for Administration of Recruitment of Full-time University Graduates*. The Group resolutely prohibits all forms of employment discrimination, the employment of child labour in the recruitment process and upon signing of labour contracts as well as any forms of forced labour.

As of 31 December 2019, the total number of regular employees of the Group was 44,910.

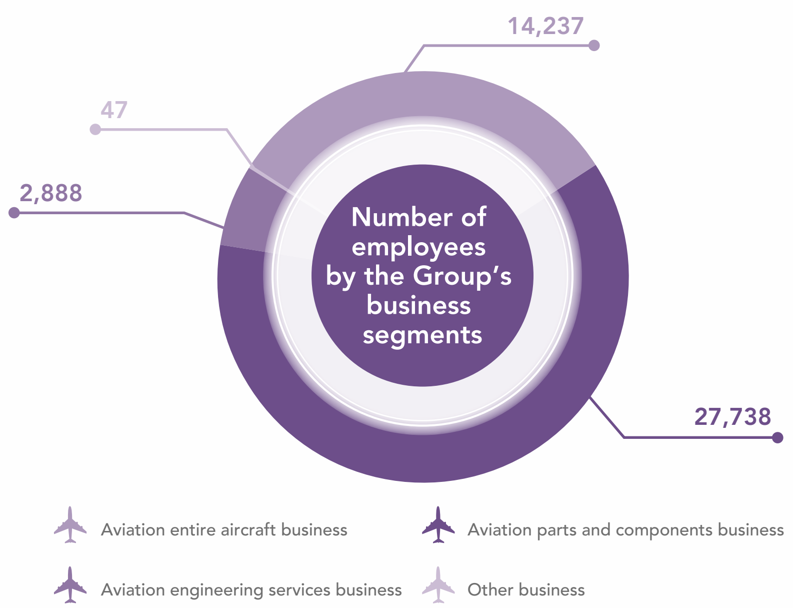


Diagram: Number of Employees by the Group's Business Segments (Unit: person)

4.2 Employee Development

The Group adheres to the concept of "people-oriented" and is committed to providing employees with a comprehensive career development platform. Through multi-level staff training system, introduction of innovative talents and career promotion roadmap planning, the Group focuses on cultivating an all-round talent team with excellent business capabilities and strong professional knowledge.

4.2.1 Improving employee training system

The Group attaches great importance to talent education and cultivation, and has formulated a series of internal management systems such as *Provisions on Management of Employee Education and Training* that standardizes the employee training system. The Group strives to establish employee training system in multi-level, multi-channel and multi-form approach, and implement a well-organized targeted training model with internal and external integration. Training covers various aspects such as basic business knowledge, job skills and management knowledge, thus creating opportunities for employees to achieve all-round development.

Case Study: Tianjin Aviation launched targeted staff training

In 2019, Tianjin Aviation established a training system for job competency, conducted workshop on job competency, identified the capabilities required for each position by scientific tools and methods, created a curriculum system and conducted training and assessment. At the same time, the company leveraged external resources to select employees to participate in the training of the Group's outstanding engineers, DFSS Green Belt/Black Belt as well as various training programs arranged by the Group or provided by excellent training providers targeting the specific training needs of employees at different positions, such as engineers, senior technicians and leading cadres throughout the year, which enhanced the competency of personnel and facilitated the steady development of various talents and businesses of the company.

4.2.2 Cultivating leadership talents

The Group has established a platform for cultivating skilled and leadership talents, and deployed in accordance with the "two goals in four steps" strategy to maintain its leadership condition and capabilities. In 2019, the Group continued to optimize the mechanisms for talent cultivation, introduction and utilization, and achieved the introduction of first-tier innovative talents and young technological talents through key universities, major projects, school-enterprise cooperation, postdoctoral innovation practice bases, driving the quality development by innovation.

Case Study: Lanzhou Aviation Electrical collaborated with universities to implement innovative talent strategies

In 2019, Lanzhou Aviation Electrical regarded graduates of the master degree in mechanical and electrical engineering, automation from renowned universities as the introduction target with a focus of recruiting outstanding undergraduates and postgraduates. It clarified the major institutions and channels for recruitment, strengthened the recruitment of skilled personnel, treated undergraduates from Lanzhou Institute of Technology as the introduction target of high-end skilled talents, and conducted key training so as to comprehensively enhance the qualification and professional standards of the company's production and manufacturing technology systems and strengthen the design and R&D capabilities of the company.

4.2.3 Driving occupational development

The Group focuses on the career development of its employees and strengthens the cultivation and establishment of its talent team. It has formulated a series of internal remuneration and promotion management systems, such as *Measures for Employee Ranking Determination and Measures for Administration of Position Promotion*, that standardize the promotion procedures and channel settings and provide employees with a smooth promotion path and broader career development platform, thus stimulating employees' motivation.

Case Study: Shanghai Aviation Electric initiated "Young Seeding Plan" and "Deep Plowing Plan"

In 2019, Shanghai Aviation Electric promoted the planning and implementation of "Young Seeding Plan" and organized a total of 6 internal courses throughout the year. "Young Seeding Plan" targeted new employees with 1 to 3 years of employment and developed specific training solutions for new employees in stages. Courses cover three dimensions on efficiency management, interpersonal management and mindset management which enabled new employees to quickly integrate into the company, workplace as well as their own team.

At the same time, Shanghai Aviation Electric conducted "Deep Plowing Plan" to explore various mechanisms for talent cultivation, with a total of approximately 80 internal lectures throughout the year. "Deep Plowing Plan" refers to the "10+X" training courses established for various talents. "10" symbolizes the capacity enhancement course to satisfy the mutual needs of various types of personnel while "X" means the targeted training for different personalized needs. Such plan offers different talents with opportunities to enhance their capacities and broaden their career development channels.

4.3 Safe Production

The Group firmly establishes the concept of "safety first", continuously improves the safety production management and occupational disease prevention and management system, and strengthens the implementation of the safety production responsibility to guarantee the occupational safety and health of its employees. As of 31 December 2019, the Group had no work-related deaths.

4.3.1 Safe production management system

The Company strictly abides by the *Safe Production Law of the People's Republic of China* and other national laws and regulations, and has formulated relevant regulations on safety production such as *Safety Production Responsibility System, Management System for Corporate Work Injury and Production Safety Accidents* and *Emergency Plan for Corporate Production Safety Accidents*, which cover the division of safety production responsibility, safety inspection, hazardous operation approval and supervision, and procurement and distribution of labour protection supplies. The Group has fully implemented the safety production responsibility, established a safety production management mechanism of "Double Duties for One Post and Multi-level Implementation" that implements the safety responsibility system at each level. At the same time, the Group actively carries out promotion and education activities on production safety that continuously improve the employees' safety awareness.

Case Study: AVIC Lanfei comprehensively revised safety management systems

AVIC Lanfei has formulated more than 30 safety management systems and conducted reviews on the systems by relevant personnel in an annual basis. In 2019, a total of 6 safety management systems were revised and improved to comprehensively strengthen safety production management.

- Enhance the safety awareness of personnel at all levels to guarantee the quality of employees' production safety training, reduce unsafe behaviours during production and avoid the occurrence of various types of production accidents;
- Strengthen the control and management of hazardous points and operations to prevent and minimize the occurrence of various production safety accidents;
- Implement the production safety responsibility of the unit to clearly perform its safety production responsibilities and establish a long-term mechanism for production safety;
- Standardize the management of the procurement, distribution and utilization of labour protection supplies to ensure the safety and health of employees, and protect the personal safety and health of employees during the production and labour process.

4.3.2 Occupational health protection of employees

In accordance with *the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases* and related laws and regulations, the Group has formulated *the Measures for the Prevention and Control of Occupational Diseases* and other internal system requirements to continuously improve and optimize the occupational health and safety management system. Each subsidiary has successively established OHSAS18001 occupational health and safety management system and underwent various tasks such as monitoring, prevention and maintenance to ensure the occupational health and safety of employees.

Occupational Disease Prevention Mechanism:

- Entrust third-party service agencies to monitor the occupational hazard factors and issue relevant reports to identify and prevent hazardous sources;
- Conduct annual medical examinations on occupational diseases targeting the employees from positions with higher risks of occupational diseases in the pre-job, on-the-job and post-job processes;
- Implement occupational health supervision and establish a sound occupational health supervision file.

Targeted Protective Measures:

- Allocate standard labour protection supplies for employees from positions with potential occupational diseases;
- Make good preparation for summer by providing heat-resistant medicines and cooling drinks.

Healthy and Safe Working Environment:

- Strengthen maintenance and supervision of equipment and facilities, and improve working environment;
- Renovate the air circulation system in the office and equip the office with ergonomic facilities.

Mental Health Protection:

- Launch psychological counselling hotline for employees;
- Conduct regular interviews with employees to understand their psychological development.

4.4 Caring for Employees

The Group strived to create a work-life balance atmosphere for employees by constantly optimizing the working environment and organizing employees to participate in various cultural and sports activities. Our offices have pleasant environment with abundant greenery, and are equipped with hot and cold air conditioning systems and ergonomic desks and chairs as well as table tennis, badminton courts, basketball courts, dance studios and other recreational facilities to facilitate employees to relax after work.

In order to promote the healthy and happy working philosophy, the Group encourages employees to develop their own hobbies, and actively organizes various cultural and sports activities such as hiking and fun sports games to enrich employees' leisure life.

Case Study: Hafei Aviation hosted "China Skills Competition 2019" for Chinese aviation industry
Hafei Aviation conducted skills competition campaigns to enhance communication and learning among employees. On 8 September 2019, two campaigns namely the "China Skills Competition 2019", the 6th Vocational Skills Competition and the first Vocational Skills Competition for Female Employees of AVIC hosted by Hafei Aviation kick-started. 185 players from AVIC participated in such event and achieved excellent performance in various skills competitions, showing the great artisan spirit. This skills competition not only provided employees with the opportunities to compete and communicate with outstanding talents on the stage, but also fully showcased the quality and graceful bearing of the employees.

5 CONTRIBUTING TO COMMUNITY

The Group always regards social responsibility as an important integral part of corporate development, leverages its own advantages to carry out targeted poverty alleviation, support the local construction, focus on community development and disseminate aviation culture, thus contributing to public welfare. In 2019, the Group spent a total of 32,941 hours on volunteer services.

5.1 Facilitating Targeted Poverty Alleviation

In order to fully realize the national strategic vision of poverty alleviation and development, the Group combines its own edges and scientific planning to actively push forward the targeted poverty alleviation efforts and thus achieving the missions.

In 2019, the subsidiaries of the Group continued to contribute to local development with actions, engaged with impoverished areas for poverty alleviation, carried out poverty alleviation initiatives for education, social and industrial sectors with an aim to overcome difficulties with the public and make positive contributions to regional economic development.

Case Study: Taiyuan Instrument launched stationing poverty alleviation work in Zhangjiayaowa Village, Baode County, Shanxi Province

Taiyuan Instrument set up a stationing team and conducted poverty alleviation work in the village. Its stationing team guided villagers to plant Forsythia, a Chinese herbal medicine, with an "industry-oriented" focus based on a business model which consisted of Party branch, cooperatives, enterprises, bases and farmers. On the one hand, the labour union of the company has carried out poverty alleviation through consumption and successively purchased 13,350 kg of potatoes to raise the villagers' income. On the other hand, it initiated poverty alleviation through culture education and built a multi-functional integrated service center including Home for Party Members, library for farmers and activity room for elderly which enriched the mental life of villagers. Management of the company visited the impoverished households and distributed gifts in kind so as to develop relationship with villagers. As of 31 December 2019, the poverty incidence rate in Zhangjiayaowa Village was 0.

5.2 Building Harmonious Home

The Group actively establishes a cooperation mechanism with participation of government, enterprises, social organizations and communities to engage with the local development, care for community welfare and promote the integration and development of enterprises and society.

5.2.1 Supporting local construction

In 2019, the Group has actively promoted the local infrastructure construction, and at the same time established science and technology cooperation projects by integrating external technological forces such as private enterprises, scientific research institutions, colleges and universities and other state-owned enterprises so as to improve the scientific research level of the aviation industry and the region. In addition, the Group integrated into the local industry chain and carries out external cooperation and coordination so as to drive the employment rate in the upstream and downstream of the industry chain and facilitate the professional integration of various industries of equipment manufacturing.

Case Study: Lanzhou Aviation Electrical underwent the construction of collaborative innovation center

In order to strengthen local infrastructure construction, the company actively launched the construction of innovation centers in military-civilian collaboration with private enterprises, external scientific research institutions,colleges and universities and other state-owned enterprises. It also developed a school-enterprise cooperation in which it built Wanxi Mechanical and Electrical R&D Center and hosted a master degree course in software engineering jointly with Northwestern Polytechnical University. In collaboration with Soochow University, it established a joint academia-enterprise technology center to cultivate quality talents and support local economic and social development. At the same time, Lanzhou Aviation Electrical became the major cooperative support unit of the military-civilian integration development institute in Gansu Province which actively integrated into the local military-civilian development.

5.2.2 Participation in emergency response and rescue

The Group has internally formulated *the Emergency Rescue and Relief Measures and Overall Emergency Rescue and Relief Plan* while its subsidiaries set up emergency rescue teams to participate in emergency response operations by making full use of its own experience and advantages when encountering major disasters, thus implementing its corporate social responsibility as a central government-owned enterprise.

Case Study: Changhe Aviation participated in forest fire relief

On 8 April 2019, a forest fire broke out in Yinkeng Village of Jingcheng Town, Zhushan District, Jingdezhen City. On the next day, the Emergency Management Department of Jiangxi Province urgently assigned Changhe Aviation AC311 and AC313 aircrafts for firefighting preparation which sprinkled more than 50 tons of water within 4 hours. Through close cooperation with more than 280 firefighting remnant villagers in Jingdezhen City as well as highly efficient collaboration with multiple departments from provincial government and enterprises, the fire spread was effectively under control.

5.2.3 Engaging in public welfare activities

The Group has been paying attention to and supporting public welfare in the long term, and actively makes contribution to the society. In 2019, the Group improved the volunteer management system, expanded the establishment of volunteer teams, and conducted a series of social public welfare activities such as community services, voluntary teaching, donation and comfort, science education and targeted poverty alleviation so as to proactively fulfill the corporate social responsibility and contribute to public welfare.

Case Study: Changhe Aviation conducted legal consultation activities

On 7 December 2019, Changhe Aviation invited units such as Intermediate People's Court and Legal Aid Center of Jingdezhen City, Jiangxi to co-organize legal consultation activities in response to "12.4 National Constitution Day 2019", conducted legal consultation activities for community to answer legal questions in daily life and therefore enhancing residents' legal awareness.

Case Study: AVIC Kaitian conducted volunteer services of "Lei Feng Week"

In order to earnestly learn and promote the spirit of Lei Feng, AVIC Kaitian has convened more than 20 young volunteers from the remnant people to take a trip to Chenghang community and 363 Hospital on 3 and 5 March 2019 respectively for launching volunteer services of "Lei Feng Week". During the event, volunteers provided community members with services such as electrical appliance maintenance, medical consultation, order maintenance and ward visits by clown doctors, which further enhanced the youth's sense of social responsibility and serving awareness, and contributed their vitality in establishing a harmonious society.

5.3 Disseminating Aviation Culture

The Group has always been committed to popularizing aviation technology and knowledge, raising people's awareness on national aviation, cultivating a new aviation generation and inheriting the sentiments and quality of aviation. During 2019, the Group continued to conduct various aviation science popularization activities on campus, organize aviation science summer camps, and stimulate youth's enthusiasm for advocating science, pursuing aviation dreams and learning scientific knowledge through edutainment.

Case Study: Shanghai Aviation Electric launched "Aviation Science Popularization" campus activities

In April 2019, Shanghai Aviation Electric sent its aviation science popularization volunteer service team to Ma'an Middle School in Ma'an Town, Yilong County, Sichuan Province for launching "Aviation Science Popularization" campus activities. In mid-July 2019, 14 students from impoverished areas with excellent academic performance were selected and made a trip to Shanghai for a one-week aviation science popularization summer camp, which enlightened the students with motivation to pursue their dreams even living in poverty.

Case Study: AVIC Kaitian launched "Aviation Science Popularization" campus activities

On 21 May 2019, AVIC Kaitian organized an aviation science popularization campus campaign on the theme of "Love the Motherland, Love the Aviation and Co-build the Aviation Patriotic Dream" at Chengdu Shude B-Ray Experimental School. Through experts' lectures on theoretical knowledge, combing with interactive sections such as "Model Aircraft in Campus" and "Scenario Simulation of Aircraft", students were able to deepen their understanding on aviation knowledge. Such activity not only conveyed aviation knowledge, but also planted seeds of patriotic sentiment in students to inspire them to love, study and apply science with enthusiasm, and therefore laying a foundation for cultivating a new generation of aviation talents.

Independent Auditor's Report

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

To the shareholders of AviChina Industry & Technology Company Limited
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of AviChina Industry & Technology Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 107 to 244, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Hong Kong, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

To the shareholders of AviChina Industry & Technology Company Limited (Continued)
(Established in the People's Republic of China with limited liability)

KEY AUDIT MATTERS (Continued)

Refer to the accounting policies and disclosures for the impairment of accounts receivables included in notes 2.4, 3 and 24 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Expected credit loss ("ECL") of accounts receivables	
As at 31 December 2019, the Group's accounts receivables was significant to the consolidated financial statements. The estimation of ECL is based on a significant degree of management judgement and may be subject to management bias. The conclusions are dependent upon management's judgement in making assumptions and selecting inputs to the ECL calculation based on number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period.	Our audit procedures to assess the ECL of accounts receivables included, but are not limited to the audit procedures below. We obtained an understanding of the ECL assessment process for accounts receivables, performed walkthroughs and identified relevant controls within the transaction process; communicated with management in regard to their estimation of the ECL. We have checked the ageing analysis, and selected samples to trace to the original supporting documents; inquired management about their consideration for the material and/or long-aged individual items, and examined the historical collection and evaluated the financial strength of the customers concerned; and examined subsequent collections by checking to the bank receipts and related original documents; and assessed the appropriateness of the ECL provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the ECL.

