中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

Announcement on the Annual Results for the Year Ended 31 December 2018; Proposed Change of Directors; Change of Chairman of the Board, Senior Management and Re-designation of Director; and Proposed Amendments to the Articles of Association

Financial Highlights

The Board is pleased to announce that, both the revenue of the Group and the profit attributable to equity holders of the Company recorded growth in the year 2018.

- For the year ended 31 December 2018, the Group recorded a revenue of RMB35,153 million, representing an increase of RMB2,556 million or 7.84% as compared with that of RMB32,597 million in the corresponding period of the preceding year.

- For the year ended 31 December 2018, the profit attributable to equity holders of the Company amounted to RMB1,288 million, representing an increase of RMB66 million or 5.40% as compared with that of RMB1,222 million in the corresponding period of the preceding year.

- The Board recommended the payment of a final dividend for the year 2018 in an aggregate amount of RMB187,353,655.08, representing a dividend of RMB0.03 per share (2017: RMB0.03 per share), calculated based on the number of the existing total issued shares of the Company of 6,245,121,836 shares as at the date of this announcement.

ANNUAL RESULTS

The board of directors (the "**Board**") of AviChina Industry & Technology Company Limited*(the "**Company**" or "**AviChina**") hereby announces the audited consolidated annual results of the Company and its subsidiaries (collectively the "**Group**") prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2018, together with the comparative figures for the year 2017, as follows:

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	4	35,153,264	32,596,711
Cost of sales		(27,376,806)	(25,152,802)
Gross profit		7,776,458	7,443,909
Other income and gains	4	692,011	473,248
Other expenses		(40,052)	(72,459)
Other income and gains, net		651,959	400,789
Selling and distribution expenses		(670,195)	(587,498)
Administrative expenses		(4,659,301)	(4,343,755)
OPERATING PROFIT		3,098,921	2,913,445
Finance income		193,151	177,069
Finance costs		(601,422)	(507,177)
Finance costs, net	6	(408,271)	(330,108)
Share of profits of:			
Joint ventures		25,823	22,196
Associates		186,952	152,352
PROFIT BEFORE TAX	5	2,903,425	2,757,885
Income tax expenses	7	(322,750)	(341,321)
PROFIT FOR THE YEAR		2,580,675	2,416,564
Attributable to:			
Equity holders of the Company		1,287,942	1,222,280
Non-controlling interests		1,292,733	1,194,284
		2,580,675	2,416,564
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
For profit for the year	9	RMB0.215	RMB0.205

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	2,580,675	2,416,564
OTHER COMPREHENSIVE LOSS		
Items that may be reclassified subsequently to profit or loss :		
Available-for-sale investments:		
Changes in fair value	-	(246,081)
Reclassification adjustments for accumulative gains included in the consolidated statement of profit or loss upon disposal	-	(54,120)
Income tax effect	-	45,030
	-	(255,171)
Exchange differences arising on translation of financial statements of foreign operations	8,696	(12,552)
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	8,696	(267,723)
Items that will not be reclassified subsequently to profit or loss:		
(Loss) gain on a defined benefit scheme	(38,199)	32,482
Changes in fair value	(122,622)	-
Income tax effect	18,160	-
Other comprehensive (loss) profit not to be reclassified to profit or loss in subsequent periods	(142,661)	32,482
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(133,965)	(235,241)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,446,710	2,181,323
Attributable to:		
Equity holders of the Company	1,215,841	1,083,455
Non-controlling interests	1,230,869	1,097,868
	2,446,710	2,181,323

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

31 December 2018

	Note	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		14,962,386	14,527,086
Investment properties		365,106	281,545
Land use rights		1,640,279	1,689,809
Goodwill		69,122	69,188
Other intangible assets		575,863	619,438
Investments in joint ventures		141,772	122,433
Investments in associates		970,799	928,027
Available-for-sale investments		-	1,290,426
Financial assets at fair value through other comprehensive income		888,628	-
Deferred tax assets		324,183	288,221
Prepayments, deposits and other receivables		1,424,001	810,567
Contract assets		856,741	-
Total non-current assets		22,218,880	20,626,740
CURRENT ASSETS			
Inventories		23,150,274	23,220,449
Accounts and notes receivables	10	21,272,651	17,541,036
Prepayments, deposits and other receivables		2,791,983	3,647,643
Contract assets		2,074,429	-
Financial assets at fair value through profit or loss/held for trading		280,629	23,660
Pledged deposits		1,414,308	1,502,878
Term deposits with initial terms of over three months		1,394,771	1,307,509
Cash and cash equivalents		12,122,364	11,063,187
Total current assets		64,501,409	58,306,362
TOTAL ASSETS		86,720,289	78,933,102

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

31 December 2018

	Note	2018 RMB'000	2017 RMB'000
CURRENT LIABILITIES			
Accounts and notes payables	11	25,324,860	24,084,796
Other payables and accruals		3,718,943	9,374,200
Interest-bearing bank and other borrowings		9,022,435	5,345,625
Obligations under finance leases		59,803	45,305
Contract liabilities		6,995,894	-
Tax payable		217,336	264,078
Total current liabilities		45,339,271	39,114,004
NET CURRENT ASSETS		19,162,138	19,192,358
TOTAL ASSETS LESS CURRENT LIABILITIES		41,381,018	39,819,098
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		1,294,190	5,042,527
Deferred income from government grants		777,498	816,095
Deferred tax liabilities		36,640	82,441
Convertible bonds		2,930,007	1,531,945
Obligations under finance leases		474,415	373,802
Other payables and accruals		895,630	812,554
Total non-current liabilities		6,408,380	8,659,364
TOTAL LIABILITIES		51,747,651	47,773,368
Net assets		34,972,638	31,159,734
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		6,245,122	5,966,122
Reserves		10,559,253	8,743,139
		16,804,375	14,709,261
Non-controlling interests		18,168,263	16,450,473
Total equity		34,972,638	31,159,734

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

AviChina Industry & Technology Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 30 April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation of China Aviation Industry Corporation II ("AVIC II"). AVIC II merged with China Aviation Industry Corporation I ("AVIC I") to form Aviation Industry Corporation of China ("AVIC") on 6 November 2008, and AVIC became the holding company of the Company thereafter. The Company's H shares were listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 30 October 2003. The address of its registered office is 8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing, 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 "Directors"), 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.

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.

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 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of Annual Improvements to IFRSs 2014 - 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property
IFRIC Int-22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of IFRS9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been summarised below.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

As a result of the changes in the Group's accounting policies, prior year financial statements had to be restated. As explained below, IFRS 15 and IFRS 9 are adopted without restating comparative information. The related reclassifications and the adjustments are therefore not reflected in consolidated statement of financial position as at 31 December 2017, but are recognised in the opening balance on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	Carrying amount originally reported as at 31/12/2017	Impact on adoption of IFRS 9	Impact on adoption of IFRS 15	Carrying amount as at 1/1/2018
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Available-for-sale investments	1,290,426	(1,290,426)	-	-
Financial assets at fair value through other comprehensive income	-	1,209,301	-	1,209,301
	20,626,740	(81,125)	-	20,545,615
Current Assets				
Financial assets held for trading	23,660	81,125	-	104,785
Accounts and notes receivables	17,541,036	-	(31,021)	17,510,015
Inventories	23,220,449	-	(2,713,708)	20,506,741
Prepayments, deposits and other receivables	3,647,643	-	(969,316)	2,678,327
Contract assets	-	-	3,714,045	3,714,045
	58,306,362	81,125	-	58,387,487
Total assets	78,933,102	-	-	78,933,102

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

	Carrying amount originally reported as at 31/12/2017	Impact on adoption of IFRS 9	Impact on adoption of IFRS 15	Carrying amount as at 1/1/2018
	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities				
Other payables and accruals	10,186,754	-	(5,071,867)	5,114,887
Contract liabilities	-	-	5,071,867	5,071,867
Total liabilities	47,773,368	-	-	47,773,368
Equity				
Fair value reserve	(162,317)	(57,752)	-	(220,069)
Retained earnings	4,467,709	57,752	-	4,525,461
Total equity	31,159,734	-	-	31,159,734

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 positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied IFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under IFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

(i) Classification and measurement of financial instruments

The directors of the Company reviewed and assessed the Group's existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets and liabilities as regards their classification and measurement:

(a) Equity investments previously classified as available-for-sale investments carried at fair value:

The Group had elected to present in other comprehensive income for the fair value changes in respect of certain of the Group's equity instruments amounting to approximately RMB614,236,000 as they are held for medium or long-term strategic purpose, and reclassified them to financial assets at fair value through other comprehensive income ("FVTOCI"). On initial application of IFRS 9, the fair value gains and losses of these equity investments continue to be recognised in the fair value reserve but they will not be reclassified to profit or loss when they are derecognised. In addition, no impairment loss previously recognised in profit or loss under IAS 39 was reclassified from retained earnings to fair value reserve at 1 January 2018.

No available-for-sale equity investments carried at fair value was reclassified to financial assets at fair value through profit or loss ("FVTPL").

(b) Unlisted equity investments previously classified as available-for-sale investments carried at cost less impairment:

The Group had elected to present in other comprehensive income for the fair value changes in respect of certain of the Group's unlisted equity instruments amounting to approximately RMB676,190,000 as they are held for medium or long term strategic purpose, and reclassified them to financial assets at FVTOCI upon initial application of IFRS 9. The Group measures them at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the fair value reserve, which will not be reclassified to profit or loss when they are derecognised. On initial application of IFRS 9, an impairment loss of approximately RMB57,752,000 previously recognised against these investments was reclassified from retained earnings to fair value reserve at 1 January 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 9 Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

(b) Unlisted equity investments previously classified as available-for-sale investments carried at cost less impairment: (Continued)

For the remaining available-for-sale unlisted equity investments carried at cost less impairment amounting to approximately RMB81,125,000, the Group has not elected the option for designation at FVTOCI and reclassified them to financial assets at FVTPL. The Group measures them at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised in profit or loss. No difference between the previous carrying amount and the fair value relating to these investments.