Independent Auditor's Report

To the shareholders of AviChina Industry & Technology Company Limited (Continued)
(Established in the People's Republic of China with limited liability)

KEY AUDIT MATTERS (Continued)

Refer to the accounting policies and disclosures for the revenue recognition for construction contracts included in notes 2.4, 3 and 5 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition for construction contracts (input method)	
As at 31 December 2019, the Group's revenue recognition on construction contracts was significant to the consolidated financial statements. The Group uses the input method in accounting for its contract revenue. Significant management judgement is involved in using input method as it requires management to estimate the total estimated cost as well as the cost incurred up to the date as a proportion of the total estimated cost for each contract.	Our audit procedures to assess the revenue recognition included, but are not limited to the audit procedures below. We obtained an understanding of the contract accounting process, performed walkthroughs and identified and tested relevant controls within the transaction process; checked the contract revenue recognised to the original contract clause; examined the compilation of the total estimated cost and discussed with management and various project officials to assess whether the estimation uncertainties have been adequately addressed; examined the cost incurred up to the date by reviewing the breakdown, selected samples to check to the original supporting documents; and recalculated the percentage of total estimated costs for each performance obligation in the contract and performed gross profit analysis.

To the shareholders of AviChina Industry & Technology Company Limited (Continued)
(Established in the People's Republic of China with limited liability)

KEY AUDIT MATTERS (Continued)

Refer to the accounting policies and disclosures for the impairment of inventories included in notes 2.4, 3 and 23 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories	
As at 31 December 2019, the Group's inventories were significant to the consolidated financial statements. 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 writes down obsolete and slow-moving items in inventories to net realisable value. This assessment of impairment of inventories requires significant management estimates on current market conditions.	Our audit procedures to assess the impairment risk of inventories included, but are not limited to the audit procedures below. We obtained an understanding of the impairment assessment process for inventories, performed walkthroughs and identified and tested relevant controls within the transaction process; observed stock take performed by management, and identified the obsolete or slow-moving items; obtained the final stock list and selected samples to check to subsequent net realisable values; and examined the impairment calculation and the aging analysis prepared by management and checked the subsequent usage and sales of inventories.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

To the shareholders of AviChina Industry & Technology Company Limited (Continued)
(Established in the People's Republic of China with limited liability)

RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in according with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

To the shareholders of AviChina Industry & Technology Company Limited (Continued)
(Established in the People's Republic of China with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the Company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report

To the shareholders of AviChina Industry & Technology Company Limited (Continued)
(Established in the People's Republic of China with limited liability)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

From the matters communicated with audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Lee Shun Ming.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lee Shun Ming
Practising Certificate Number: P07068

Hong Kong
30 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
REVENUE	5	42,119,126	35,755,622
Cost of sales		(33,104,168)	(27,961,704)
Gross profit		9,014,958	7,793,918
Other income and gains	5	685,822	692,011
Other expenses		(39,675)	(41,529)
Other income and gains, net		646,147	650,482
Selling and distribution expenses		(687,377)	(670,195)
Administrative expenses		(5,294,907)	(4,529,235)
Impairment loss of financial assets		(282,050)	(155,282)
OPERATING PROFIT		3,396,771	3,089,688
Finance income		249,124	197,122
Finance costs		(639,896)	(601,493)
Finance costs, net	7	(390,772)	(404,371)
Share of profits of:			
Joint ventures		18,912	25,823
Associates		208,695	186,952
PROFIT BEFORE TAX	6	3,233,606	2,898,092
Income tax expenses	10	(297,602)	(322,750)
PROFIT FOR THE YEAR		2,936,004	2,575,342
Attributable to:			
Equity holders of the Company		1,376,856	1,285,608
Non-controlling interests		1,559,148	1,289,734
		2,936,004	2,575,342
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
For profit for the year	12	RMB0.220	RMB0.215

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000 (Restated)
PROFIT FOR THE YEAR	2,936,004	2,575,342
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of financial statements of foreign operations	9,981	8,696
Other comprehensive income to be reclassified to profit or loss in subsequent periods	9,981	8,696
Items that will not be reclassified subsequently to profit or loss:		
Gain (loss) on a defined benefit scheme	2,023	(38,199)
Changes in fair value	78,000	(122,622)
Income tax effect	(13,560)	18,160
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	66,463	(142,661)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	76,444	(133,965)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	3,012,448	2,441,377
Attributable to:		
Equity holders of the Company	1,428,457	1,213,507
Non-controlling interests	1,583,991	1,227,870
	3,012,448	2,441,377

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	12,624,271	15,836,597
Right-of-use assets – land use rights/Land use rights	16	1,496,226	1,701,996
Right-of-use assets – others	14	880,067	–
Investment properties	15	303,102	365,106
Goodwill	17	69,122	69,122
Other intangible assets	18	480,621	575,863
Investments in joint ventures	19	151,428	141,772
Investments in associates	20	1,144,770	970,799
Financial assets at fair value through other comprehensive income	21	1,396,766	888,628
Deferred tax assets	22	349,947	324,183
Prepayments, deposits and other receivables	25	1,432,017	1,424,001
Contract assets	26	526,733	856,741
Total non-current assets		20,855,070	23,154,808
CURRENT ASSETS			
Inventories	23	25,671,657	23,442,736
Accounts and notes receivables	24	21,673,943	21,272,651
Prepayments, deposits and other receivables	25	3,966,225	2,791,983
Contract assets	26	2,541,907	2,074,429
Financial assets at fair value through profit or loss	27	502,343	280,629
Pledged deposits	28	955,999	1,414,308
Term deposits with initial terms of over three months	28	1,517,242	1,394,771
Cash and cash equivalents	28	13,059,640	12,122,364
Total current assets		69,888,956	64,793,871
TOTAL ASSETS		90,744,026	87,948,679

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CURRENT LIABILITIES			
Accounts and notes payables	29	27,223,029	25,324,860
Other payables and accruals	30	4,504,501	3,722,719
Interest-bearing bank and other borrowings	31	6,665,294	9,022,435
Obligations under finance leases	34	–	59,803
Contract liabilities	26	7,212,132	6,995,894
Lease liabilities	14	85,427	–
Tax payable		159,402	217,336
Total current liabilities		45,849,785	45,343,047
NET CURRENT ASSETS		24,039,171	19,450,824
TOTAL ASSETS LESS CURRENT LIABILITIES		44,894,241	42,605,632
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	2,042,809	1,294,190
Deferred income from government grants	32	755,827	777,498
Deferred tax liabilities	22	63,625	36,640
Convertible bonds	33	2,128,959	2,930,007
Obligations under finance leases	34	–	474,415
Contract liabilities	26	20,905	–
Lease liabilities	14	681,172	–
Other payables and accruals	30	651,366	895,630
Total non-current liabilities		6,344,663	6,408,380
TOTAL LIABILITIES		52,194,448	51,751,427
Net assets		38,549,578	36,197,252

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	35	6,245,122	6,245,122
Reserves	36	12,235,782	11,095,266
		18,480,904	17,340,388
Non-controlling interests		20,068,674	18,856,864
Total equity		38,549,578	36,197,252

The consolidated financial statements on page 107 to 244 were approved and authorised for issue by the board of directors on 30 March 2020 and are signed on its behalf by:

Director
Chen Yuanxian

Director
Wang Xuejun

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity holders of the Company								Non-controlling interests	Total
	Share capital	Capital reserve	Equity component of convertible bonds of subsidiaries	Fair value reserve	Currency translation reserve	Other reserves	Retained earnings	Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018 (as restated)	6,245,122	5,246,246	287,799	(365,440)	11,552	291,077	5,624,032	17,340,388	18,856,864	36,197,252
Effect of changes in accounting policies (Note 2.2)	–	–	–	–	–	–	(1,583)	(1,583)	(3,152)	(4,735)
As at 1 January 2019 (as restated)	6,245,122	5,246,246	287,799	(365,440)	11,552	291,077	5,622,449	17,338,805	18,853,712	36,192,517
Profit for the year	–	–	–	–	–	–	1,376,856	1,376,856	1,559,148	2,936,004
Other comprehensive income for the year, net of tax	–	–	–	41,654	9,947	–	–	51,601	24,843	76,444
Total comprehensive income for the year	–	–	–	41,654	9,947	–	1,376,856	1,428,457	1,583,991	3,012,448
Transfer fair value reserve from disposal of financial assets at fair value through other comprehensive income	–	–	–	(24,042)	–	–	24,042	–	–	–
Disposals of interests in subsidiaries	–	–	–	20,482	–	–	(20,482)	–	(124,115)	(124,115)
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	46,302	46,302
Business combinations involving entities under common control	–	(480,198)	–	–	–	–	–	(480,198)	(681,144)	(1,161,342)
Deemed issuance for disposal of convertible bonds by the Company	–	–	9,019	–	–	–	–	9,019	24,841	33,860
Issue of shares by a subsidiary upon exercise of convertible bonds	–	513,451	(104,720)	–	–	–	–	408,731	664,232	1,072,963
2018 final dividend (Note 11)	–	–	–	–	–	–	(187,354)	(187,354)	–	(187,354)
Contribution from non-controlling shareholders of subsidiaries (Note (b))	–	–	–	–	–	–	–	–	99,137	99,137
Recognition of equity-settled share-based payment expenses of a subsidiary	–	5,911	–	–	–	–	–	5,911	8,948	14,859
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(353,463)	(353,463)
Transfer to statutory surplus reserve (Note 36(c))	–	–	–	–	–	31,999	(31,999)	–	–	–
Appropriation (Note 36(c))	–	–	–	–	–	11,192	(11,192)	–	–	–
Changes in ownership interests in subsidiaries without change of control	–	22,366	–	–	–		–	22,366	54,342	76,708
Repurchase share of a subsidiary for share based payment	–	(69,887)	–	–	–	–	–	(69,887)	(92,779)	(162,666)
Share-based payments of a subsidiary vested	–	17,017	–	–	–	–	–	17,017	38,407	55,424
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	(29,710)	(29,710)
Others	–	1,344	–	–	–	–	(13,307)	(11,963)	(24,027)	(35,990)
As at 31 December 2019	6,245,122	5,256,250*	192,098*	(327,346)*	21,499*	334,268*	6,759,013*	18,480,904	20,068,674	38,549,578

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to equity holders of the Company								Non-controlling interests	Total
	Share capital RMB'000	Capital reserve RMB'000	Equity component of convertible bonds of subsidiaries RMB'000	Fair value reserve RMB'000	Currency translation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000	RMB'000	RMB'000
As at 1 January 2018	5,966,122	3,840,969	352,610	(220,069)	2,920	241,248	4,525,461	14,709,261	16,450,473	31,159,734
Business combinations involving entities under common control	–	393,607	–	–	–	–	–	393,607	505,656	899,263
As at 1 January 2018 (as restated)	5,966,122	4,234,576	352,610	(220,069)	2,920	241,248	4,525,461	15,102,868	16,956,129	32,058,997
Profit for the year	–	–	–	–	–	–	1,285,608	1,285,608	1,289,734	2,575,342
Other comprehensive loss for the year, net of tax	–	–	–	(80,733)	8,632	–	–	(72,101)	(61,864)	(133,965)
Total comprehensive (loss) income for the year	–	–	–	(80,733)	8,632	–	1,285,608	1,213,507	1,227,870	2,441,377
Transfer fair value reserve from disposal of financial assets at fair value through other comprehensive income	–	–	–	(64,638)	–	–	64,638	–	–	–
Disposals of interests in subsidiaries	–	–	–	–	–	–	–	–	(48,122)	(48,122)
Capital injection by non-controlling shareholders of subsidiaries	–	(4,252)	–	–	–	–	–	(4,252)	168,590	164,338
Issue of shares	279,000	905,221	–	–	–	–	–	1,184,221	–	1,184,221
Issue of shares by a subsidiary upon exercise of convertible bonds	–	109	(22)	–	–	–	–	87	134	221
2017 final dividend	–	–	–	–	–	–	(178,984)	(178,984)	–	(178,984)
Contribution from non-controlling shareholders of subsidiaries (Note (b))	–	–	–	–	–	–	–	–	278,442	278,442
Recognition of equity-settled share-based payment expenses of a subsidiary	–	9,231	–	–	–	–	–	9,231	13,589	22,820
Recognition of equity component of convertible bonds	–	–	(64,789)	–	–	–	–	(64,789)	387,759	322,970
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(269,781)	(269,781)
Transfer to statutory surplus reserve (Note 36(c))	–	–	–	–	–	29,763	(29,763)	–	–	–
Appropriation (Note 36(c))	–	–	–	–	–	20,066	(20,066)	–	–	–
Changes in ownership interests in subsidiaries without change of control	–	(46,298)	–	–	–	–	–	(46,298)	(13,232)	(59,530)
Business combinations involving entities under common control	–	142,406	–	–	–	–	2,334	144,740	185,944	330,684
Others	–	5,253	–	–	–	–	(25,196)	(19,943)	(30,458)	(50,401)
As at 31 December 2018 (as restated)	6,245,122	5,246,246*	287,799*	(365,440)*	11,552*	291,077*	5,624,032*	17,340,388	18,856,864	36,197,252

Note (a):

During the year ended 31 December 2019, Jiangxi Hongdu Aviation Industry Co., Ltd. ("Hongdu Aviation") (a non-wholly-owned subsidiary of the Company) entered asset swap agreement with Jiangxi Hongdu Aviation Industry (Group) Corporation Ltd. ("Hongdu Group") (a connected person of the Company) through business combinations involving entities under common control. Further details of this acquisition are included in Note 2.1.

Note (b):

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

* These reserve accounts comprise the consolidated reserves of RMB12,235,782,000 (2018 (restated): RMB11,095,266,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,233,606	2,898,092
Adjustments for:			
Interest expense		599,316	553,577
Share of profits of joint ventures	19	(18,912)	(25,823)
Share of profits of associates	20	(208,695)	(186,952)
Interest income	7	(249,124)	(197,122)
Gain on disposal of property, plant and equipment	5	(94,677)	(109,821)
Gain on disposal of investments in associates	5	(122)	(10,827)
Gain on disposal of financial assets at fair value through profit or loss	5	(58,160)	(128,302)
Gain on disposals of right-of-use assets - land use rights	5	(523)	–
Gain on disposal of subsidiaries	5	(200,979)	(2,060)
Fair value gains on financial assets at fair value through profit or loss	5	10,038	(4,581)
Depreciation on investment properties	15	11,582	8,181
Depreciation on property, plant and equipment	13	1,112,165	1,116,804
Depreciation of right-of-use assets - others	14	46,814	–
Amortisation of other intangible assets	18	38,347	46,242
Depreciation/amortisation of right-of-use assets-land use rights/ Land use rights	16	42,160	42,603
Impairment of investment in an associate	6	2,646	–
Impairment of property, plant and equipment	6	24,405	–
Impairment of accounts receivables and prepayments, deposits and other receivables	6	282,050	155,282
Write-down of inventories to net realisable value	6	177,005	103,965
Share-based payment expense	6	14,859	22,820
Dividend income from financial assets at fair value through profit or loss/at fair value through other comprehensive income		(29,664)	(18,207)
Operating cash flows before movements in working capital		4,734,137	4,263,871
Increase in inventories		(4,222,165)	(2,792,284)
Increase in accounts and notes receivables		(1,110,046)	(3,927,114)
(Increase) decrease in contract assets		(137,470)	782,875
Increase in prepayments, deposits and other receivables		(100,433)	(588,618)
Increase in accounts and notes payables		2,054,618	1,244,940
Increase in contract liabilities		244,779	1,924,027
Increase in other payables and accruals		1,304,462	207,666
Decrease in pledged deposits		458,309	88,570
Cash from operations		3,226,191	1,203,933
Interest received		237,174	197,122
Interest paid		(432,480)	(439,911)
Income tax paid		(367,026)	(410,309)
Net cash flows from operating activities		2,663,859	550,835

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,856,387)	(1,771,390)
Purchase of investment properties		(278)	–
Purchase of right-of-use assets – land use rights		(11,736)	(5,268)
Purchase of other intangible assets		(1,939)	(2,667)
Purchase of financial assets at fair value through profit or loss		(853,552)	(252,308)
Purchase of financial assets at fair value through other comprehensive income		(515,211)	–
Additions to investments in associates	20	(154,243)	(92,700)
Acquisition of a subsidiary		–	(206,744)
Redemption of term deposits with initial terms of over three months		1,394,771	1,307,509
Addition of term deposits with initial terms of over three months		(1,517,242)	(1,394,771)
Government grant for purchase of property, plant and equipment	32	91,288	49,294
Proceeds from disposal of property, plant and equipment		129,038	196,032
Proceeds from disposals of right-of-use assets - land use rights		824	–
Disposals of financial assets at fair value through profit or loss		911,078	145,379
Disposals of financial assets at fair value through other comprehensive income		32,340	191,237
Disposal of investments in associates		3,639	108,361
Disposal of investments in subsidiaries	45	(28,566)	37,635
Business combinations involving entities under common control		49,079	–
Dividend received from joint ventures	19	9,256	6,484
Dividends received from financial assets at fair value through profit or loss/at fair value through other comprehensive income		29,664	17,659
Dividend received from associates	20	204,512	130,445
Net cash flows used in investing activities		(2,083,665)	(1,535,813)

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		10,835,470	8,289,126
Repayments of borrowings		(9,795,123)	(8,430,531)
(Redemption of) proceeds from convertible bonds		(2,304)	1,613,729
Proceeds from sale and lease back transactions		–	150,000
Repayment of lease liabilities (2018: Repayment of obligations under finance leases)		(111,764)	(43,782)
Repayments to a fellow subsidiary		–	(412,063)
Capital injection by non-controlling shareholders of subsidiaries		46,302	184,326
Proceeds from placing		–	1,185,766
Proceeds from disposal of interests in subsidiaries without change of control		76,708	–
Payments for acquisition of additional interests in a subsidiary		–	(59,530)
Dividends paid to equity holders of the Company		(187,354)	(178,984)
Dividends paid to non-controlling shareholders of subsidiaries		(365,521)	(260,222)
Payment of repurchase of shares of a subsidiary		(162,666)	–
Net cash flows from financing activities		333,748	2,037,835
NET INCREASE IN CASH AND CASH EQUIVALENTS		913,942	1,052,857
Cash and cash equivalents at beginning of year		12,122,364	11,063,187
Effect of foreign exchange rate changes, net		23,334	6,320
CASH AND CASH EQUIVALENTS AT END OF YEAR		13,059,640	12,122,364
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	15,532,881	14,931,443
Less: Pledged deposits	28	(955,999)	(1,414,308)
Term deposits with initial terms of over three months	28	(1,517,242)	(1,394,771)
Cash and cash equivalents as stated in the consolidated statement of cash flows	28	13,059,640	12,122,364

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 Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 30 October 2003. The address of its registered office is 2nd Floor, Building 27, No. 26 Xihuan South Street, Beijing Economic Technological Development Area, Beijing, and the PRC.