(c) Debt instruments previously classified as loans and receivables at amortised cost

Some of the debt instruments (including accounts and notes receivables, deposits and other receivables, pledged deposits and term deposits previously classified at amortised cost) amounting to approximately RMB25,612,883,000 are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these investments continue to be subsequently measured at amortised cost and were reclassified to financial assets at amortised cost upon adoption of IFRS 9.

(ii) Loss allowance for expected credit losses (“ECL”)

The adoption of IFRS 9 has changed the Group’s accounting for impairment losses for financial assets by replacing IAS 39’s incurred loss model with a forward-looking expected credit loss model. As at 1 January 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets and other items subject to ECL for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement IFRS 9.

As at 1 January 2018, no additional allowance on the Group’s account receivables and contract assets have been recognised.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 9 Financial Instruments (Continued)

(iii) Summary of effects arising from initial application of IFRS 9

The table below summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under IAS 39 to the carrying amounts under IFRS 9 on 1 January 2018.

	Carrying amount at 31 December 2017(IAS 39)	Adoption of IFRS 9 -Reclassification	Carrying amount at 1 January 2018 (IFRS 9)*
	RMB'000	RMB'000	RMB'000
Available-for-sale ("AFS") investments			
– Listed equity securities	614,236	(614,236)	-
– Unlisted equity securities	676,190	(676,190)	-
Financial assets at fair value through profit or loss/held for trading	23,660	81,125	104,785
Financial assets at fair value through other comprehensive income ("FVTOCI")			
– Listed equity investment	-	614,236	614,236
– Unlisted equity investment	-	595,065	595,065

* The amounts in this column are before the adjustments from application of IFRS 15.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 9 Financial Instruments (Continued)

(iii) Summary of effects arising from initial application of IFRS 9 (Continued)

The table below summarises the impact of transition to IFRS 9 on retained earnings and other components of equity at 1 January 2018.

	Fair value reserve	Retained earnings
	RMB'000	RMB'000
Balance at 31 December 2017 as originally stated	(162,317)	4,467,709
Transferred from retained earnings to fair value reserve	(57,752)	57,752
Total change as a result of adoption of IFRS9 on 1 January 2018	(57,752)	57,752
Balance at 1 January 2018 as restated	(220,069)	4,525,461

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 superseded IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations. Details are described below.

The impact of transition to IFRS 15 was insignificant on the retained earnings at 1 January 2018.

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of IFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2017	Impact on adoption of IFRS 15-Reclassification	Carrying amount as restated at 1 January 2018**
	RMB'000	RMB'000	RMB'000
Inventories	23,220,449	(2,713,708)	20,506,741
Prepayments, deposits and other receivables	3,647,643	(969,316)	2,678,327
Contract assets	-	3,714,045	3,714,045
Accounts and notes receivables	17,541,036	(31,021)	17,510,015
Other payables and accruals	10,186,754	(5,071,867)	5,114,887
Contract liabilities	-	5,071,867	5,071,867

** The amounts in this column are before the adjustments from the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers (Continued)

Notes:

(a) Sales of goods

The Group concluded that revenue from construction contracts will continue to be recognised over time, using an input method to measure progress towards complete satisfaction of the contract similar to the previous accounting policy. When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

Revenue from sale of goods is recognised at the point when the control of the goods is transferred to the customers (generally on delivery of aviation parts and components).

As the receipt of the total consideration is conditional on successful completion of the contract, deposits and other receivables of approximately RMB969,316,000 and accounts and notes receivables of approximately RMB31,021,000 were reclassified to contract assets and the amount of consideration received from sales of goods of approximately RMB4,555,951,000 previously recognised in other payables and accruals was reclassified to contract liabilities of at 1 January 2018 upon initial application of IFRS 15.

(b) Rendering of services

The Group's aviation entire aircraft and aviation engineering services are sold and rendered separately to a customer. The engineering services cannot be obtained from other providers and significantly customise or modify the services. The Group assessed that there is one performance obligation in a contract for engineering services and performed are-allocation of contract consideration based on the relative stand-alone selling prices of the engineering services under IFRS 15. As the receipt of the total consideration is conditional on successful completion of the contract, inventories of RMB2,713,708,000 were reclassified to contract assets and amount of revenue from rendering of services of RMB515,916,000 previously recognised in other payables and accruals was reclassified to contract liabilities of at 1 January 2018 upon initial application of IFRS 15.