The Company and its subsidiaries (hereinafter collectively referred as 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 holding company and the ultimate holding company of the Company is also AVIC, which is a state-owned enterprise under the control of the State Council of the PRC government.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

Information about principal subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company 2019 Direct	2019 Indirect	2018 Direct	2018 Indirect	Principal activities
Harbin Aviation Industry (Group) Co., Ltd. (哈爾濱航空工業(集團)有限公司)	PRC	RMB450,000,000	100	–	100	–	Manufacture and sale of aero products and related services
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)	–	43.77 Note(a)	–	Design, development, manufacture and sale of basic trainers, general-purpose aeroplanes and other aero products, including parts and components

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2019		2018		
			Direct	Indirect	Direct	Indirect	
AVIC JONHON Optronic Technology Co., Ltd. (中航光電科技股份有限公司) *	PRC	RMB1,070,162,326	39.78 Note(a)	–	41.39 Note(a)	–	Research and development, manufacture and sale 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	RMB1,759,522,904	43.21 Note(b)	–	43.22 Note(b)	–	Holding investments in companies 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	–	100	–	Manufacture and sale of aviation electrical engineering products and accessories
China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究總院有限公司)	PRC	RMB750,000,000	100	–	100	–	Delivery of planning, design, consultation, construction, operation and other related aviation engineering services
AviChina Hong Kong Limited (中航科工香港有限公司)	Hong Kong	HKD1,000	100	–	100	–	Design, sale and development of aviation products, finance and investment, information consulting, training and house rental
AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司)	PRC	RMB220,500,000	32.61 Note(b)	–	32.61 Note(b)	–	Development, manufacture, remodelling and sale of Unmanned Aerial Vehicle products

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2019		2018		
			Direct	Indirect	Direct	Indirect	
AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司)	PRC	RMB200,000,000	100	–	100	–	Aviation industry project investment, consulting research and technology transfer
AVIC Rongfu Fund Management Company Limited (中航融富基金管理有限公司)	PRC	RMB140,000,000	50	–	50	–	Manufacture and sale of aeronautic instruments and other civil mechanical and electrical instruments
AVICOPTER PLC (中航直升機股份有限公司) *	PRC	RMB589,476,716	6.56	28.21 Note(b)	6.56	28.21 Note(b)	Research, development, design, manufacture and sale of aero products, including parts and components
Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司)	PRC	RMB630,422,696	–	34.77 Note(b)	–	34.77 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	RMB86,838,030	–	34.77 Note(b)	–	34.77 Note(b)	Manufacture aviation propellers, speed governors, feathering pumps, helicopter rotors, tail rotors, hovercrafts with propellers
Tianjin Helicopter Company Limited (天津直升機有限責任公司)	PRC	RMB250,000,000	–	34.77 Note(b)	–	34.77 Note(b)	Research and manufacture of helicopters, other aircrafts and aerospace components, and production, sale and maintenance services

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2019		2018		
			Direct	Indirect	Direct	Indirect	
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	–	34.77 Note(b)	–	34.77 Note(b)	Design, development, manufacture and sale of helicopters, other aircrafts and electrical engineering products
Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司)	PRC	RMB445,000,000	–	43.21 Note(b)	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司)	PRC	RMB441,780,000	–	43.21 Note(b)	–	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	RMB342,740,000	–	43.21 Note(b)	–	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	RMB350,652,688	–	38.15 Note(b)	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. (陝西寶成航空儀錶有限責任公司)	PRC	Disposed	–	–	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2019		2018		
			Direct	Indirect	Direct	Indirect	
AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司)	PRC	RMB208,106,000	–	43.21 Note(b)	–	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	RMB387,080,000	–	43.21 Note(b)	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司)	PRC	RMB376,362,500	–	34.57 Note(b)	–	34.58 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司)	PRC	RMB132,992,216	–	43.21 Note(b)	–	43.22 Note(b)	Manufacture and sale 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	RMB125,742,782	–	43.21 Note(b)	–	43.22 Note(b)	Research, manufacture, sale of avionics, airborne equipment and aviation products and related services
Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司)	PRC	RMB173,180,000	–	43.21 Note(b)	–	43.22 Note(b)	Manufacture and sale of aeronautic instruments and other civil mechanical and electrical instruments

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2019		2018		
			Direct	Indirect	Direct	Indirect	
AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限責任公司)	PRC	RMB80,856,400	–	25.01 Note(a)	–	26.02 Note(a)	Research, manufacture, sale, maintenance and related service of aviation electric equipment, electric connectors and related products
AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司) *	PRC	RMB78,864,000	–	22.08 Note(a)	–	22.97 Note(a)	Manufacture of electric connectors, wires and cables, cable components, microwave components, optoelectronic devices, antennas, power supplies, instruments and meter production and marketing
Shenzhen Xiangtong PhotoelectricTechnology Co., Ltd. (深圳市翔通光電技術有限公司)	PRC	RMB2,360,000	–	20.29 Note(a)	–	21.11 Note(a)	Research and development, manufacture and sale of optical fibre connectors, optical-module ceramic cores, active and passive optical fibre communication devices, and new ceramic materials
AVIC Optoelectronic Precision Electronics (Shenzhen) Co., Ltd. (中航光電精密電子(深圳)有限公司)	PRC	RMB50,000,000	–	20.29 Note(a)	–	21.11 Note(a)	Manufacture and sale of electrical connectors

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company 2019 Direct	2019 Indirect	2018 Direct	2018 Indirect	Principal activities
China Aviation International Construction and Investment Co., Ltd. (中國航空國際建設投資有限公司)	PRC	RMB130,000,000	–	100	–	100	Project contracting of aviation, civil and industrial construction
China Aviation Integration Equipment Co., Ltd. (中航工程集成設備有限公司)	PRC	RMB61,000,000	–	100	–	100	Research, manufacture and sale of mechanical equipment
China Aviation Engineering Supervision (Beijing) Co., Ltd. (中航工程監理(北京)有限公司)	PRC	RMB6,000,000	–	100	–	100	Construction supervision and engineering consulting
AVIC CAPDI Engineering Consulting (Beijing) Co., Ltd. (中航工程諮詢(北京)有限公司)	PRC	RMB3,000,000	–	100	–	100	Engineering consulting
AVIC CAPDI (Macau) Company Limited (中航院設計諮詢 (澳門)有限公司)	Macau	MOP600,000	–	100	–	100	Engineering, designing and consulting
AVIC Renewable Energy Investment Co., Ltd. (中國航空工業新能源投資有限公司)	PRC	RMB329,687,591	–	69.30	–	69.30	Engineering consulting and power generation

* A joint stock limited company established in the PRC.

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Excepted for the joint stock limited companies established in the PRC, the other PRC subsidiaries of the Company are limited liability companies.

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

The English name of the entity established in the PRC is for identification purpose only.

During the year ended 31 December 2019, Hongdu Aviation entered asset swap agreement with Hongdu Group through business combinations involving entities under common control. Further details of this acquisition are included in Note 2.1.

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 these entities with more than one half of the voting rights by virtue of agreements with other investors. Consequently, the Group has consolidated these entities.

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), and the disclosures required by the Hong Kong Companies Ordinance.

They have been prepared under the historical cost convention, except for certain financial instruments, which have been measured at fair value. These consolidated financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

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

On 31 May 2019, Jiangxi Hongdu Aviation Industry Co.,Ltd.* ("Hongdu Aviation") (a non-wholly-owned subsidiary of the Company) entered asset swap agreement with Jiangxi Hongdu Aviation Industry (Group) Corporation Ltd. ("Hongdu Group") (a connected person of the Company). The consideration for the acquisition assets is RMB1,362,424,500 which is satisfied by Hongdu Aviation transferring disposal assets to Hongdu Group. The consideration for the disposal assets is RMB2,208,462,300 which is satisfied by Hongdu Group (i) transferring acquisition assets to Hongdu Aviation; and (ii) paying the difference between the consideration for the acquisition and the disposal assets (i.e. RMB846,037,800) to Hongdu Aviation in cash. The asset swap transactions have been approved on the extraordinary general meeting convened on 23 August 2019 and have completed during the year.

Given that Hongdu Aviation and Hongdu Group are indirectly and directly controlled by AVIC respectively. Therefore, they are under common control of AVIC before and after the business combination, and that control is not temporary, the acquisition of assets is considered as business combination involving entities under common control. Accordingly, the Company applied the principles of merger accounting to account for the acquisition of business in preparing these consolidated financial statements.

By applying the principles of merger accounting, these consolidated financial statements also included the financial position, results and cash flows of assets swap as if it had been combined within the Group throughout the year ended 31 December 2019, and from the earliest date presented. Comparative figures as at 31 December 2018 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.

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restatement of prior year's consolidated financial statements due to business combinations involving entities under common control (Continued)

The quantitative impact on the consolidated financial statements is summarised below:

(i) The consolidated statement of profit or loss for the year ended 31 December 2018

	As previously reported RMB'000	Assets swap of Hongdu Aviation RMB'000	As restated RMB'000
Revenue	35,153,264	602,358	35,755,622
Profit for the year	2,580,675	(5,333)	2,575,342
Attributable to Equity holders of the Company	1,287,942	(2,334)	1,285,608

(ii) The consolidated statement of comprehensive income for the year ended 31 December 2018

	As previously reported RMB'000	Assets swap of Hongdu Aviation RMB'000	As restated RMB'000
Total comprehensive income for the year	2,446,710	(5,333)	2,441,377
Attributable to Equity holders of the Company	1,215,841	(2,334)	1,213,507

(iii) The consolidated statement of financial position as at 31 December 2018

	As previously reported RMB'000	Assets swap of Hongdu Aviation RMB'000	As restated RMB'000
Total non-current assets	22,218,880	935,928	23,154,808
Total current assets	64,501,409	292,462	64,793,871
Total non-current liabilities	6,408,380	–	6,408,380
Total current liabilities	45,339,271	3,776	45,343,047
Total equity	34,972,638	1,224,614	36,197,252
Attributable to Equity holders of the Company	16,804,375	536,013	17,340,388
Attributable to non-controlling interests	18,168,263	688,601	18,856,864

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restatement of prior year's consolidated financial statements due to business combinations involving entities under common control (Continued)

(iv) The consolidated statement of cash flows for the year ended 31 December 2018

	As previously reported RMB'000	Assets swap of Hongdu Aviation RMB'000	As restated RMB'000
Cash and cash equivalents at beginning of year	11,063,187	–	11,063,187
Net cash flows from operating activities	507,733	43,102	550,835
Net cash flows used in investing activities	(1,492,711)	(43,102)	(1,535,813)
Net cash flows from financing activities	2,037,835	–	2,037,835
Effect of foreign exchange rate changes, net	6,320	–	6,320
Cash and cash equivalents at end of the year	12,122,364	–	12,122,364

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. 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 the equity holders of the Company 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.

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basis of consolidation (Continued)

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 above. 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the current year, the Group has applied the following new and amendments to IFRSs, which include IFRSs, International Accounting Standards ("IAS(s)"), amendments and Interpretations ("Int(s)"), issued by the IASB.

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS	Annual Improvements to IFRSs 2015 – 2017 Cycle

The adoption of IFRS 16 resulted in the changes in the Group's accounting policies and adjustments to the amounts recognised in the consolidated financial statements as summarises below.

The application of other new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 2.4. The Group has applied IFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 17 Leases.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC-4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

The Group as lessee

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was ranged from 4.28% to 5.20%.

The Group recognises right-of-use assets and measures them at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group leases a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date. Accordingly, the obligations under finance leases are now included within lease liabilities, and the carrying amount of the corresponding lease asset is identified as a right-of-use asset.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The Group as lessee (Continued)

The following tables summarise the impact of transition to IFRS 16 at 1 January 2019 without the impact of assets swap of Hongdu Aviation. Line items that were not affected by the adjustments have not been included.

	Notes	Carrying amount previously reported at 31 December 2018 RMB'000 (Restated)	Impact on adoption of IFRS 16 RMB'000	Carrying amount as restated at 1 January 2019 RMB'000
Property, plant and equipment	(b)	15,836,597	(671,906)	15,164,691
Right-of-use assets – others	(a)&(b)	–	787,464	787,464
Obligations under finance leases	(b)	534,218	(534,218)	–
Lease liabilities	(a)&(b)	–	654,511	654,511
Retained earnings	(a)	5,624,032	(1,583)	5,622,449
Non-controlling interests	(a)	18,856,864	(3,152)	18,853,712

Notes:

(a) As at 1 January 2019, right-of-use assets were measured at the carrying amount of approximately RMB115,558,000 as if IFRS 16 had been applied since the commencement date. Difference between the right-of-use assets and the lease liabilities was recognised as an adjustment to the opening balance of retained earnings and non-controlling interest of approximately RMB1,583,000 and RMB3,152,000 respectively.

(b) The obligations under finance leases of approximately RMB534,218,000 as at 31 December 2018 are now included within lease liabilities. The carrying amount of the related assets under finance leases amounting to approximately RMB671,906,000 is reclassified to right-of-use assets.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The Group as lessee (Continued)

In the consolidated statement of cash flow, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. The total cash flows are unaffected.

The following table summarises the impact on transition to IFRS 16 on retained earnings and non-controlling interests at 1 January 2019.

	Retained earnings RMB'000	Non-controlling interests RMB'000
Balance at 31 December 2018, as originally stated	5,624,032	18,856,864
Total change as a result of adoption of IFRS 16 on 1 January 2019	(1,583)	(3,152)
Balance at 1 January 2019	5,622,449	18,853,712

Differences between operating lease commitments as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follow:

	RMB'000
Operating lease commitment disclosed as at 31 December 2018	133,719
Less: Short-term leases and other leases with remaining lease term ended on or before 31 December 2019	(10,141)
	123,578
Discounted using the incremental borrowing rate at 1 January 2019	120,293
Add: Obligations under finance leases recognised under IAS 17 at 31 December 2018	534,218
Lease liabilities recognised as at 1 January 2019	654,511
Analysed as	
Current portion	82,893
Non-current portion	571,618
	654,511

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Practical expedients applied

On the date of initial application of IFRS 16, the Group has also used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC – Determining whether an Arrangement contains a lease;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 17	Insurance Contracts[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors of the Company anticipate that the application of the new and amendments to IFRSs will have no material impact on the results and the financial position of the Group.

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 statement of profit or loss and 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.

Merger accounting

The consolidated financial statements incorporate the financial statements items of combining entities or businesses in which the common control combination occurs as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting (Continued)

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period unless the combining entities or businesses first came under common control at a later date.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Goodwill

Goodwill arising from business combination is carried at cost less accumulated impairment losses, if any. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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 consolidated 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 market 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 consolidated 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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

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 consolidated 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) the party is an entity where any of the following conditions applies: (Continued)

(viii) the entity, or any member of a group of which it is a part, provides key management services to the Group or to the parent of the Group.

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 the consolidated statement of 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	over the shorter of 20 – 40 years or lease term
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 consolidated 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 as property, plant and equipment 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Prior to the adoption of IFRS 16, assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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.

Upon application of IFRS 16 on 1 January 2019, investment properties include leased properties recognised by the Group as right-of-use asset and leased out under operating lease.

Land use rights (applicable before 1 January 2019)

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 lease term 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

All research costs are recognised to the consolidated statement of profit or loss 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 consolidated statement of profit or loss.

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 its estimated useful life 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.

Service concession arrangements

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition. The intangible asset is carried at cost less accumulated amortisation and any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Under IFRS 16 (applicable on or after 1 January 2019)

Definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Under IFRS 16 (applicable on or after 1 January 2019) (Continued)

Lease liabilities (Continued)

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Impairment of non-financial assets" policy as stated above.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in "Administrative expenses" in the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Under IFRS 16 (applicable on or after 1 January 2019) (Continued)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient for all leases.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to plant and equipment. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When a contract includes both lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Under IAS 17 (applicable before 1 January 2019)

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 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 consolidated 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 consolidated 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 consolidated statement of profit or loss on the straight-line basis over the lease terms.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'other income' line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the other incomes line item. Fair value is determined in the manner described in note 2.4.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL (Continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for accounts receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from financial analysts, governmental bodies and relevant think-tanks, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 12 months past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Credit-impaired financial assets (Continued)

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivables, when the amounts are over 12 months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 Leases (on or after 1 January 2019) or IAS 17 Leases (prior to 1 January 2019).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Measurement and recognition of expected credit losses (Continued)

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is transferred to retained earnings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible bonds

Convertible bonds issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definition of financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity, is included in equity.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to their relative fair values. Transaction costs relating to the equity components are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

A provision, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, 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 consolidated 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, associates and joint ventures, 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.