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018

The following tables summarise the estimated impact of applying IFRS 15 on the consolidated statement of profit or loss and other comprehensive income for the current year and the consolidated statement of financial position at 31 December 2018, by comparing the amounts reported under IAS 11, IAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of IFRS 15 did not have material impact on the Group's operating, investing and financing cash flows.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

Impact on the consolidated statement of financial position at 31 December 2018

	As reported	Impacts of adopting IFRS 15**	Amounts excluding impacts of adopting IFRS 15
	RMB'000	RMB'000	RMB'000
Inventories	23,150,274	2,747,287	25,897,561
Contract assets	2,931,170	(2,931,170)	-
Accounts and notes receivables	21,272,651	183,883	21,456,534
Contract liabilities	6,995,894	(6,995,894)	-
Other payables and accruals	4,614,573	6,995,894	11,610,467

**The amounts in this column are before the adjustments from the application of IFRS 9.

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 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC Int - 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle[1]

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

2 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

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for annual periods beginning on or after a date to be determined

3. OPERATING SEGMENT INFORMATION

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

The Executive Directors classifies the business into three reportable segments:

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

- Manufacturing and sale of aviation parts and components ("Aviation parts and components");

- Delivery of aviation engineering services such as planning, design, consultation, construction and operation ("Aviation engineering services").

The revenue from external parties reported to the Executive Directors is measured in a manner consistent with that in the consolidated statement of profit or loss. Segment results are defined based on profit before 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.

3. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment Revenue:				
Sales to external customers	11,010,731	18,546,711	5,595,822	35,153,264
Intersegment sales				1,174,711
				36,327,975
Reconciliation:				
Elimination of intersegment operations				(1,174,711)
Revenue				35,153,264
Segment results	596,601	2,371,819	390,061	3,358,481
Reconciliation:				
Interest income				193,151
Corporate and other unallocated expenses				(46,785)
Finance costs				(601,422)
Profit before tax				2,903,425
Segment assets	29,805,465	43,837,545	14,425,495	88,068,505
Reconciliation:				
Elimination of intersegment receivables				(1,348,216)
Total assets				86,720,289
Segment liabilities	19,471,939	23,430,037	10,193,891	53,095,867
Reconciliation:				
Elimination of intersegment payables				(1,348,216)
Total liabilities				51,747,651
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 expenses	95,058	22,820	-	117,878
Depreciation and amortisation	380,553	599,343	194,714	1,174,610
Investments in joint ventures	24,590	117,182	-	141,772
Investments in associates	347,998	580,839	41,962	970,799
Capital expenditure*	298,812	1,446,593	78,105	1,823,510

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

3. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017	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	10,404,546	16,980,047	5,212,118	32,596,711
Intersegment sales				1,218,343
				33,815,054
Reconciliation:				
Elimination of intersegment operations				(1,218,343)
Revenue				32,596,711
Segment results	557,440	2,195,240	378,193	3,130,873
Reconciliation:				
Interest income				177,069
Corporate and other unallocated expenses				(42,880)
Finance costs				(507,177)
Profit before tax				2,757,885
Segment assets	28,152,099	38,619,604	13,688,167	80,459,870
Reconciliation:				
Elimination of intersegment receivables				(1,526,768)
Total assets				78,933,102
Segment liabilities	18,046,681	21,246,266	10,007,189	49,300,136
Reconciliation:				
Elimination of intersegment payables				(1,526,768)
Total liabilities				47,773,368
Other segment information:				
Share of profits of :				
Joint ventures	912	21,284	-	22,196
Associates	2,339	156,592	(6,579)	152,352
Impairment losses recognised in the statement of profit or loss	35,439	206,170	23,238	264,847
Other non-cash expenses	63,903	1,998	-	65,901
Depreciation and amortisation	377,563	591,162	166,141	1,134,866
Investments in joint ventures	23,978	98,455	-	122,433
Investments in associates	442,067	446,258	39,702	928,027
Capital expenditure*	769,914	1,147,698	641,056	2,558,668

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

3. 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:

	2018 RMB'000	2017 RMB'000
Customer A[1]	7,869,665	8,079,171

[1] Revenue from Aviation entire aircraft.

4. 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:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers within the scope of IFRS 15 for the year ended 31 December 2018		
Sales of goods	30,068,172	27,544,672
Rendering of services	5,085,092	5,052,039
	35,153,264	32,596,711

Disaggregation of revenue by timing of recognition

	2018 RMB'000	2017 RMB'000
Timing of revenue recognition		
At a point in time	19,644,958	17,866,356
Over time	15,508,306	14,730,355
Total revenue from contracts with customers	35,153,264	32,596,711

4. REVENUE, OTHER INCOME AND GAINS (Continued)

	2018 RMB'000	2017 RMB'000
Other income from contracts with customers within the scope of IFRS 15 for the year ended 31 December 2018		
Income from sale of materials	509,209	375,348
Cost of sale of materials	(437,475)	(342,328)
Profit from sale of materials	71,734	33,020
Income from rendering of maintenance and other services	96,793	143,363
Total other income from contracts with customers	168,527	176,383
Other income from other sources		
Dividend income	18,207	11,109
Gross rental income	58,555	28,577
Gross rental expense	(20,780)	(16,788)
	37,775	11,789
Total other income from other sources	55,982	22,898
Total other income	224,509	199,281
Gains		
Fair value gains, net:		
Financial assets at fair value through profit or loss/held for trading	4,581	2,914
Foreign exchange gains, net	46,710	-
Default fine	25,047	38,181
Gain on exchange of non-monetary assets	93	1,000
Gain on disposal of:		
Available-for-sale investments	-	81,767
Interests in subsidiaries	2,060	12,214
Interests in associates	10,827	37,704
Financial assets at fair value through profit or loss/held for trading	128,302	-
Property, plant and equipment	108,344	56,543
Others	141,538	43,644
Other income and gains	692,011	473,248
	35,845,275	33,069,959