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, associates and joint ventures, 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 liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated 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 consolidated statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is district or a series of distinct goods or services that are substantially same.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- The Group' performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Contract assets and contract liabilities (Continued)

The Group recognised revenue from the following major sources:

- sales of aviation products
- provision of services

The sale of aviation products and services

Revenue is recognised when or as the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer; or
- creates and enhances an asset that the customer controls as the Group performs; or
- do not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset is transferred over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs towards satisfying a performance obligation, by reference to the actual costs incurred up to the end of reporting period as a percentage of total estimated costs for each contract. In some circumstances when the outcome of a performance obligation could not be reasonably measured, the Group shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure the outcome of the performance obligation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

The sale of aviation products and services (Continued)

For each performance obligation satisfied at a point in time, revenue is recognised when the customer obtains control of a promised asset and the Group has present right to payment and the collection of the consideration is probable. To determine the point in time at which a customer obtains control of a promised asset, the Group considers the following indicators:

- The entity has a present right to payment for the asset
- The customer has legal title to the asset
- The entity has transferred physical possession of the asset
- The customer has the significant risks and rewards of ownership of the asset
- The customer has accepted the asset

Rental income

Rental income from operating leases is recognised on a straight-line basis over the lease terms.

Interest income

Interest income is recognised 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.

Dividend income

Dividend income is recognised when the right to receive payment is established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 consolidated 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 companies are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to consolidated 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

These consolidated 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 certain subsidiaries is currency other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rate prevailing at the end of the reporting period and their consolidated statements of profit or loss are 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.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated 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 consolidated 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.

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. 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 of 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. 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, right-of-use assets, investment properties, land use right 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 write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment allowances on financial assets

The measurement of impairment allowances under IFRS 9 across financial assets, including deposits and other receivables, contract assets, accounts and notes receivables and are based on assumptions about ECL which requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment allowances and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment allowances on financial assets (Continued)

At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

Impairment of inventories

Management estimates the net realisable value for raw material, work-in progress and finished goods 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 write down obsolete and slow-moving items in inventories to net realisable value.

Revenue recognition

When the group transfers control of a good or service over time, revenue is recognised by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each performance obligation in the contract. Significant judgments and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligation at the reporting date. Based on the Group's experience and nature of the 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.

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 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 tax excluding interest income, finance costs, 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.

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2019	Aviation entire aircraft RMB'000	Aviation parts and components RMB'000	Aviation engineering services RMB'000	Total RMB'000
Segment Revenue:				
Sales to external customers	15,309,526	20,951,733	5,857,867	42,119,126
Intersegment sales				1,752,598
				43,871,724
Reconciliation:				
Elimination of intersegment operations				(1,752,598)
Revenue				42,119,126
Segment results	784,446	2,591,964	303,463	3,679,873
Reconciliation:				
Interest income				249,124
Corporate and other unallocated expenses				(55,495)
Finance costs				(639,896)
Profit before tax				3,233,606
Segment assets	30,659,636	46,670,623	15,102,297	92,432,556
Reconciliation:				
Elimination of intersegment receivables				(1,688,530)
Total assets				90,744,026

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2019	Aviation entire aircraft RMB'000	Aviation parts and components RMB'000	Aviation engineering services RMB'000	Total RMB'000
Segment liabilities	19,952,006	23,871,902	10,059,070	53,882,978
Reconciliation:				
Elimination of intersegment payables				(1,688,530)
Total liabilities				52,194,448
Other segment information:				
Share of profits of:				
Joint ventures	488	18,424	–	18,912
Associates	246	207,407	1,042	208,695
(Reversal)/impairment losses recognised in the statement of profit or loss	(2,687)	443,518	45,275	486,106
Other non-cash items	(41,401)	14,935	3,233	(23,233)
Depreciation and amortisation	347,962	706,186	196,920	1,251,068
Investments in joint ventures	25,078	126,350	–	151,428
Investments in associates	347,224	705,653	91,893	1,144,770
Capital expenditure*	382,739	1,731,470	628,430	2,742,639

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets, investment properties, land use right, intangible assets and investments in associates.

Upon application of IFRS 16, the Group's right-of-use assets and lease liabilities are now included in the measure of segment assets and segment liabilities respectively at 31 December 2019. In respect of segment result, recognition of depreciation of right-of-use assets are now included in the measure of segment result. Comparative information is not restated.

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018 (Restated)	Aviation entire aircraft RMB'000	Aviation parts and components RMB'000	Aviation engineering services RMB'000	Total RMB'000
Segment Revenue:				
Sales to external customers	11,010,731	19,149,069	5,595,822	35,755,622
Intersegment sales				1,174,711
				36,930,333
Reconciliation:				
Elimination of intersegment operations				(1,174,711)
Revenue				35,755,622
Segment results	596,601	2,362,586	390,061	3,349,248
Reconciliation:				
Interest income				197,121
Corporate and other unallocated expenses				(46,784)
Finance costs				(601,493)
Profit before tax				2,898,092
Segment assets	31,033,855	43,837,545	14,425,495	89,296,895
Reconciliation:				
Elimination of intersegment receivables				(1,348,216)
Total assets				87,948,679

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018 (Restated)	Aviation entire aircraft RMB'000	Aviation parts and components RMB'000	Aviation engineering services RMB'000	Total RMB'000
Segment liabilities	19,475,715	23,430,037	10,193,891	53,099,643
Reconciliation:				
Elimination of intersegment payables				(1,348,216)
Total liabilities				51,751,427
Other segment information:				
Share of profits of:				
Joint ventures	612	25,211	–	25,823
Associates	34	186,827	91	186,952
Impairment losses recognised in the statement of profit or loss	(33,960)	269,366	23,841	259,247
Other non-cash items	95,058	22,820	–	117,878
Depreciation and amortisation	419,773	599,343	194,714	1,213,830
Investments in joint ventures	24,590	117,182	–	141,772
Investments in associates	347,998	580,839	41,962	970,799
Capital expenditure*	501,929	1,446,593	78,105	2,026,627

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

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

Revenue from customer of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
Customer A[1]	8,451,351	7,869,665
Customer B[1]	5,349,531	N/A[2]

1 Revenue from Aviation entire aircraft.
2 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents revenue arising on sale of goods and the value of services rendered during the year.

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

	2019 RMB'000	2018 RMB'000 (Restated)
Revenue from contracts with customers		
Sales of goods	36,988,439	30,670,530
Rendering of services	5,130,687	5,085,092
	42,119,126	35,755,622

	2019 RMB'000	2018 RMB'000 (Restated)
Disaggregation of revenue by timing of recognition		
Timing of revenue recognition		
At a point in time	22,234,924	20,247,316
Over time	19,884,202	15,508,306
Total revenue from contracts with customers	42,119,126	35,755,622

5. REVENUE, OTHER INCOME AND GAINS (Continued)

	2019 RMB'000	2018 RMB'000 (Restated)
Other income from contracts		
Income from sale of materials	595,384	509,209
Cost of sale of materials	(506,170)	(437,475)
Profit from sale of materials	89,214	71,734
Income from rendering of maintenance and other services	63,934	96,793
Total other income from contracts with customers	153,148	168,527
Other income from other sources		
Dividend income	29,664	18,207
Gross rental income	74,118	58,555
Gross rental expense	(30,129)	(20,780)
	43,989	37,775
Total other income from other sources	73,653	55,982
Total other income	226,801	224,509
Gains		
Fair value gains, net:		
Financial assets at fair value through profit or loss	–	4,581
Foreign exchange gains, net	23,334	46,710
Default fine	26,773	25,047
Gain on exchange of non-monetary assets	–	93
Gain on disposal of:		
Interests in subsidiaries	200,979	2,060
Interests in associates	122	10,827
Financial assets at fair value through profit or loss	58,160	128,302
Property, plant and equipment	94,677	109,821
Right-of-use assets – land use rights	523	–
Others	54,453	140,061
Other income and gains	685,822	692,011
	42,804,948	36,447,633

6. PROFIT BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
Cost of inventories sold		28,812,626	23,768,395
Cost of services provided		4,291,542	4,193,309
Depreciation:			
Investment properties	15	11,582	8,181
Property, plant and equipment	13	1,112,165	1,116,804
Right-of-use assets – land use rights	16	42,160	–
Right-of-use assets – others	14	46,814	–
Less: Amortisation of deferred income from government grants	32	(76,054)	(63,383)
		1,136,667	1,061,602
Amortisation:			
Land use rights	16	–	42,603
Other intangible assets	18	38,347	46,242
Research and development costs:			
Current year expenditure		2,937,390	2,527,816
Less: Government grants released*		(419,377)	(638,239)
		2,518,013	1,889,577
Auditor's remuneration		9,290	8,576
Employee benefit expense (including directors and supervisors' remuneration):			
Wages, salaries, housing benefits and other allowances		6,609,978	6,245,693
Share-based payment expense		14,859	22,820
Pension scheme contributions		1,000,744	940,281
Foreign exchange gains, net		(23,334)	(46,710)
Fair value loss (gain), net:			
Financial assets at fair value through profit or loss		10,038	(4,581)
Impairment of:			
Investment in an associate being disposed during the year		2,646	–
Accounts receivables and deposits and other receivables		282,050	155,282
Property, plant and equipment	13	24,405	–
Write-down of inventories to net realisable value		177,005	103,965

* 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 consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these grants.

7. FINANCE COSTS, NET

	2019 RMB'000	2018 RMB'000 (Restated)
Finance income:		
Bank interest income	221,566	193,553
Other interest income	27,558	3,569
	249,124	197,122
Finance costs:		
Interest on bank and other borrowings	454,286	477,375
Interest on lease liabilities/finance leases	36,170	8,893
Effective interest expenses on convertible bonds	145,758	107,524
Total interest expense for financial liabilities not classified at fair value through profit or loss	636,214	593,792
Less: Interest capitalised	(36,898)	(40,215)
Other financial costs	40,580	47,916
	639,896	601,493
Finance costs, net	(390,772)	(404,371)

The interests were capitalised in construction in progresses by interest rates of banks and bonds ranging from 1.08% to 4.90% and from 5.34% to 5.41% respectively in 2019 (2018: 1.08% to 4.94% and from 3.84% to 5.41% respectively).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

The emoluments paid or payable to each of the directors and supervisors were as follows:

	2019 RMB'000	2018 RMB'000
Fees	718	775
Other emoluments:		
Salaries and allowances	2,737	1,104
	3,455	1,879

(a) Independent non-executive directors

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

	2019 RMB'000	2018 RMB'000
Mr. Liu Weiwu[4]	210	80
Mr. Wang Jianxin[4]	210	105
Mr. Liu Renhuai	210	190
Mr. Lau Chung Man, Louis[5]	–	105
Mr. Yeung Chi Wai[5]	–	105
	630	585

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019					
Executive directors:					
Mr. Tan Ruisong[2]	–	–	–	–	–
Mr. Chen Yuanxian[7]	–	–	–	–	–
Mr. Wang Xuejun[1 & 7]	–	454	–	–	454
Non-executive directors:					
Mr. Wang Xuejun[1]	–	–	–	–	–
Mr. Li Yao[2]	–	–	–	–	–
Mr. Patrick de Castelbajac[2]	–	–	–	–	–
Mr. He Zhiping[3]	88	–	–	–	88
Mr. Yan Lingxi[2 & 8]	–	363	–	–	363
Mr. Lian Dawei[2]	–	1,259	–	–	1,259
Mr. Xu Gang[2]	–	–	–	–	–
	88	2,076	–	–	2,164

	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018					
Executive directors:					
Mr. Tan Ruisong[4]	–	–	–	–	–
Mr. Chen Yuanxian[4]	–	658	–	–	658
Mr. Lin Zuoming[5]	–	–	–	–	–
Non-executive directors:					
Mr. Wang Xuejun[4]	–	–	–	–	–
Mr. Wu Xiandong[5]	–	–	–	–	–
Mr. Li Yao	–	–	–	–	–
Mr. Patrick de Castelbajac	–	–	–	–	–
Mr. He Zhiping	190	–	–	–	190
	190	658	–	–	848

There was no arrangement under which directors waived or agreed to waive any remuneration during the year (2018: Nil). The emoluments paid or payable to each of the directors were paid by the Company or its subsidiaries.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(c) Supervisors

	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019					
Supervisors:					
Mr. Zheng Qiang	–	–	–	–	–
Mr. Guo Guangxin	–	–	–	–	–
Mr. Shi Shiming	–	661	–	–	661
	–	661	–	–	661

	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2018					
Supervisors:					
Mr. Zheng Qiang	–	–	–	–	–
Mr. Liu Fumin[6]	–	–	–	–	–
Ms. Li Jing[6]	–	187	–	–	187
Mr. Guo Guangxin[6]	–	–	–	–	–
Mr. Shi Shiming[6]	–	259	–	–	259
	–	446	–	–	446

1 On 20 March 2019, Mr. Wang Xuejun was designated from a non-executive director to an executive director of the Company.

2 On 17 May 2019, Mr. Yan Lingxi, Mr. Lian Dawei and Mr. Xu Gang were appointed as the non-executive director of the Company. Mr. Tan Ruisong resigned as the executive director of the Company and Mr. Li Yao and Mr. Patrick de Castelbajac resigned as the non-executive directors of the Company.

3 On 17 May 2019, Mr. He Zhiping resigned as the non-executive director of the Company.

4 On 29 June 2018, Mr. Tan Ruisong and Mr. Chen Yuanxian were appointed as the executive directors of the Company; Mr. Liu Weiwu and Mr. Wang Jianxin were appointed as the independent non-executive directors of the Company; and Mr. Wang Xuejun was appointed as the non-executive director of the Company.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(c) Supervisors (Continued)

[5] On 29 June 2018, Mr. Lin Zuoming and Mr. Wu Xiandong resigned as the executive director and non-executive director of the Company respectively. Mr Lau Chung Man, Louis and Mr. Yeung Chi Wai resigned as the independent non-executive directors of the Company.

[6] On 29 June 2018, Mr. Guo Guangxin and Mr. Shi Shiming were appointed as the supervisors of the Company; Mr. Liu Fumin and Ms. Li Jing resigned as the supervisors of the Company.

[7] On 20 March 2019, Mr. Chen Yuanxian resigned as the general manager of the Company and was appointed as the chairman of the Board. Mr. Wang Xuejun was appointed as the general manager of the Company. Their emoluments disclosed above represent services rendered by them as the general manager.

[8] Mr. Yan Lingxi has been the standing deputy general manager of the Company from 6 February 2018 to 20 March 2019. His emoluments disclosed above represent services rendered by him as the standing deputy general manager.

9. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group for the year, one (2018: Nil) was the directors of the Company whose remuneration are set out in Note 8 above. Details of the remuneration for the year of the remaining four (2018: five) highest paid employees of the Group are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and allowances	5,024	7,133

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	
	2019	2018
HK$1,000,001 to HK$1,500,000 (equivalent to 2019: approximately RMB892,000 to RMB1,323,000 and 2018: approximately RMB840,000 to RMB1,260,000)	4	5

During the years ended 31 December 2019 and 2018, 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 or agreed to waive any remuneration during the years ended 31 December 2019 and 2018.

10. INCOME TAX EXPENSES

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2018: 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% (2018: 25%) on the assessable income of respective entities in the Group.

	2019 RMB'000	2018 RMB'000 (Restated)
Current income tax	310,726	363,567
Deferred income tax	(13,124)	(40,817)
Total tax charge for the year	297,602	322,750

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the years ended 31 December 2019 and 2018, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

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:

	2019 RMB'000	2018 RMB'000 (Restated)
Profit before tax	3,233,606	2,898,092
Tax at the statutory tax rate of 25%	808,402	724,523
Lower tax rate(s) for specific provinces or enacted by local authorities	(485,795)	(393,546)
Profits and losses attributable to joint ventures and associates	(56,902)	(53,194)
Income not subject to tax	(64,947)	(35,928)
Expenses not deductible for tax	79,898	34,378
Tax losses utilised from previous periods	(3,235)	(10,676)
Tax losses not recognised	30,466	73,690
Others	(10,285)	(16,497)
Tax charge at the Group's effective rate	297,602	322,750

11. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Proposed:		
Final dividend, proposed of RMB0.03 (2018: RMB0.03) per share	187,354	187,354

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.

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 6,245,121,836 (2018: 5,979,116,357) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2019 (2018: nil).