5. PROFIT BEFORE TAX

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

	2018 RMB'000	2017 RMB'000
Cost of inventories sold	23,183,497	20,968,518
Cost of services provided	4,193,309	4,184,284
Depreciation:		
Investment properties	8,181	11,918
Property, plant and equipment	1,078,881	1,034,003
Less: Amortisation of deferred income from government grants	(63,383)	(222,765)
	1,023,679	823,156
Amortisation:		
Land use rights	41,306	36,873
Intangible assets	46,242	52,072
Research and development costs:		
Current year expenditure	2,527,816	2,244,263
Less: Government grants released*	(638,239)	(387,494)
	1,889,577	1,856,769
Auditor's remuneration	8,244	7,912
Employee benefit expense (including directors' and supervisors' remuneration):		
Wages, salaries, housing benefits and other allowances	6,194,009	5,842,390
Share-based payment expense	22,820	17,759
Pension scheme contributions	933,544	880,707
Foreign exchange (gains) loss, net	(46,710)	30,629
Impairment of:		
Available-for-sale investments	-	6,071
Accounts receivables and prepayments, deposits and other receivables	155,282	158,878
Property, plant and equipment	-	1,350
Other intangible assets	-	41,029
Write-down of inventories to net realisable value	103,965	57,519

* 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.

6. FINANCE COSTS, NET

	2018 RMB'000	2017 RMB'000
Finance income:		
Bank interest income	189,582	177,069
Other interest income	3,569	-
	193,151	177,069
Finance costs:		
Interest on bank and other borrowings	477,375	479,529
Interest on finance leases	8,893	7,241
Effective interest expenses on convertible bonds	107,524	-
Total interest expense for financial liabilities not classified at fair value through profit or loss	593,792	486,770
Less: Interest capitalised	(40,215)	(30,264)
Other financial costs	47,845	50,671
	601,422	507,177
Finance costs, net	(408,271)	(330,108)

The interests were capitalised in construction in progresses by banks and bonds ranging from 1.08% to 4.94% and from 3.84% to 5.41% respectively in 2018 (2017: 1.08% to 4.90% and 3.84%).

7. INCOME TAX EXPENSES

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2017: 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% (2017: 25%) on the assessable income of respective entities in the Group.

	2018 RMB'000	2017 RMB'000
Current income tax	363,567	380,785
Deferred income tax	(40,817)	(39,464)
Total tax charge for the year	322,750	341,321

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 year ended 31 December 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%. For the year ended 31 December 2017, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

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:

	2018 RMB'000	2017 RMB'000
Profit before tax	2,903,425	2,757,885
Tax at the statutory tax rate of 25%	725,856	689,471
Lower tax rate(s) for specific provinces or enacted by local authorities	(393,546)	(320,120)
Profits and losses attributable to joint ventures and associates	(53,194)	(43,637)
Income not subject to tax	(37,261)	(70,563)
Expenses not deductible for tax	34,378	42,979
Tax losses utilised from previous periods	(10,676)	(4,439)
Tax losses not recognised	73,690	66,677
Others	(16,497)	(19,047)
Tax charge at the Group's effective rate	322,750	341,321

8. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposed:		
Final dividend, proposed of RMB0.03 (2017: RMB0.03) per share	187,354	178,984

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.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 5,979,116,357 (2017: 5,966,121,836) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2018 (2017: nil).

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

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculation	1,287,942	1,222,280
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (thousands)	5,979,116	5,966,122
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation (thousands)	5,979,116	5,966,122

10. ACCOUNTS AND NOTES RECEIVABLES

	2018 RMB'000	2017 RMB'000
Accounts receivables		
– Ultimate holding company	954	4,013
– Fellow subsidiaries	7,736,204	5,708,610
– A joint venture	336	74
– Associates	2,050	95,780
– Others	9,224,286	8,390,254
Accounts receivable, gross	16,963,830	14,198,731
Loss allowance	(924,778)	(825,306)
Accounts receivable, net	16,039,052	13,373,425
Notes receivables		
– Fellow subsidiaries	2,722,378	1,706,446
– A joint venture	228	1,051
– Others	2,510,993	2,460,114
	5,233,599	4,167,611
Accounts and notes receivables	21,272,651	17,541,036

As at 31 December 2018, the gross amount of accounts receivables arising from contracts with customers amounted to approximately 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.