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

	2019 RMB'000	2018 RMB'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculation	1,376,856	1,285,608
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (thousands)	6,245,122	5,979,116
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation (thousands)	6,245,122	5,979,116

13. PROPERTY, PLANT AND EQUIPMENT

2019	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 2019 (Restated)	4,136,107	7,822,222	9,505,435	3,367,159	24,830,923
Impact on initial adoption of IFRS 16 (note 2.2)	–	–	(878,527)	–	(878,527)
As at 1 January 2019 (Restated)	4,136,107	7,822,222	8,626,908	3,367,159	23,952,396
Additions	2,070,954	3,722	202,945	150,374	2,427,995
Transfer from investment properties	–	3,287	–	–	3,287
Transfer upon completion	(1,355,431)	565,288	380,611	409,532	–
Disposal/write-off	(87,144)	(342,415)	(155,167)	(65,837)	(650,563)
Disposal arising from assets swap	(1,319,045)	(837,737)	(1,481,493)	(177,602)	(3,815,877)
Disposal of subsidiaries	(50,090)	(385,011)	(177,425)	(272,586)	(885,112)
Transfer to investment properties	–	(21,528)	–	–	(21,528)
As at 31 December 2019	3,395,351	6,807,828	7,396,379	3,411,040	21,010,598
Accumulated depreciation and impairment					
As at 1 January 2019 (Restated)	–	(1,962,926)	(4,692,345)	(2,339,055)	(8,994,326)
Impact on initial adoption of IFRS 16 (note 2.2)	–	–	206,621	–	206,621
As at 1 January 2019 (Restated)	–	(1,962,926)	(4,485,724)	(2,339,055)	(8,787,705)
Depreciation	–	(268,931)	(536,321)	(306,913)	(1,112,165)
Transfer from investment properties	–	(2,222)	–	–	(2,222)
Impairment	–	(21,489)	(2,916)	–	(24,405)
Elimination on disposal/write-off	–	215,688	102,853	59,993	378,534
Disposal arising from assets swap	–	48,099	581,482	59,606	689,187
Transfer to investment properties	–	6,123	–	–	6,123
Disposal of subsidiaries	–	138,526	137,972	189,828	466,326
As at 31 December 2019	–	(1,847,132)	(4,202,654)	(2,336,541)	(8,386,327)
Net book value					
As at 31 December 2019	3,395,351	4,960,696	3,193,725	1,074,499	12,624,271

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

2018 (Restated)	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 2018	3,467,292	7,625,176	9,100,846	3,084,521	23,277,835
Additions	1,505,956	73,056	185,530	153,422	1,917,964
Transfer upon completion	(747,859)	224,876	332,611	190,372	–
Disposal/write-off	(38,454)	(39,784)	(100,740)	(55,997)	(234,975)
Disposal of subsidiaries	(7,404)	–	(12,812)	(5,159)	(25,375)
Transfer to investment properties	(43,424)	(61,102)	–	–	(104,526)
As at 31 December 2018	4,136,107	7,822,222	9,505,435	3,367,159	24,830,923
Accumulated depreciation and impairment					
As at 1 January 2018	–	(1,760,229)	(4,171,016)	(2,103,005)	(8,034,250)
Depreciation	–	(223,789)	(606,112)	(286,903)	(1,116,804)
Elimination on disposal/write-off	–	15,108	75,586	48,539	139,233
Transfer to investment properties	–	5,984	–	–	5,984
Disposal of subsidiaries	–	–	9,197	2,314	11,511
As at 31 December 2018	–	(1,962,926)	(4,692,345)	(2,339,055)	(8,994,326)
Net book value					
As at 31 December 2018	4,136,107	5,859,296	4,813,090	1,028,104	15,836,597

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2018, certain of the Group's property, plant and equipment with a carrying value of approximately RMB58,867,000 (2019: Nil) were situated on leasehold lands 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 2018 ranged from 4 to 31 years.

The Group was in the process of applying for the legal titles for buildings with a net book value of approximately RMB1,114,991,000 as at 31 December 2019 (2018: RMB1,722,260,000).

As at 31 December 2018, the carrying value of plant and equipment of approximately RMB4,813,090,000 includes an amount of approximately RMB671,906,000 in respect of assets held under finance leases.

During the year ended 31 December 2019, impairment losses of RMB21,489,000 (2018:Nil) and RMB2,916,000 (2018:Nil) respectively have been recognised in respect of buildings and plant and equipment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use.

14. LEASES

(i) Right-of-use assets – others

	31/12/2019 RMB'000	1/1/2019 RMB'000
Buildings	94,381	115,558
Plant and equipment	785,686	671,906
	880,067	787,464

The Group has lease arrangements for buildings and plant and equipment. The lease terms are generally ranged from two to six years.

In respect of lease arrangement for renting plant and equipment, the Group has options to purchase plant and equipment for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such lease.

Additions to the right-of-use assets for the year ended 31 December 2019 amounted to RMB4,632,000 and RMB134,785,000, due to new leases of buildings and plant and equipment.

14. LEASES (Continued)

(ii) Lease liabilities

	31/12/2019 RMB'000	1/1/2019 RMB'000
Non-current	681,172	571,618
Current	85,427	82,893
	766,599	654,511

Amounts payable under lease liabilities	31/12/2019 RMB'000
Within one year	85,427
After one year but within two years	90,987
After two years but within five years	221,284
After five years	368,901
	766,599
Less: Amount due for settlement within 12 months (shown under current liabilities)	(85,427)
Amount due for settlement after 12 months	681,172

As at 31 December 2019, the lease liabilities in respect of leased plant and equipment under hire purchase agreements amounted to RMB636,123,000 was secured by the lessor's title to the leased assets (2018: RMB656,066,000). During the year ended 31 December 2019, the Group entered into a number of new lease agreements in respect of renting properties and recognised lease liability of RMB189,869,000.

(iii) Amounts recognised in profit or loss

	31/12/2019 RMB'000
Depreciation expense on right-of-use assets – buildings	25,809
Depreciation expense on right-of-use assets – plant and equipment	21,005
Interest expense on lease liabilities	33,983
Expense relating to short-term leases	138,319
Expense relating to leases of low value assets	337

14. LEASES (Continued)

(iv) Others

During the year ended 31 December 2019, the total cash outflow for leases amount to approximately RMB250,083,000.

15. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	365,106	281,545
Additions	278	–
Transfer from owner-occupied property	17,869	112,034
Depreciation	(11,582)	(8,181)
Transfer to owner-occupied property	(1,065)	–
Exchange realignment	1,195	2,376
Written-off	–	(22,668)
Disposal of subsidiaries	(68,699)	–
Carrying amount at 31 December	303,102	365,106
At valuation	1,075,851	654,367

Investment properties are located in the mainland China and Hong Kong and their valuations as at 31 December 2019 and 2018 were determined by the directors of the Company based on either the observable market prices of similar buildings in the same districts or the discounted cash flow method, which are within Level 2 of the fair value hierarchy.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group was in the process of applying for the legal titles for investment properties with a net book value of approximately RMB101,627,000 as at 31 December 2019 (31 December 2018: RMB172,250,000).

16. RIGHT-OF-USE ASSETS – LAND USE RIGHTS/LAND USE RIGHTS

	2019 RMB'000	2018 RMB'000 (Restated)
Cost		
As at 1 January	2,031,269	2,042,352
Additions	11,736	4,697
Disposal of subsidiaries	(73,706)	–
Disposal/write off	(1,738)	–
Disposal arising from assets swap	(130,425)	–
Transfer to investment properties	(2,856)	(15,780)
As at 31 December	1,834,280	2,031,269
Accumulated depreciation/amortisation		
As at 1 January	(329,273)	(288,958)
Depreciation/amortisation	(42,160)	(42,603)
Disposal of subsidiaries	13,222	–
Disposal/write off	1,437	–
Disposal arising from assets swap	18,328	–
Transfer to investment properties	392	2,288
As at 31 December	(338,054)	(329,273)
Net book amount		
As at 31 December	1,496,226	1,701,996

17. GOODWILL

	2019 RMB'000	2018 RMB'000
Carrying amount at 31 December	69,122	69,122

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 cash-generating unit respectively. As of 31 December 2019, 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 a value-in-use calculation using the 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 2019 were annual volume growth rates of 10% to 13% and 2% to 9% (2018: 10% to 19% and 11% to 15%) for the five-year forecast, growth rates beyond the five-year period of 0% and 0% (2018: 0% and 0%) and pre-tax discount rates of 15% and 15% (2018: 13% and 13%) 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.

18. OTHER INTANGIBLE ASSETS

2019	Development costs RMB'000	Service concession arrangement 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 2019	56,895	594,588	149,310	80,982	19,302	901,077
Additions	1,939	–	–	–	–	1,939
Disposal arising from assets swap	(58,834)	–	–	–	–	(58,834)
Disposal	–	–	–	(72,640)	–	(72,640)
Disposal of subsidiaries	–	–	(3,080)	(100)	–	(3,180)
As at 31 December 2019	–	594,588	146,230	8,242	19,302	768,362
Accumulated amortisation and impairment						
As at 1 January 2019	–	(113,078)	(118,715)	(80,955)	(12,466)	(325,214)
Amortisation	–	(23,843)	(12,086)	(7)	(2,411)	(38,347)
Elimination on disposal	–	–	–	72,640	–	72,640
Disposal of subsidiaries	–	–	3,080	100	–	3,180
As at 31 December 2019	–	(136,921)	(127,721)	(8,222)	(14,877)	(287,741)
Net book amount						
As at 31 December 2019	–	457,667	18,509	20	4,425	480,621

18. OTHER INTANGIBLE ASSETS (Continued)

2018	Development costs RMB'000	Service concession arrangement 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 2018	56,698	597,643	146,840	80,982	19,302	901,465
Additions	197	–	2,470	–	–	2,667
Disposal/write off	–	(3,055)	–	–	–	(3,055)
As at 31 December 2018	56,895	594,588	149,310	80,982	19,302	901,077
Accumulated amortisation and impairment						
As at 1 January 2018	–	(91,822)	(99,204)	(80,948)	(10,053)	(282,027)
Amortisation	–	(24,311)	(19,511)	(7)	(2,413)	(46,242)
Elimination on disposal/write off	–	3,055	–	–	–	3,055
As at 31 December 2018	–	(113,078)	(118,715)	(80,955)	(12,466)	(325,214)
Net book amount						
As at 31 December 2018	56,895	481,510	30,595	27	6,836	575,863

Concession assets

The Group's concession assets represent the rights that the Group obtained for the usage of the concessions in relation to wastewater treatment plants. The Group recognised the rights as intangible assets and the amounts are amortised over the relevant concession services periods.

19. INVESTMENTS IN JOINT VENTURES

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

	2019 RMB'000	2018 RMB'000
Share of net assets, as at 1 January	141,772	122,433
Share of profit for the year	18,912	25,823
Dividend declared	(9,256)	(6,484)
Share of net assets, as at 31 December	151,428	141,772

20. INVESTMENTS IN ASSOCIATES

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

	2019 RMB'000	2018 RMB'000
Share of net assets, as at 1 January	980,058	937,753
Increase in investments	161,274	101,299
Share of profit for the year	208,695	186,952
Disposal of investments	(9,035)	(98,001)
Dividend declared	(186,963)	(147,945)
	1,154,029	980,058
Provision for impairment	(9,259)	(9,259)
Share of net assets, as at 31 December	1,144,770	970,799

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVTOCI")

Financial assets at FVTOCI comprise:

	2019 RMB'000	2018 RMB'000
Equity instruments designated as at FVTOCI		
– Listed	332,749	307,708
– Unlisted	1,064,017	580,920
Total	1,396,766	888,628
Analysed for reporting purposes as:		
Non-current assets	1,396,766	888,628

The fair value of these investments is disclosed in note 43.

The above investments consist of investments in equity securities which were designated as financial assets at fair value through other comprehensive income and have no fixed maturity date.

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC.

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

During the year ended 31 December 2019, the Group has disposed an equity investment designated at FVTOCI at consideration of approximately RMB95,803,000 (2018: RMB197,122,000). At the date of disposal, the fair value of such investment is approximately RMB95,803,000 (2018: RMB197,122,000) and the cumulative gain on disposal is approximately RMB24,042,000 (2018: RMB172,503,000).

22. 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	Fair value change of financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2018	206,071	76,557	5,593	288,221
Disposal of subsidiaries	(3,275)	–	–	(3,275)
Deferred tax credited to profit or loss during the year	18,516	20,438	–	38,954
Deferred tax credited to the other comprehensive income during the year	–	–	283	283
At 31 December 2018	221,312	96,995	5,876	324,183
Disposal of subsidiaries	(751)	–	(34)	(785)
Deferred tax credited to profit or loss during the year	32,932	(5,578)	–	27,354
Deferred tax charged to the other comprehensive income during the year	–	–	(805)	(805)
At 31 December 2019	253,493	91,417	5,037	349,947

22. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

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

	2019 RMB'000	2018 RMB'000
Deductible temporary differences	152,115	280,354
Tax losses not recognised	575,154	626,778

Tax losses not recognised will expire in one to five years as follows:

	2019 RMB'000	2018 RMB'000
2019	–	126,115
2020	58,920	58,920
2021	107,432	147,490
2022	89,926	108,162
2023	140,422	186,091
2024	178,454	–
	575,154	626,778

Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences which relate to certain subsidiaries that have been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses and deductible temporary differences can be utilised.

22. DEFERRED TAX (Continued)

Deferred tax liabilities

	Fair value change of financial assets at fair value through other comprehensive income RMB'000	Investment profit to be amortised RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2018	44,792	8,857	28,792	82,441
Deferred tax (credited) charged to profit or loss during the year	–	(4,040)	2,177	(1,863)
Deferred tax credited to the other comprehensive income during the year	(43,938)	–	–	(43,938)
At 31 December 2018	854	4,817	30,969	36,640
Deferred tax (credited) charged to profit or loss during the year	–	(1,218)	15,448	14,230
Deferred tax charged to the other comprehensive income during the year	12,755	–	–	12,755
At 31 December 2019	13,609	3,599	46,417	63,625

22. DEFERRED TAX (Continued)

Offsetting of deferred tax assets and deferred tax liabilities

	2019		2018	
	Offsetting amount RMB'000	Net amount after offsetting RMB'000	Offsetting Amount RMB'000	Net amount after offsetting RMB'000
Deferred tax assets	–	349,947	–	324,183
Deferred tax liabilities	–	63,625	–	36,640

23. INVENTORIES

	2019 RMB'000	2018 RMB'000 (Restated)
Raw materials	6,821,657	6,031,978
Work in progress	15,636,687	14,069,954
Finished goods	3,213,313	3,340,804
	25,671,657	23,442,736

24. ACCOUNTS AND NOTES RECEIVABLES

	2019 RMB'000	2018 RMB'000 (Restated)
Accounts receivables		
– Ultimate holding company	648	954
– Fellow subsidiaries	8,711,370	7,736,204
– A joint venture	198	336
– Associates	47,551	2,050
– Others	8,627,722	9,224,286
Accounts receivable, gross	17,387,489	16,963,830
Loss allowance	(950,090)	(924,778)
Accounts receivable, net	16,437,399	16,039,052
Notes receivables		
– Fellow subsidiaries	1,934,973	2,722,378
– Associates	9,034	–
– A joint venture	618	228
– Others	3,291,919	2,510,993
	5,236,544	5,233,599
Accounts and notes receivables	21,673,943	21,272,651

As at 31 December 2019, the gross amount of accounts receivables arising from contracts with customers amounted to approximately RMB17,387,489,000 (2018: RMB16,963,830,000).

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 receivables from those related parties are unsecured, non-interest-bearing and are repayable in accordance with the relevant trading terms.

24. ACCOUNTS AND NOTES RECEIVABLES (Continued)

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

	2019 RMB'000	2018 RMB'000 (Restated)
Within 1 year	13,420,484	12,978,748
1 to 2 years	2,204,172	1,855,635
2 to 3 years	483,146	814,612
Over 3 years	329,597	390,057
	16,437,399	16,039,052

The movements in provision for impairment of accounts receivables are as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
At beginning of year	924,778	825,306
Impairment losses recognised	163,175	115,055
Amount written off as uncollectible	(14,475)	(15,583)
Disposal of subsidiaries	(123,388)	–
	950,090	924,778

24. ACCOUNTS AND NOTES RECEIVABLES (Continued)

The Group measures the loss allowance for accounts and notes receivables at an amount equal to lifetime ECL. The expected credit losses on accounts and notes receivables are estimated using a provision matrix by reference to the ageing of trade receivables, past default experience of the debtors and an analysis of the debtors' current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9. As at 31 December 2019, a provision of approximately RMB163,175,000 (2018: RMB115,055,000) was made against the gross amounts of accounts receivables.

The weighted average expected loss rate of accounts and note receivables is 1% for the year ended 31 December 2019 (2018: 1%).

There is no concentration of credit risk with respect to accounts receivables as the Group has a large type of products. Accounts receivables were collateralised by the titles of the products sold.

At 31 December 2018 and 2019, accounts receivables were mainly denominated in RMB.

Certain accounts and notes receivable were pledged as security for bank borrowings (note 31(d)).

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Advances to suppliers		
– Fellow subsidiaries	293,577	264,707
– A joint venture	–	103
– Associates	18,151	22,095
– Others	911,787	616,664
Dividends receivable		
– Fellow subsidiaries	309	–
– Associates	–	17,525
– Others	215	548
Prepayments and deposits		
– Ultimate holding company	24,000	24,000
– Fellow subsidiaries	23,412	22,078
– Others	515,286	575,008
Other advances to		
– Ultimate holding company	–	3,198
– Fellow subsidiaries	–	89,116
– Others	4,426	1,852
Other current assets		
– Ultimate holding company	596	–
– Fellow subsidiaries	22,288	78,758
– Others	953,964	793,178
Other receivables		
– Ultimate holding company	512	–
– Fellow subsidiaries	1,222,708	91,702
– A joint venture	52	5
– Associates	626	870
– Others (Note)	1,406,333	1,614,577
	5,398,242	4,215,984
Less: Non-current portion	(1,432,017)	(1,424,001)
	3,966,225	2,791,983

Note:

As of 31 December 2019, others in other receivables included prepayment of research & development of approximately RMB495,535,000 (2018: RMB1,065,560,000).

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

The movements in provision for impairment are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	154,138	114,380
Impairment losses recognised	118,875	40,227
Amount written off as uncollectible	(2,077)	(469)
Disposal of subsidiaries	(43,005)	–
	227,931	154,138

26. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2019 RMB'000	2018 RMB'000
Aviation entire aircraft	136,981	183,883
Aviation engineering services	2,931,659	2,747,287
Total contract assets	3,068,640	2,931,170
Current	2,541,907	2,074,429
Non-current	526,733	856,741
	3,068,640	2,931,170
Ultimate holding company	62,864	453
Fellow subsidiaries	1,103,352	1,259,198
Others	1,902,424	1,671,519
	3,068,640	2,931,170

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance in achieving specified performance obligations at the end of the reporting period on aviation entire aircraft and aviation engineering services. The contract assets are transferred to accounts receivables when the rights become unconditional.

As part of the internal credit risk management, the Group applies internal credit rating for its customers in relation to construction contracts. The exposure to credit risk and ECL for contact assets are assessed collectively based on provision matrix as at 31 December 2019 and 2018. There are no impairment losses recognised on any contract assets during the year ended 31 December 2019 and 2018.

26. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(b) Contract Liabilities

	2019 RMB'000	2018 RMB'000
Aviation entire aircraft	5,918,700	5,913,416
Aviation engineering services	1,019,580	942,033
Others	294,757	140,445
Total contract liabilities	7,233,037	6,995,894
Current	7,212,132	6,995,894
Non-current	20,905	–
	7,233,037	6,995,894
Ultimate holding company	34,592	36,385
Fellow subsidiaries	6,365,165	6,142,213
Others	833,280	817,296
	7,233,037	6,995,894

Contract liabilities include advances received to deliver aviation entire aircraft and advances received to render aviation engineering services. Others include received in advance of sales materials, rents and parts of manufacturing.

As at 31 December 2019, the aggregate amount of transaction price allocated to the performance obligations that are unsatisfied (or partially satisfied) are approximately RMB7,233,037,000 (2018: RMB6,995,894,000).

The transaction price allocated to the performance obligations that are unsatisfied (unsatisfied or partially unsatisfied) as at 31 December and the expected timing of recognition are, as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	7,212,132	6,995,894
1 to 2 years	15,946	–
2 to 3 years	2,312	–
Over 3 years	2,647	–
	7,233,037	6,995,894

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at FVTPL include:

	2019 RMB'000	2018 RMB'000
Financial assets mandatorily measured at FVTPL		
Listed securities held for trading listed in PRC	–	74,637
Bonds listed in PRC	7	150,024
Exchange traded funds ("ETF Fund") listed in PRC	135,463	–
Unlisted securities	366,873	55,968
	502,343	280,629

28. PLEDGED DEPOSITS AND TERM DEPOSITS WITH INITIAL TERMS OF OVER THREE MONTHS AND CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	15,532,881	14,931,443
Less: Pledged deposits	(955,999)	(1,414,308)
Term deposits with initial terms of over three months	(1,517,242)	(1,394,771)
Cash and cash equivalents	13,059,640	12,122,364

At the end of the reporting period, the cash and bank balances of the Group were 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 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 fixed deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2019, approximately RMB8,697,696,000 (31 December 2018: RMB7,777,995,000) was deposited in AVIC Finance Co, Ltd., a fellow subsidiary of the Company.

29. ACCOUNTS AND NOTES PAYABLES

	2019 RMB'000	2018 RMB'000
Accounts payable (Note (a))		
– Ultimate holding company	23	25
– Fellow subsidiaries	4,309,290	3,436,959
– Joint ventures	13,346	7,084
– Associates	69,553	7,866
– Others	15,080,124	14,788,202
	19,472,336	18,240,136
Notes payable (Note (b))		
– Fellow subsidiaries	1,729,164	2,037,518
– Joint ventures	65,844	45,259
– Associates	29,340	162
– Others	5,926,345	5,001,785
	7,750,693	7,084,724
	27,223,029	25,324,860

Notes:

(a) An ageing analysis of the accounts payable as at the end of the reporting period, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	14,480,509	12,199,131
1 to 2 years	2,292,713	3,019,054
2 to 3 years	1,192,680	1,305,687
Over 3 years	1,506,434	1,716,264
	19,472,336	18,240,136

The average credit period on purchases of goods is 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The amounts due to the Group's related parties are repayable on credit terms similar to those offered to the major suppliers of the Group.

(b) The notes payable are with an average maturity period of less than six months. As at 31 December 2019, notes payable of approximately RMB2,249,525,000 (31 December 2018: RMB2,964,814,000) were secured by pledged deposits to the extent of approximately RMB867,481,000 (31 December 2018: RMB1,297,896,000).

30. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000 (Restated)
Advances from customers		
– Others	1,370	10,979
Wages, salaries, bonuses and other employee benefits	1,889,548	2,072,007
Accrued expenses		
– Ultimate holding company	–	5
– Fellow subsidiaries	136,783	18,612
– Associates	9	13
– Others	226,247	210,309
Payable for property, plant and equipment		
– Fellow subsidiaries	5,137	16,668
– Others	53,487	161,258
Deferred income from government grants (Note 32)	36,905	24,508
Amounts payable to the ultimate holding company	8,969	216,558
Other advances from		
– Associates	197	–
– Others	18,368	16,422
Dividend payable to non-controlling shareholders of subsidiaries		
– Fellow subsidiaries	171,981	190,931
– Others	7,719	827
Other taxes payable	150,698	113,061
Provision (Note)	335,397	373,489
Other payables		
– Ultimate holding company	530,000	–
– Associates	97	–
– Fellow subsidiaries	320,423	105,885
– Others	1,262,532	1,086,817
	5,155,867	4,618,349
Less: Non-current portion	(651,366)	(895,630)
	4,504,501	3,722,719

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

Note:

The balances as at 31 December 2019 and 2018 represent the provision of products. Protection insurance is based on the management's estimation by reference to the historical experience. During the year ended 31 December 2019, the provision charge to profit or loss was RMB152,351,000 (2018: RMB175,707,000) and utilisation of provision was RMB190,443,000 (2018: RMB80,649,000).

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2019			31 December 2018		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank borrowings – unsecured	2-5	2020	2,153,357	3-5	2019	1,780,500
Bank borrowings – secured	3-4	2020	122,180	5-6	2019	3,200
Other borrowings – unsecured	3-4	2020	3,907,000	4-5	2019	3,187,000
Other borrowings – secured	3-4	2020	220,821	4-5	2019	251,537
Current portion of long-term						
Bank borrowings – unsecured	5	2020	500	1-5	2019	387,500
Bank borrowings – secured	1-5	2020	210,510	1-6	2019	364,310
Other borrowings – unsecured	4-5	2020	40,426	2-5	2019	3,041,888
Other borrowings – secured	5	2020	10,500	5	2019	6,500
			6,665,294			9,022,435
Non-current						
Bank borrowings – unsecured	3-5	2021-2033	388,626	3-5	2020-2031	19,213
Bank borrowings – secured	1-5	2021-2033	1,429,269	1-6	2020-2031	1,098,001
Other borrowings – unsecured	2-5	2021-2022	219,414	3-5	2020-2021	160,976
Other borrowings – secured	5	2021	5,500	5	2021	16,000
			2,042,809			1,294,190
			8,708,103			10,316,625

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank borrowings repayable:		
– Within one year	2,486,547	2,535,510
– In the second year	547,356	299,593
– In the third to fifth year, inclusive	573,728	232,900
– Beyond five years	696,811	584,721
	4,304,442	3,652,724
Other borrowings repayable:		
– Within one year	4,178,747	6,486,925
– In the second year	186,880	118,476
– In the third to fifth year, inclusive	38,034	58,500
	4,403,661	6,663,901
	8,708,103	10,316,625

Notes:

(a) As at 31 December 2019, other borrowings represented:

- borrowings granted by a fellow subsidiary of the Group amounting to RMB4,072,661,000 (31 December 2018: RMB4,761,801,000) bearing interest at 3% to 5% (2018: 1% to 5%) per annum.
- borrowings granted by an independent financial institution, Xi'an Hi-tech Emerging Industry Investment Fund Partnership, amounting to RMB3,000,000 (31 December 2018: RMB3,000,000) bearing interest at 2.38% (2018: 2.38%) per annum.
- borrowings granted by ultimate holding company amounting to RMB328,000,000 (31 December 2018: nil) bearing interest at 3.92% (2018: nil) per annum.
- corporate bonds issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB1,000,000,000 bearing interest at 3.52% per annum as at 31 December 2018.
- corporate bonds issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB900,000,000 bearing interest at 3.20% per annum as at 31 December 2018.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

(b) The exposure of the total borrowings to the change of interest rates is as follows:

	2019 RMB'000	2018 RMB'000
Bank borrowings		
– Fixed rates (1% – 5%)	2,724,305	1,623,913
– Floating rates (3% – 6%)	1,580,137	2,028,811
	4,304,442	3,652,724
Other borrowings		
– Fixed rates (2% – 5%)	4,067,661	5,628,401
– Floating rates (3% – 5%)	336,000	1,035,500
	4,403,661	6,663,901
	8,708,103	10,316,625

The new borrowings were borrowed for business daily operation.

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

	2019	2018
Weighted average effective interest rates		
– Bank borrowings	4%	4%
– Other borrowings	4%	3%

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

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

	2019 RMB'000	2018 RMB'000
Securities over the Group's assets, at carrying value		
– Notes receivables	81,577	61,537
– Accounts receivables	122,364	5,250
	203,941	66,787
Guarantees provided by		
– Fellow subsidiaries	215,510	241,020
– Entities within the Group	1,222,269	1,093,591
– Others	3,400	3,000
	1,441,179	1,337,611
	1,645,120	1,404,398

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

(e) The Group had the following undrawn committed borrowings facilities:

	2019 RMB'000	2018 RMB'000
At floating rates		
– Expiring within one year	6,959,557	5,532,637
– Expiring over one year	4,760,771	1,376,673
	11,720,328	6,909,310

32. DEFERRED INCOME FROM GOVERNMENT GRANTS

Movements of deferred income from government grants for each of the years ended 31 December 2019 and 2018 are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	777,498	816,095
Additions	91,288	49,294
Amortisation	(76,054)	(63,383)
At 31 December	792,732	802,006
Less: Current portion	(36,905)	(24,508)
	755,827	777,498

33. CONVERTIBLE BONDS

A subsidiary of the Company, China Avionics Systems Co., Ltd. issued convertible bonds with a coupon rate of 0.2% in year 1, 0.5% in year 2, 1% in year 3, 1.5% in year 4, 1.8% in year 5 and 2% in year 6 at a total principal value of RMB2,400,000,000 on 25 December 2017 ("CB 2017"). Among the total principal amount, RMB500,000,000 was held by the Company as at 31 December 2017 and was disposed of at a consideration of approximately RMB521,540,000 during the year ended 31 December 2018. The convertible bonds are denominated in RMB and are guaranteed by the Company's ultimate holding company. The convertible bonds entitle the holders to convert them into ordinary shares of the subsidiary at any time between the date after six months of issue of the bonds and their settlement date on 24 December 2023 at a conversion price of RMB14.29 per convertible bond. An adjustment had been made to the conversion price from RMB14.23 to RMB14.18 (2018: RMB14.29 to RMB14.23) as a result of the dividends paid since the convertible bonds were issued.

A subsidiary AVIC JONHON Optronic Technology Co., Ltd., of the Company issued convertible bonds with a coupon rate of 0.2% in year 1, 0.5% in year 2, 1% in year 3, 1.5% in year 4, 1.8% in year 5 and 2% in year 6 at a total principal value of RMB1,300,000,000 on 5 November 2018 ("CB 2018"). Among the total principal amount, RMB300,000,000 was held by the Company at the issue date (i.e. 5 November 2018), and principal amount of RMB128,000,000 was disposed of at a consideration of approximately RMB141,015,000 during the year ended 31 December 2018. During the year ended 31 December 2019, the convertible bonds held by the Company were fully disposed. The convertible bonds entitle the holders to convert them into ordinary shares of the subsidiary at any time before their settlement date on 5 November 2024 at a conversion price of RMB40.26 per convertible bond. If the bonds have not been converted, they would be redeemed on 5 November 2024 at par. Interest would be paid annually up until the settlement date, redemption date or the conversion date whichever earlier. The convertible bonds were fully redeemed or converted to ordinary shares during the year ended 31 December 2019.

During the year, the principal amount of RMB4,852,000 (2018: RMB271,300) of CB 2017 was converted into 340,898 (2018: 19,068) shares of China Avionics Systems Co. Ltd. at conversion price from RMB14.18 to RMB14.23 (2018: RMB14.23) each respectively.

The convertible bonds contain two components, liability and equity elements. The equity element is presented in equity heading "equity component of convertible bonds of a subsidiary". The effective interest rate of the liability component is 5.41% and 5.34% per annum for CB 2017 and CB 2018 respectively.

The movement of the liability component of the convertible bonds for the year is set out below:

	2019 RMB'000	2018 RMB'000
Carrying amount at beginning of the financial year	2,930,007	1,531,945
Deemed issuance for disposal by the Company	131,654	403,143
Issued during the year	–	887,616
Conversion to ordinary shares	(1,072,962)	(221)
Redemption	(2,304)	–
Imputed interests charge	142,564	107,524
Carrying amount at end of the financial year	2,128,959	2,930,007

34. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease its plant and equipment under finance leases. The average lease term is 8 to 15 years for the year ended 31 December 2018. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 4.7% to 6.9% per annum for the year ended 31 December 2018. The Group has options to purchase the plant and equipment for a nominal amount at the end of the lease term. No arrangements have been entered for contingent rental payments.

	Minimum lease payments 2018 RMB'000	Present value of minimum lease payments 2018 RMB'000
Amounts payable under finance leases		
Within one year	69,065	59,803
After one year but within two years	69,254	60,908
After two years but within five years	217,873	189,037
Over five years	274,025	224,470
	630,217	534,218
Less: future finance charges	(95,999)	N/A
Present value of obligations under finance leases	534,218	534,218
Less: amount due for settlement with 12 months (shown under current liabilities)		(59,803)
Amount due for settlement after 12 months		474,415

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases and disclosed in note 14. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to IFRS 16 are set out in note 2.2.

35. SHARE CAPITAL

	Share capital	
	2019 RMB'000	2018 RMB'000
Registered, issued and fully paid:		
H shares of RMB1 each	6,245,122	6,245,122

	Number of shares	
	2019 '000	2018 '000
At beginning of the financial year	6,245,122	5,966,122
Issue of shares	–	279,000
At the end of the financial year	6,245,122	6,245,122

(a) 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.

(b) On 15 June 2018, the Company converted 3,609,687,934 domestic shares to H shares.

(c) On 14 December 2018, the Company entered into the placing agreement with placing agent in relation to the placing, on a fully underwritten basis, of an aggregate of 279,000,000 H shares of RMB1 each at the placing price of HK$4.90 (equivalent to RMB4.31) per placing share. This placing is completed on 21 December 2018.

36. 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 of the financial statements.

(a) Capital reserve

Capital reserve of the Group also includes reserves arising from the issuance of additional shares by subsidiaries, share-based payment, capital contributions in associates and disposals to non-controlling interests without change in control. Upon group restructuring where there are acquisitions or distributions with a 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 subsidiaries that have functional currencies 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 2019, approximately RMB77,988,000 (2018: RMB68,374,000) was appropriated to the special reserve, and approximately RMB66,796,000 (2018: RMB48,308,000) was utilised.

37. 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

	2019	2018
AVIC JONHON Optronic Technology Co., Ltd.	60.22%	58.61%
China Avionics Systems Co., Ltd.	56.79%	56.78%
AVICOPTER PLC	65.23%	65.23%
Jiangxi Hongdu Aviation Industry Co., Ltd.	56.23%	56.23%

Profit for the year allocated to non-controlling interests

	2019 RMB'000	2018 RMB'000 (Restated)
AVIC JONHON Optronic Technology Co., Ltd.	742,484	615,625
China Avionics Systems Co., Ltd.	349,683	294,501
AVICOPTER PLC	395,678	338,652
Jiangxi Hongdu Aviation Industry Co., Ltd.	48,269	(6,637)

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

Dividends paid to non-controlling interests

	2019 RMB'000	2018 RMB'000
AVIC JONHON Optronic Technology Co., Ltd.	83,786	71,814
China Avionics Systems Co., Ltd.	55,219	80,190
AVICOPTER PLC	99,984	89,592
Jiangxi Hongdu Aviation Industry Co., Ltd.	5,641	5,882

Accumulated balances of non-controlling interests at the reporting date

	2019 RMB'000	2018 RMB'000 (Restated)
AVIC JONHON Optronic Technology Co., Ltd.	5,527,602	4,108,512
China Avionics Systems Co., Ltd.	4,817,256	4,621,922
AVICOPTER PLC	5,647,082	5,348,623
Jiangxi Hongdu Aviation Industry Co., Ltd.	2,804,478	3,442,817

37. 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:

2019	AVIC JONHON Optronic Technology Co., Ltd. RMB'000	China Avionics Systems Co., Ltd. RMB'000	AVICOPTER PLC RMB'000	Jiangxi Hongdu Aviation Industry Co., Ltd. RMB'000
Revenue	8,778,738	8,204,162	15,602,505	4,399,794
Total expenses	1,885,117	2,134,246	1,577,668	294,032
Profit for the year	1,171,758	597,515	606,459	85,229
Total comprehensive income for the year	1,173,704	672,933	610,682	85,542
Current assets	12,336,171	16,986,830	23,178,581	6,400,035
Non-current assets	2,864,764	5,715,769	3,151,711	2,029,338
Current liabilities	6,000,367	11,373,577	17,173,992	3,406,902
Non-current liabilities	398,020	3,138,663	682,108	48,285
Net cash flows from operating activities	821,751	735,641	770,050	25,130
Net cash flows used in investing activities	(281,244)	(820,863)	(89,494)	(98,435)
Net cash flows (used in) from financing activities	(315,790)	953,377	7,119	(13,719)
Effect of foreign exchange rate changes, net	20,171	(855)	–	872
Net increase (decrease) in cash and cash equivalents	244,888	867,270	687,675	(86,152)

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

2018 (restated)	AVIC JONHON Optronic Technology Co., Ltd. RMB'000	China Avionics Systems Co., Ltd. RMB'000	AVICOPTER PLC RMB'000	Jiangxi Hongdu Aviation Industry Co., Ltd. RMB'000 (Restated)
Revenue	7,496,378	7,474,440	12,883,137	2,540,536
Total expenses	1,555,525	1,991,544	1,282,257	252,396
Profit (loss) for the year	1,011,744	515,076	519,158	(12,497)
Total comprehensive income (expense) for the year	1,009,083	442,016	536,191	(236,487)
Current assets	10,913,622	15,866,685	20,734,103	5,488,884
Non-current assets	2,441,431	5,790,406	3,300,018	5,366,097
Current liabilities	5,553,769	10,963,966	15,289,401	4,625,918
Non-current liabilities	1,161,460	2,822,549	727,945	119,659
Net cash flows from operating activities	22,640	34,904	954,662	123,022
Net cash flows used in investing activities	(259,518)	(982,559)	(102,969)	(213,460)
Net cash flows from (used in) financing activities	1,242,519	(781,596)	(143,461)	881,600
Effect of foreign exchange rate changes, net	40,642	509	–	822
Net increase (decrease) in cash and cash equivalents	1,046,283	(1,728,742)	708,232	791,984

38. OPERATING LEASE 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 seven years.

As at 31 December 2018, the Group had total commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Land and buildings	
Within one year	30,293
In the second to fifth year, inclusive	65,235
After five years	38,191
	133,719

39. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

Contracted for but not provided in the consolidated financial statements

	2019 RMB'000	2018 RMB'000
Plant and equipment	379	6,547
Construction in progress	93,821	392,357
	94,200	398,904

40. RELATED PARTY DISCLOSURES

The Group is directly and indirectly controlled by AVIC, which owned 56.04% in total of the Company's shares as at 31 December 2019. The remaining 43.96% 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 joint ventures. 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) 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.