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:

	2018 RMB'000	2017 RMB'000
Within 1 year	12,978,748	10,870,624
1 to 2 years	1,855,635	1,663,082
2 to 3 years	814,612	670,970
Over 3 years	390,057	168,749
	16,039,052	13,373,425

11. ACCOUNTS AND NOTES PAYABLES

	2018 RMB'000	2017 RMB'000
Accounts payable (Note (a))		
- Ultimate holding company	25	11,058
- Fellow subsidiaries	3,436,959	2,915,776
- Joint ventures	7,084	6,689
- Associates	7,866	57,649
- Others	14,788,202	14,976,684
	18,240,136	17,967,856
Notes payable (Note (b))		
- Fellow subsidiaries	2,037,518	2,011,324
- Joint ventures	45,259	34,263
- Associates	162	15,349
- Others	5,001,785	4,056,004
	7,084,724	6,116,940
	25,324,860	24,084,796

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:

	2018 RMB'000	2017 RMB'000
Within 1 year	12,199,131	11,903,022
1 to 2 years	3,019,054	3,794,203
2 to 3 years	1,305,687	1,267,904
Over 3 years	1,716,264	1,002,727
	18,240,136	17,967,856

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 2018, notes payable of approximately RMB2,964,814,000 (31 December 2017:approximately RMB3,942,943,000) were secured by pledged deposits to the extent of approximately RMB1,297,896,000 (31 December 2017: approximately RMB1,394,524,000).

MANAGEMENT DISCUSSION AND ANALYSIS

The businesses of the Group were 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 these segments are analyzed in this announcement to intuitively demonstrate their operation and development.

For the year ended 31 December 2018, the Group recorded a revenue of RMB35,153 million, representing an increase of RMB2,556 million or 7.84% as compared with that of RMB32,597 million in the corresponding period of the preceding year. The profit attributable to equity holders of the Company amounted to RMB1,288 million, representing an increase of RMB66 million or 5.40% as compared with that of RMB1,222 million in the corresponding period of the preceding year.

CONSOLIDATED OPERATING RESULTS

1 Composition of Revenue

The revenue of the Group for the year 2018 was RMB35,153 million, representing an increase of 7.84% as compared with that of RMB32,597 million in the corresponding period of the preceding year. During the period, each of the Group's business segments recorded revenue increase to different extent.

The revenue of the Group's aviation entire aircraft business for the year 2018 amounted to RMB11,011 million, representing an increase of RMB606 million or 5.82% as compared with that of RMB10,405 million in the corresponding period of the preceding year, which was mainly attributable to the increase of sales volume of helicopter products. The revenue of the aviation entire aircraft business for the year 2018 accounted for 31.32% of the total revenue of the Group, representing a decrease of 0.60 percentage point 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 2018 amounted to RMB18,546 million, representing an increase of RMB1,566 million or 9.22% as compared with that of RMB16,980 million in the corresponding period of the preceding year, which was mainly attributable to the stable and rapid increase of orders due to new market exploration and new products promotion of China Aviation Optical-Electrical Technology Co., Ltd.* (中航光電科技股份有限公司)("**JONHON Optronic**") , a subsidiary of the Company. The revenue of the aviation parts and components business for the year 2018 accounted for 52.76% of the total revenue of the Group, representing an increase of 0.67 percentage point 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 2018 amounted to RMB5,596 million, representing an increase of RMB384 million or 7.37% as compared with that of RMB5,212 million in the corresponding period of the preceding year. The main reason is that the revenue of aviation consultation designing business increased due to the enhanced market exploration in civil aviation, general aviation and municipal planning market. The revenue of the aviation engineering services business for the year 2018 accounted for 15.92% of the total revenue of the Group, representing substantially the same level 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 2018 amounted to RMB670 million, representing an increase of RMB83 million or 14.14% as compared with that of RMB587 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase in staff cost of sales person and sales commission resulting from market exploration by JONHON Optronic, a subsidiary of the Company. In 2018, the selling and distribution expenses accounted for 1.91% of the revenue of the Group, representing an increase of 0.11 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 2018 amounted to RMB4,659 million, representing an increase of RMB315 million or 7.25% as compared with that of RMB4,344 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase in research and development ("**R&D**") expenses and staff costs by certain subsidiaries of the Company. In 2018, the administrative expenses accounted for 13.25% of the revenue of the Group, representing substantially the same level as compared with that in the corresponding period of the preceding year.

4 Operating Profit

The operating profit of the Group for the year 2018 amounted to RMB3,099 million, representing an increase of RMB186 million or 6.39% as compared with that of RMB2,913 million in the corresponding period of the preceding year. As the revenue increased as compared with that of the preceding year, the gross profits went up. Furthermore, other gains increased as compared with that of the preceding year due to reasons such as disposals of assets. All the above led to an increase in the operating profit as compared with that of the preceding year.

5 Finance Costs, Net

The Group’s net finance costs in 2018 amounted to RMB408 million, representing an increase of RMB78 million or 23.64% as compared with that of RMB330 million in the corresponding period of the preceding year, which was mainly attributable to the issuance of convertible bonds by China Avionics Systems Co. Ltd.* (中航航空電子系統股份有限公司)(“**AVIC Avionics**”) at the end of last year. Please refer to note 6 to the financial statements for details.

6 Income Tax Expenses

The Group's income tax expenses in 2018 amounted to RMB323 million, representing a decrease of RMB18 million or 5.28% as compared with that of RMB341 million in the corresponding period of the preceding year. Please refer to note 7 to the financial statements for details.