40. RELATED PARTY DISCLOSURES (Continued)

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

	Notes	2019 RMB'000	2018 RMB'000
Ultimate holding company:			
Rendering of service	(2)	4,575	2,284
Guarantee	(2)	2,128,959	2,400,000
Sales of products	(2)	168	–
Purchases of products	(2)	2,781	–
Interest expense		6,042	–
Associates:			
Sales of products	(2)	6,155	5,490
Purchases of products	(2)	95,426	6,063
Rendering of service	(2)	3,205	–
Service fee payable	(2)	12,299	–
Rental income	(2)	1,139	–
Joint ventures:			
Sales of products	(2)	1,628	1,775
Purchases of products	(2)	154,717	143,485
Fellow subsidiaries:	(1)		
Sales of products	(2)	22,718,988	18,893,028
Purchases of products	(2)	8,085,892	6,264,029
Rendering of service	(2)	2,602,173	2,708,130
Service fee payable	(2)	340,389	202,341
Rental expense for short-term lease	(2)	77,145	47,464
Rental income	(2)	20,269	8,267
Guarantee	(2)	215,510	241,020
Other financial services	(2)	947,170	1,353,400
Interest expense	(2)	68,347	–
Interest income	(2)	32,474	–

Notes:

(1) Fellow subsidiaries are companies who are controlled by the same ultimate holding company, AVIC.

40. RELATED PARTY DISCLOSURES (Continued)

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

Notes: (Continued)

(2) 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, and 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.

- Guarantees

  Guarantees are provided by related parties for the subsidiaries of the Company to obtain borrowings.

40. RELATED PARTY DISCLOSURES (Continued)

(b) Outstanding balances with related parties:

	2019 RMB'000	2018 RMB'000
Assets:		
Accounts receivable		
– Ultimate holding company	648	954
– Fellow subsidiaries	8,711,370	7,736,204
– A joint venture	198	336
– Associates	47,551	2,050
Notes receivable		
– Fellow subsidiaries	1,934,973	2,722,378
– A joint venture	618	228
– Associates	9,034	–
Advance to suppliers		
– Fellow subsidiaries	293,577	264,707
– A joint venture	–	103
– Associates	18,151	22,095
Other receivables and prepayments		
– Ultimate holding company	25,108	27,198
– Fellow subsidiaries	1,268,717	281,654
– A joint venture	52	5
– Associates	626	18,395
Deposits		
– A fellow subsidiary	8,697,696	7,777,995
Contract assets		
– Ultimate holding company	62,864	453
– Fellow subsidiaries	1,103,352	1,259,198
Liabilities:		
Accounts payable		
– Ultimate holding company	23	25
– Fellow subsidiaries	4,309,290	3,436,959
– Joint ventures	13,346	7,084
– Associates	69,553	7,866
Notes payable		
– Fellow subsidiaries	1,729,164	2,037,518
– Joint ventures	65,844	45,259
– Associates	29,340	162

40. RELATED PARTY DISCLOSURES (Continued)

(b) Outstanding balances with related parties: (Continued)

	2019 RMB'000	2018 RMB'000
Other payables and accruals		
– Ultimate holding company	538,969	216,563
– Fellow subsidiaries	634,324	332,096
– Associates	303	13
Lease liabilities/obligations under finance leases		
– Fellow subsidiaries	303,497	283,625
Borrowings		
– Ultimate holding company	328,000	–
– Fellow subsidiaries	4,072,661	4,761,801
Contract liabilities		
– Ultimate holding company	34,592	36,385
– Fellow subsidiaries	6,365,165	6,142,213

Except for borrowings from fellow subsidiaries as stated in Note 31, other balances with related parties above are unsecured, non-interest-bearing, and are repayable or settled in accordance with the relevant trading terms.

(c) Compensation of key management personnel of the Company

	2019 RMB'000	2018 RMB'000
Short-term employee benefits and total compensation paid to key management personnel	4,952	3,576

Key management includes directors (executive and non-executive), supervisors and senior management of the Company.

Further details of directors' and supervisors' emoluments are included in Note 8.

41. TRANSFERS OF FINANCIAL ASSETS

(1) Transferred financial assets that are not derecognised in their entirety

(a) At 31 December 2019, the Group endorsed certain notes receivables accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of approximately RMB359,519,000 (2018: RMB463,920,000) 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 approximately RMB359,519,000 (2018: RMB463,920,000) as at 31 December 2019.

(b) As part of its normal business, the Group entered into accounts receivables factoring arrangements (the "Arrangements I") and transferred certain accounts receivables to banks. Under the Arrangements I, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment. The Group is 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 receivables, including the sale, transfer or pledge of the accounts receivables to any other third parties. The original carrying value of the accounts receivables transferred under the Arrangements I that have not been settled as at 31 December 2019 was approximately RMB62,797,000 (2018: Nil). The carrying amount of the assets that the Group continued to recognise as at 31 December 2019 was approximately RMB62,797,000 (2018: Nil) and that of the associated liabilities as at 31 December 2019 was approximately RMB1,466,000 (2018: Nil).

(2) Transferred financial assets that are derecognised in their entirety

(a) At 31 December 2019, the Group endorsed certain notes receivables 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 approximately RMB676,042,000 (2018: RMB1,235,793,000). 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.

41. TRANSFERS OF FINANCIAL ASSETS (Continued)

(2) Transferred financial assets that are derecognised in their entirety (Continued)

(a) (Continued)

During the year ended 31 December 2019, 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.

(b) Other than described in (1)(b) above, the Group entered into accounts receivables factoring arrangements (the "Arrangements II") and transferred certain accounts receivables to a bank, AVIC Finance and AVIC International Leasing Co., Ltd (the "AVIC Leasing"). Under the Arrangements II, the Group was not required to reimburse the banks, AVIC Finance or AVIC Leasing for loss of interest if any trade debtors have late or default payment. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to those accounts receivables. Accordingly, it has derecognised the full carrying amounts of those accounts receivables. The original carrying value of the accounts receivables transferred under the Arrangements II as at 31 December 2019 was approximately RMB402,199,000 (2018: RMB366,122,000).

During the year ended 31 December 2019, the Group has recognised loss of approximately RMB9,606,000 (2018: RMB10,278,000) on the date of transfer of those accounts receivables.

42. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

	2019 RMB'000	2018 RMB'000
Financial assets at amortised cost:		
Accounts and notes receivables	21,673,943	21,272,651
Financial assets included in prepayments, deposits and other receivables	2,521,820	1,531,153
Pledged deposits	955,999	1,414,308
Cash and cash equivalents	13,059,640	12,122,364
Term deposits with initial terms of over three months	1,517,242	1,394,771
	39,728,644	37,735,247
Financial assets at fair value through other comprehensive income	1,396,766	888,628
Financial assets at fair value through profit or loss	502,343	280,629

42. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	2019 RMB'000	2018 RMB'000
Financial liabilities at amortised cost:		
Accounts and notes payable	27,223,029	25,324,860
Financial liabilities included in other payables and accruals	2,723,384	2,007,883
Obligations under finance leases	–	534,218
Convertible bonds	2,128,959	2,930,007
Interest-bearing bank and other borrowings	8,708,103	10,316,625
	40,783,475	41,113,593

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of listed financial assets at fair value through profit or loss, listed financial assets at fair value through other comprehensive income are based on quoted market prices. The fair value of certain unlisted equity investment has been estimated using the 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 2019

	Fair value measurement using		
	Quoted prices in active market (Level 1) RMB'000	Significant Observable inputs (Level 2) RMB'000	Total RMB'000
Financial assets at fair value through other comprehensive income:			
– Listed	332,749	–	332,749
– Unlisted	–	1,064,017	1,064,017
Financial assets at fair value through profit or loss			
– ETF Fund listed in PRC	135,463	–	135,463
– Bonds listed in PRC	7	–	7
– Unlisted securities	–	366,873	366,873
	468,219	1,430,890	1,899,109

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

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

As at 31 December 2018

	Fair value measurement using		
	Quoted prices in active market (Level 1) RMB'000	Significant Observable inputs (Level 2) RMB'000	Total RMB'000
Financial assets at fair value through other comprehensive income:			
– Listed	307,708	–	307,708
– Unlisted	–	580,920	580,920
Financial assets at fair value through profit or loss			
– Equity securities listed in PRC	74,637	–	74,637
– Bonds listed in PRC	150,024	–	150,024
– Unlisted securities	–	55,968	55,968
	532,369	636,888	1,169,257

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

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 (2018: Nil).

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise accounts and notes receivables, deposits and other receivables, pledged deposits, term deposits, financial assets at fair value through other comprehensive income, financial assets at fair value through profit and loss, accounts and notes payable, other payables and accruals, obligations under finance leases, convertible bonds, interest-bearing bank and other borrowings and cash and cash equivalents. 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 currency risk, 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.

Currency risk

The Group's major operating subsidiaries have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group's exposure to foreign currency risk relates principally to its trade and other receivables, bank balances, trade and other payables denominated in foreign currencies other than the functional currency of relevant group entity.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Currency risk (Continued)

The carrying amounts of the Group's material foreign currency denominated monetary assets and monetary liabilities at the end of 2019 and 2018 are as follows:

	Assets		Liabilities	
	At 31 December		At 31 December	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
USD	1,212,358	802,217	6,940	10,306
EUR	75,156	152,412	175	365
HKD	138,099	1,228,969	207,659	589

Sensitivity analysis

The following table details the Group's sensitivity to a 10% (2018: 10%) increase and decrease in RMB against the relevant foreign currencies for the years ended 31 December 2019. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rate.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Sensitivity analysis (Continued)

A positive number below indicates an increase in post-tax profit where RMB weakening 10% (2018: 10%) against the relevant currency for the year ended 31 December 2019. For a 10% strengthen of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

At 31 December 2019

	USD RMB'000	EUR RMB'000	HKD RMB'000
Profit or loss	102,461	6,373	(5,913)

At 31 December 2018

	USD RMB'000	EUR RMB'000	HKD RMB'000
Profit or loss	67,312	12,924	104,412

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 bank balances, details of which have been disclosed in Note 28. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 31. Borrowings 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 2019, 78% (2018: 71%) of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest-rate risk.

At 31 December 2019, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by the People's Bank of China, with all other variables held constant, post-tax profit for the year would have been approximately RMB51,063,000 (2018: RMB44,652,000) higher/lower.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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 at fair value through profit or loss and financial assets at fair value through other comprehensive income. Some of these financial assets are publicly traded in recognised stock exchanges. At 31 December 2019, if the quoted market price of these financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income held by the Group had increased/decreased by 10% (2018: 10%), with all other variables held constant, post-tax profit for the year and fair value reserve would have been approximately RMB42,699,000 (2018: RMB23,853,000) and RMB28,284,000 (2018: RMB50,009,000) higher/lower respectively as a result of the changes in fair value of these financial assets.

Credit risk

24% (2018: 38%) 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. The Group's listed financial assets at fair value through profit or loss/at fair value through other comprehensive income 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 40(b)) with low credit risk, and for the balances with third parties, the Group has no significant concentrations of credit risk.

For accounts and notes receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on a grouped basis for customers with significant balances and/or collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades:

				2019			2018		
	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Accounts and notes receivables	N/A	N/A	Lifetime ECL (simplified approach)	22,624,033	(950,090)	21,673,943	22,197,429	(924,778)	21,272,651
Financial assets included in prepayments, deposits and other receivables	N/A	Performing	12-month ECL	2,749,751	(227,931)	2,521,820	1,685,291	(154,138)	1,531,153
Contract assets	N/A	N/A	Lifetime ECL (simplified approach)	3,068,640	–	3,068,640	2,931,170	–	2,931,170
					(1,178,021)			(1,078,916)	

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The carrying amount of the Group's financial assets at fair value through profit or loss as disclosed in Note 27 best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (31 December 2018: 100%) of the total accounts and notes receivables as at 31 December 2019.

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 borrowings.

As at 31 December 2019, the net current assets of the Group amounted to approximately RMB24,039,171,000 (31 December 2018 (restated): RMB19,450,824,000). 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 is disclosed in Note 31(e) to the consolidated 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.

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:

			2019			
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Interest-bearing bank and other borrowings	6,935,059	761,376	635,798	728,076	9,060,309	8,708,103
Accounts and notes payables	27,223,029	–	–	–	27,223,029	27,223,029
Convertible bonds	24,000	36,000	2,563,200	–	2,623,200	2,128,959
Other payables and accruals	2,723,384	–	–	–	2,723,384	2,723,384
Lease liabilities	108,915	110,411	273,656	411,822	904,804	766,599

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	2018					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Interest-bearing bank and other borrowings	9,356,927	440,701	406,982	622,826	10,827,436	10,316,625
Accounts and notes payables	25,324,860	–	–	–	25,324,860	25,324,860
Convertible bonds	14,600	30,500	2,631,700	1,326,000	4,002,800	2,930,007
Obligations under finance leases	69,065	69,254	217,873	274,025	630,217	534,218
Other payables and accruals	2,007,883	–	–	–	2,007,883	2,007,883

Capital management

The Group's objectives for 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. The Group's overall strategy remains unchanged from prior year.

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 generated from operations and may raise funding through capital market or bank borrowings as necessary.

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

The gearing ratios at 31 December 2019 and at 31 December 2018 were as follows:

	2019 RMB'000	2018 RMB'000 (Restated)
Total borrowings (Note 31)	8,708,103	10,316,625
Convertible bonds (Note 33)	2,128,959	2,930,007
	10,837,062	13,246,632
Total assets	90,744,026	87,948,679
Gearing ratio	11.94%	15.06%

45. DISPOSAL OF SUBSIDIARIES

(i) On 28 December 2019, the Group disposed entire 65.79% equity of Shanghai Comaero Electronic Engineering Co.,Ltd (上海航鍵航空設備有限公司), a subsidiary of the Group, to an independent third party at cash consideration of approximately RMB3,699,000. The subsidiary is engaged in manufacturing and sale of relay, defrost and inverters products. The net assets of Shanghai Comaero Electronic Engineering Co., Ltd at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash received	1,110
Deferred cash consideration	2,589
Total consideration received	3,699

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	11
Accounts and notes receivable	8,607
Prepayments, deposits and other receivables	12,439
Inventories	4,988
Property, plant and equipment	348
Deferred tax assets	6
Interest-bearing bank and other borrowings	(3,000)
Accounts and notes payables	(8,993)
Other payables and accruals	(8,831)
Tax payable	(68)
Net assets	5,507

Gain on disposal of a subsidiary:

Consideration received and receivable	3,699
Net assets disposed of	(5,507)
Non-controlling interests	1,814
Gain on disposal	6

Net cash inflow arising on disposal:

Cash consideration	1,110
Less: bank balances and cash disposed of	(11)
	1,099

The outstanding consideration will be settled in cash by the purchaser on or before 25 November 2020.

45. DISPOSAL OF SUBSIDIARIES (Continued)

(ii) On 4 December 2019, the Group disposed 100% equity interest of Shaanxi Baocheng Aviation Instrument Co., Ltd (陝西寶成航空儀錶有限責任公司), a subsidiary of the Group, to a fellow subsidiary at cash consideration of approximately RMB481,981,000. The subsidiary is engaged in manufacturing and sale of aviation electrical engineering products and accessories. The net assets of Shaanxi Baocheng Aviation Instrument Co., Ltd at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash received	240,991
Deferred cash consideration	240,990
Total consideration received	481,981

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	268,518
Accounts and notes receivable	560,580
Prepayments, deposits and other receivables	79,396
Inventories	468,326
Investment properties	68,699
Property, plant and equipment	413,452
Right-of-use assets-land use rights	60,484
Deferred tax assets	701
Interest-bearing bank and other borrowings	(518,930)
Accounts and notes payables	(604,318)
Other payables and accruals	(385,554)
Contract liabilities	(7,636)
Deferred income from government grants	(5,000)
Tax payable	(727)
Net assets	397,991

45. DISPOSAL OF SUBSIDIARIES (Continued)

(ii) (Continued)

Gain on disposal of a subsidiary:

	RMB'000
Consideration received and receivable	481,981
Net assets disposed of	(397,991)
Non-controlling interests	115,997
Reclassification of reserves from equity to profit or loss on loss of control of subsidiary	1,034
Gain on disposal	201,021

Net cash outflow arising on disposal:

Cash consideration received	240,991
Less: bank balances and cash disposed of	(268,518)
	(27,527)

The outstanding consideration was settled in cash by the purchaser in February 2020.

45. DISPOSAL OF SUBSIDIARIES (Continued)

(iii) On 31 December 2019, Xi'an Forstar Microwave Technology Co., Ltd. (西安富士達微波技術有限公司) was deemed to be disposed due to the capital injection of approximately RMB9,192,000 by non-controlling shareholder. After the capital injection, the percentage directly held by AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司), a subsidiary of the Group, decreased from 51% to 31.88%. The control was ceased upon the injection. The subsidiary is engaged in Research and development, manufacture and sale of optical fibre connectors, optical-module ceramic cores, active and passive optical fibre communication devices, and new ceramic materials. The net assets of Xi'an Forstar Microwave Technology Co., Ltd. at the date of deemed disposal were as follows:

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	2,138
Accounts and notes receivable	10,416
Prepayments, deposits and other receivables	1,177
Inventories	26,051
Property, plant and equipment	4,986
Deferred tax assets	78
Interest-bearing bank and other borrowings	(5,000)
Accounts and notes payables	(12,842)
Other payables and accruals	(4,946)
Net assets	22,058

Gain on deemed disposal of a subsidiary:

Net assets disposed of	(22,058)
Capital injection	9,192
Non-controlling interests	6,304
Fair value of the equity interest retained in the Group at the date of disposal	6,514
Loss on disposal	(48)

Net cash outflow arising on deemed disposal:

Bank balances and cash disposed of	(2,138)

45. DISPOSAL OF SUBSIDIARIES (Continued)

(iv) On 1 January 2018, the Group disposed 100% shares of China Zhongxin Investment Development Co., Ltd. (中國中新投資發展有限公司), a subsidiary of the Group, to an independent third party at cash consideration of approximately RMB16,988,000. The subsidiary is engaged in property management. The net assets of China Zhongxin Investment Development Co., Ltd. at the date of disposal were as follows:

Consideration received:

	RMB'000
Total cash consideration received	16,988

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	7,412
Other receivables	2,733
Accounts payables	(20)
Accrued expenses	(26)
Net assets disposed of	10,099

Gain on disposal of a subsidiary:

Consideration received	16,988
Net assets disposed of	(10,099)
Gain on disposal	6,889

Net cash inflow arising on disposal:

Cash consideration	16,988
Less: bank balances and cash disposed of	(7,412)
	9,576

45. DISPOSAL OF SUBSIDIARIES (Continued)

(v) On 3 May 2018, one of subsidiaries which was not wholly owned by the Group disposed entire 70% shares of Beijing Hongwei Licheng Technology Co., Ltd. (北京弘威力成科技有限責任公司), a subsidiary of the Group, to an independent third party at cash consideration of approximately RMB415,000. The subsidiary is engaged in technical development and sales of electronic products. The net assets of Beijing Hongwei Licheng Technology Co., Ltd. at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash consideration received	50
Non-cash settle	365
Total cash consideration received	415

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	15
Accounts receivables	1,461
Other receivables	349
Inventories	2,464
Property, plant and equipment	207
Accounts payables	(628)
Other payables	(3,278)
Accrued expenses	(550)
Net assets	40
Net assets disposed of	28

Gain on disposal of a subsidiary:

Consideration received	415
Net assets disposed of	(28)
Gain on disposal	387

Net cash inflow arising on disposal:

Cash consideration	50
Less: bank balances and cash disposed of	(15)
	35

45. DISPOSAL OF SUBSIDIARIES (Continued)

(vi) On 21 August 2018, the Group disposed entire 53.635% shares of China Aviation Publishing & Media Co., Ltd. (中航出版傳媒有限責任公司), a subsidiary of the Group, to AVIC at cash consideration of approximately RMB44,570,000. The subsidiary is engaged in article publishing. The net assets of China Aviation Publishing & Media Co., Ltd. at the date of disposal were as follows:

Consideration received:

	RMB'000
Total cash consideration received	44,570

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	16,546
Accounts receivables	45,782
Other receivables	2,509
Prepayments	4,274
Inventories	57,170
Property, plant and equipment	13,657
Deferred tax assets	3,275
Other payables	(48,479)
Net assets	94,734
Non-controlling interests	(1,910)
Equity attributable to equity holders of the Company	92,824
Net assets disposed of	49,786

Gain on disposal of a subsidiary:

Consideration received	44,570
Net assets disposed of	(49,786)
Loss on disposal	(5,216)

Net cash inflow arising on disposal:

Cash consideration	44,570
Less: bank balances and cash disposed of	(16,546)
	28,024

46. SHARE-BASED PAYMENT

(i) JONHON Optronic passed a resolution regarding to the "Proposal on Restricted Share Incentive Scheme of the company's A-Share Stock Plan (Phase I)" ("the Scheme I") (關於向公司A股限制性股票激勵計劃(第一期)激勵對象授予限制性股票的議案) to the staffs in the directors' meeting on 18 January 2017 according to the approval in the first EGM of 2017. The boards agreed to grant 6,001,000 A-share restricted shares to 266 staffs in the Scheme I and the grant date was on 18 January 2017 in share price RMB28.19.

The Scheme I is valid from the first date of grant to the date that all the shares are unlocked or repurchased. The Scheme I is available for five years (60 months), included vesting period of two years and unlock period of three years.

The Scheme I targeted the management and core technology and business staffs of JONHON Optronic and the management and backbone staffs of its subsidiaries, which was 266 personnel in total.

(ii) JONHON Optronic passed a resolution regarding to the "Proposal on Restricted Share Incentive Scheme of the company's A-Share Stock Plan (Phase II)" ("the Scheme II") (關於向公司A股限制性股票激勵計劃(第二期)激勵對象授予限制性股票的議案) to the staffs in the directors' meeting on 26 December 2019 according to the approval in the third EGM of 2019. The boards agreed to grant 31,493,400 A-share restricted shares to 1,182 staffs in the Scheme II and the grant date was on 26 December 2019 in share price RMB23.43.

The Scheme II is valid from the first date of grant to the date that all the shares are unlocked or repurchased. The Scheme II is available for five years (60 months), included vesting period of two years and unlock period of three years.

The Scheme II targeted the directors, management and core technology and business staffs of JONHON Optronic and the management and backbone staffs of its subsidiaries, which was 1,182 personnel in total.

47. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Dividend payables (included in other payable and accruals) RMB'000	Interest-bearing bank and other borrowings RMB'000	Convertible Bonds RMB'000	Obligations under finance leases RMB'000	Lease liabilities RMB'000	Total RMB'000
Balance at 1 January 2018	182,199	10,388,152	1,531,945	419,107	–	12,521,403
Finance cost incurred	–	69,878	107,571	8,893	–	186,342
Financing cash flows	(439,206)	(141,405)	1,613,682	106,218	–	1,139,289
Equity	–	–	(323,191)	–	–	(323,191)
Dividend declare	448,765	–	–	–	–	448,765
Balance at 31 December 2018 (Restated)	191,758	10,316,625	2,930,007	534,218	–	13,972,608
Effect of changes in accounting policies (Note 2.2)	–	–	–	(534,218)	654,511	120,293
Balance at 1 January 2019 (Restated)	191,758	10,316,625	2,930,007	–	654,511	14,092,901
Finance cost incurred	–	–	142,564	–	33,983	176,547
Financing cash flows	(552,875)	818,408	(2,304)	–	(111,764)	151,465
Conversion to ordinary shares	–	–	(941,308)	–	–	(941,308)
Disposal of subsidiaries	–	(526,930)	–	–	–	(526,930)
Business combinations involving entities under common control	–	(1,900,000)	–	–	–	(1,900,000)
New lease arrangements	–	–	–	–	189,869	189,869
Dividend declare	540,817	–	–	–	–	540,817
Balance at 31 December 2019	179,700	8,708,103	2,128,959	–	766,599	11,783,361

48. 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:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	6,484	16,635
Investment properties	28,974	19,689
Other intangible assets	1,592	2,089
Investments in subsidiaries	8,704,872	8,332,504
Investments in associates	294,455	281,694
Financial assets at fair value through other comprehensive income	427,201	443,256
Deferred tax assets	5,571	4,653
Prepayments, deposits and other receivables	511,015	511,016
Total non-current assets	9,980,164	9,611,536
CURRENT ASSETS		
Accounts and notes receivables	2,704	1,537
Prepayments, deposits and other receivables	341,649	104,928
Financial assets at fair value through profit or loss	416,279	347,881
Term deposits with initial terms of over three months	620,000	555
Cash and cash equivalents	643,528	1,688,537
Total current assets	2,024,160	2,143,438
TOTAL ASSETS	12,004,324	11,754,974

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

	2019 RMB'000	2018 RMB'000
CURRENT LIABILITIES		
Other payables and accruals	318,680	225,794
Tax payable	24,036	8,462
Total current liabilities	342,716	234,256
NON-CURRENT LIABILITY		
Deferred tax liabilities	14,452	8,791
TOTAL LIABILITIES	357,168	243,047
Net assets	11,647,156	11,511,927
EQUITY		
Share capital	6,245,122	6,245,122
Reserves (Note)	5,402,034	5,266,805
Total equity	11,647,156	11,511,927

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

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

	Capital reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2019	4,534,255	10,487	181,295	540,768	5,266,805
Profit for the year	–	–	–	296,936	296,936
Other comprehensive income for the year, net of tax	–	25,647	–	–	25,647
Total comprehensive income for the year	–	25,647	–	296,936	322,583
2018 final dividend	–	–	–	(187,354)	(187,354)
Transfer to statutory surplus reserve	–	–	31,998	(31,998)	–
Disposal of financial asset at fair value through other comprehensive income	–	(23,052)	–	23,052	–
At 31 December 2019	4,534,255	13,082	213,293	641,404	5,402,034

	Capital reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2018	3,629,034	46,438	151,532	448,028	4,275,032
Profit for the year	–	–	–	301,487	301,487
Other comprehensive loss for the year, net of tax	–	(35,951)	–	–	(35,951)
Total comprehensive income for the year	–	(35,951)	–	301,487	265,536
Issue of shares	905,221	–	–	–	905,221
2017 final dividend	–	–	–	(178,984)	(178,984)
Transfer to statutory surplus reserve	–	–	29,763	(29,763)	–
At 31 December 2018	4,534,255	10,487	181,295	540,768	5,266,805

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.

Other reserves of the Company represent statutory surplus reserve. In accordance with the relevant PRC law 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.

49. EVENT AFTER REPORTING PERIOD

(i) Subsequent to 31 December 2019 and up to the date of this report, the Group has not completed its negotiations with AVIC and Tianjin Free Trade Zone Investment Company Limited for the acquisition of 100% equity interest of AVIC Helicopter Co., Ltd. and its subsidiaries (the "AVIC Helicopter Group"). The acquisition consideration is RMB5,687,537,000 as satisfied in issuing consideration shares. Details of the acquisition are set out in the Group's circular dated 6 January 2020. The acquisition of AVIC Helicopter Group will make the helicopter products industry chain of the Group more complete and help the Group to further expand its defense equipment product line, which is in line with the development strategy plan of the Group.

(ii) Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, the prevention and control of the COVID-19 has been going on throughout the country. The Group has been earnestly implementing the requirements of the Notice on Further Strengthening Financial Support for Prevention and Control of COVID-19, which was issued by the People's Bank of China, the Ministry of Finance, the China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and State Administration of Foreign Exchange, and strengthen financial support for the epidemic prevention and control.

The COVID-19 has certain impacts on the business operation and overall economy in some areas or industries, including in Hubei Province. This may affect the quality or the yields of the credit assets and investment assets of the Group in a degree, and the degree of the impact depends on the situation of the epidemic preventive measures, the duration of the epidemic and the implementation of regulatory policies.

The Group has been keeping continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

50. COMPARATIVE FIGURES

As further explained in notes 2.1 to the financial statements, due to the application of merger accounting for business combinations involving entities under common control, the comparative amounts have been restated.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2020.

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings indicated. In addition, shareholding percentage referred to in the definitions below is the percentage as at 31 December 2019.

"Articles of Association"	Articles of Association of the Company (as amended from time to time)
"AVIC"	Aviation Industry Corporation of China, Ltd. (中國航空工業集團有限公司), a controlling shareholder of the Company holding directly and indirectly 56.04% equity interest of the Company
"AVIC Airborne Systems"	AVIC Airborne Systems Company Limited (中航機載系統有限公司), a limited liability company incorporated in the PRC and 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 43.21% of its equity interest being held by the Company
"AVIC CAPDI"	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 the Company
"AVIC Capital"	AVIC Capital Co., Ltd. (中航資本控股股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange and a subsidiary of AVIC
"AVIC Finance"	AVIC Finance Co., Ltd. (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), a subsidiary of JONHON Optronic
"AVIC Group"	AVIC and its subsidiaries
"AVIC Helicopter"	AVIC Helicopter Co., Ltd. (中航直升機有限責任公司), a non-wholly-owned subsidiary of AVIC
"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 88.30% by AVIC Avionics and is a subsidiary of AVIC Avionics

"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 Optoelectronics Precision"	AVIC Optoelectronics Precision Electronics(Shen Zhen) Co., Ltd (中航光電精密電子(深圳)有限公司), a subsidiary of JONHON Optronic with 51% held
"AVIC Renewable Energy"	AVIC Renewable Energy Investment Co., Ltd. (中國航空工業新能源投資有限公司), a limited liability company established in the PRC, a subsidiary of the Company
"AVIC Rongfu"	AVIC Rongfu Fund Management Company Limited (中航融富基金管理有限公司), which is held as to 50% by the Company and is a subsidiary of the Company
"AVIC Trust"	AVIC Trust Co., Ltd (中航信託股份有限公司), a joint stock limited liability company incorporated in the PRC and a 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 Capital"	AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司), a wholly-owned subsidiary of the Company
"AviChina Hong Kong"	AviChina Hong Kong Limited (中航科工香港有限公司), a subsidiary of the Company
"AviChina Intelligent Surveying & Mapping"	AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司), a subsidiary of the Company
"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 6.56% of its interests being directly held by the Company
"Board" or "Board of Directors"	the board of directors 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
"Director(s)"	the director(s) of the Company

"Domestic Shares"	domestic shares proposed to be issued by 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 Corporation of China (中國航空工業總公司), the predecessor of AVIC I and AVIC II
"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 subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
"Hafei Aviation"	Harbin Hafei Aviation Industry Co., Ltd. (哈爾濱哈飛航空工業有限責任公司), a wholly-owned subsidiary of AVICOPTER
"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
"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)
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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
"Hongdu Group"	Jiangxi Hongdu Aviaiton Industry Group Co., Ltd. (江西洪都航空工業集團有限責任公司), a wholly-owned subsidiary of AVIC
"Huiyang Company"	Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司), a wholly-owned subsidiary of AVICOPTER
"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"	AVIC JONHON Optronic 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 39.78% of its equity interest held by the Company
"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 Electric 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
"PRC"	the People's Republic of China
"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
"Shaanxi Baocheng"	Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀錶有限責任公司)
"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
"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"	the ordinary shares of the Company
"Shenyang Xinghua"	AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限責任公司), a subsidiary of JONHON Optronic
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Taixing Aviation Optoelectronic"	Taixing Aviation Optpelectronic Technology Co., Ltd (泰興航空光電技術有限公司), a subsidiary of JONHON Optronic with 51% held
"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

"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 Photoeletric"	Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司), a subsidiary of JONHON Optronic

The English names of the entities of mainland China referred to in the definitions above are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Corporate Information

BOARD OF DIRECTORS

Chairman, Executive Director	Chen Yuanxian
Executive Director	Wang Xuejun
Non-Executive Director	Yan Lingxi
Non-Executive Director	Lian Dawei
Non-Executive Director	Xu Gang
Independent Non-Executive Director	Liu Renhuai
Independent Non-Executive Director	Liu Weiwu
Independent Non-Executive Director	Wang Jianxin

SUPERVISORY COMMITTEE

Chairman of the Supervisory Committee	Zheng Qiang
Supervisor	Guo Guangxin
Supervisor	Shi Shiming

SENIOR MANAGEMENT

General Manager	Wang Xuejun
Deputy General Manager & CFO	Tao Guofei
Board Secretary	Gan Liwei

COMPANY SECRETARY

Xu Bin

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:	Chen Yuanxian

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUTHORISED REPRESENTATIVES

Wang Xuejun Xu Bin

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

2nd floor, Building 27, No. 26 Xihuan South Street,
Beijing Economic Technological Development Area,
Beijing, the PRC
Postal code: 100176

WEBSITE

www.avichina.com

CORRESPONDENCE ADDRESS

Postal Code: 100029
6/F, Tower A, No. 14 Xiaoguandongli, Andingmenwai
Chaoyang District, Beijing, the PRC

Telephone: 86-10-58354335
Facsimile: 86-10-58354300/10
E-mail Box: avichina@avichina.com

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 2019 will be held at 9:00 a.m. on Friday, 22 May 2020 at AVIC Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC.

AUDITORS

International Auditors

SHINEWING (HK) CPA Limited
43/F., Lee Garden One, 33 Hysan Avenue,
Causeway Bay, Hong Kong

Auditors in the PRC

ShineWing Certified Public Accountant LLP
9/F, Block A, Fu Hua Mansion,
No.8, Chaoyangmen Beidajie,
Dongcheng District,
Beijing, the PRC

LEGAL ADVISERS

As to Hong Kong law

Baker & McKenzie
14th Floor, One Taikoo Place, 979 King's Road, Quarry Bay,
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