7 Profit Attributable to Equity Holders of the Company

The profit attributable to equity holders of the Company for the year 2018 amounted to RMB1,288 million, representing an increase of RMB66 million or 5.40% as compared with that of RMB1,222 million in the corresponding period of the preceding year. The operating profit of the Group during the reporting period represented an increase of 6.39% as compared with that in the corresponding period of the preceding year, and the investment gains from associates and joint ventures recorded an increase of 21.90% as compared with that in the corresponding period of the preceding year, resulting in an increase of 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.

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 2018 was RMB11,011 million, representing an increase of 5.82% as compared with that in the corresponding period of the preceding year. The above revenue includes: (1) the sales revenue derived from the helicopter business, which amounted to RMB10,245 million, representing an increase of RMB1,300 million or 14.53% as compared with that in the corresponding period of the preceding year, and accounted for 93.04% of the total revenue of the aviation entire aircraft business as the sales volume of helicopters increased; (2) the sales revenue derived from the trainer aircraft business, which amounted to RMB734 million, representing a decrease of RMB701 million or 48.85% as compared with that in the corresponding period of the preceding year, and accounted for 6.67% of the total revenue of the aviation entire aircraft business as the sales volume of the trainer aircraft decreased; (3) the sales revenue derived from the general purpose aircraft business, which amounted to RMB32 million, representing an increase of RMB7 million or 28.00% as compared with that in the corresponding period of the preceding year, and accounted for 0.29% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group for the year 2018 accounted for 31.32% of the Group’s total revenue, representing a decrease of 0.60 percentage point as compared with that in the corresponding period of the preceding year.

Gross Profit Margin

The gross profit margin of the Group's aviation entire aircraft business for the year 2018 was 10.04%, representing a decrease of 1.07 percentage points as compared with that in the corresponding period of the preceding year. Such decrease was mainly attributable to the decrease in gross profit margin of certain helicopter products during the reporting period.

THE AVIATION PARTS AND COMPONENTS BUSINESS

Revenue

The Group’s revenue derived from the aviation parts and components business for the year 2018 was RMB18,546 million, representing an increase of 9.22% 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 RMB14,254 million, representing an increase of RMB1,913 million or 15.50% as compared with that in the corresponding period of the preceding year, and accounted for 76.86% of the total revenue of the aviation parts and components business.

The revenue derived from the aviation parts and components business for the year 2018 accounted for 52.76% of the Group’s total revenue, representing an increase of 0.67 percentage point as compared with that in the corresponding period of the preceding year.

Gross Profit Margin

The gross profit margin of the Group's aviation parts and components business for the year 2018 was 31.13%, representing a decrease of 1.05 percentage points as compared with that in the corresponding period of the preceding year, which was mainly attributable to the drop of the sales price influenced by the market and the variation of the structure of the products of certain subsidiaries during the period.

THE AVIATION ENGINEERING SERVICES BUSINESS

Revenue

The Group's revenue derived from the aviation engineering services business for the year 2018 was RMB5,596 million, representing an increase of 7.37% as compared with that in the corresponding period of the preceding year. The revenue derived from the aviation engineering services business in 2018 accounted for 15.92% of the Group's total revenue, representing substantially the same level 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 2018 was 16.03%, representing substantially the same level as compared with that in the corresponding period of the preceding year.

BUSINESS REVIEW AND OUTLOOK

In 2018, the growth of the global economy slowed down and trade friction was intensified. Facing with the complex and sensitive surrounding environment, China's economy was under downward pressure. In a tough external environment, with proactive actions and difficulty-overcoming resolutions, the Group recorded increase in both revenue and profit, and achieved remarkable results in various aspects.

Strategic Undertaking: Proactively Performing its Roles and Seizing Strategic Opportunities

AviChina continuously optimized and improved its development strategy, and was dedicated to becoming a flagship company to provide high-tech aviation products and services universally used for military and civil purposes in China.

The Company invested and established AVIC Rongfu Fund Management Company Limited* (中航融富基金管理有限公司) (**"AVIC Rongfu"**), which initiates the establishment of and manages military-civilian integration industry development fund of AVIC as an important platform for the Group to make investments in the projects in relation to aviation military-civilian integration industry development.

At the same time, the Group proactively implemented the "Belt and Road" initiative, pushed forward the "Aerial Silk Road" plan and constantly improved the impact of the products of the Group to the countries along the "Belt and Road". L15 advanced trainer aircraft of Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司)(**"Hongdu Aviation"**) received high attention in the "KADEX-2018 International Exhibition" and several CJ6 primary trainers of Hongdu Aviation had been delivered to Sri Lanka Air Force. The reconstruction assistance project for the campus in Nepal under the design and project management of China Aviation Planning and Design Institute Co., Ltd. *(中國航空規劃設計研究總院有限公司)(**"AVIC Planning"**) commenced, which was of great significance for boosting bilateral relations and developing international business markets.

Capital Market: Capital Serves the Industry and Boosts the Industry Development

Through various ways such as the H share full circulation project, H share placement, the establishment and management of the military-civilian integration fund, bond financing and asset restructuring, the Company enhanced its investment capability in aviation industry and promoted the positive interaction between capital and industry.

In 2018, AviChina applied to be the first state-owned enterprise participating in the H share full circulation pilot project, and successfully converted all its domestic shares into tradable H shares. The full circulation of shares attracted more attention from the international market and was beneficial for the Company to fully utilize various financing methods available at the international capital market to support the aviation industry development.

During this year, the Group successfully raised funds for its aviation industry development through various methods such as equity and bond financing, which would be used for investment in aviation products businesses, the industrialization projects of aviation research institutes and military-civilian integration fund for aviation industry. The Company made placement to foreign investors including Airbus Group, successfully raised proceeds of approximately HK$1,367 million, and enhanced the industry investment capabilities of the Company. JONHON Optronic successfully completed the issuance of convertible corporate bonds, and raised proceeds of approximately RMB1.3 billion.

In 2018, the Company commenced to acquire 100% equity interest in AVIC Helicopter Co., Ltd.* (中航直升機有限責任公司) ("**AVIC Helicopter**"). Upon completion of acquisition, the entire helicopter manufacturing business of AviChina will be more complete, further promoting the development of the helicopter business of the Group.

Meanwhile, Hongdu Aviation and Jiangxi Hongdu Aviaiton Industry Group Co., Ltd.*(江西洪都航空工業集團有限責任公司) (**"Hongdu Group"**) signed an intention agreement, and proposed to swap some of its components manufacturing business and assets for the relevant defense products business and assets of Hongdu Group, so as to optimize resource allocation, improve industrial structure, enrich product lines, improve income structure, and enhance the market competitiveness of the Group.

R&D and Production: Keeping up with the Technology Hotspots and Strengthening R&D and Innovation

The aviation industry is a high-end equipment manufacturing industry. The Group has been consistently attaching great importance to technology innovation, enhancing investment in R&D and building its core competitiveness.

In 2018, the total R&D expense of the Group was RMB2,528 million, accounting for 7.19% of the operating revenue. Multiple subsidiaries of the Group were granted scientific research and innovation awards such as the National Technology Invention Award and the Progress Prize in Science and Technology for National Defense. In 2018, the number of the Group's applied patents and granted patents represented an increase of 10% and 11% respectively as compared with that of the previous year. A number of patents won the China Patent Excellence Award.

In addition, the Group kept up with the technology hotspots closely and continuously researched and developed leading products to meet the market demand. JONHON Optronic provided a complete set of optical and electrical connection solutions for 5G commercial services of Korean telecom operators, facilitating the first 5G commercial service in the world. JONHON Optronic also equipped the control system of "Chongqing Liangjiang Star", the first commercial rocket produced by private enterprise in China, with a lot of products, and achieved outstanding results that the total weight was reduced by more than half by applying innovation technology.

In addition, the research, manufacturing and delivery of the Group's products were moving forward steadily. The 7-ton advanced mid-size helicopter AC352 with multiple functions basically met the trial flight requirement of airworthiness provisions. With the convening of the Type Certification Board (TCB) meeting, the 4-ton helicopter AC312E will enter into the trial flight phase of Civil Aviation Administration of China. The 2-ton light civilian helicopter AC311A carried out trial flights in the plateau regions of Qinghai and Ningxia for two months, and continued to explore the performance potential in the plateau regions. The SSVDR navigation data recorder of AVIC Shaanxi Qianshan Avionics Co., Ltd.* (陝西千山航空電子有限責任公司) successfully completed the first navigation test, making an important step forward in the sector of civilian fishing vessels.

Brand Creation: Gaining Access to the Public and Obtaining Customer Loyalty and Recognition

In 2018, the Group made greater efforts on its brand promotion and market exploration in terms of self-construction, market promotion and customer satisfaction improvement, earning market attention and customer recognition.

The Group proactively participated in various airshows and theme events. The Company attended the 51st Farnborough International Airshow with aviation products again, fully showing its new achievements in respect to international market expansion. It undertook the "2018 Open China Aviation Industry International Forum" in Hong Kong, introduced the results achieved by the aviation manufacturing industry of China to the world, enhanced the communication and cooperation with international peers and Hong Kong scientific and technological circles, and formed a community of interest with partners such as Guangdong-Hong Kong-Macao Greater Bay Area.

The Group was also proactive in interacting with shareholders and investors, and the investment value was widely recognized by the capital market. AviChina was awarded the "Golden Bauhinia –Listed Company with Best Investment Value Award" co-hosted by Hong Kong Ta Kung Wen Wei Media Group Limited and other organizations and the "Golden Lion Award –Listed Company with Best Investment Value" by Sina Finance. JONHON Optronic was listed in the "Top 30 Most Trustworthy Listed Companies by Investors" by the CNR.

At the same time, the Group actively participated in various navigation operations and missions with its helicopter products, gaining access to the public to demonstrate its superior performance.

The 2-ton light civilian helicopter AC311 gave full play to its advantages in aviation service industries such as modern transportation and tourism and successfully carried out a series of general aviation missions such as the flame torch transfer of the Jiangxi Provincial Sports Games, the on-site and city air patrol of "Yichun Tourism Development Conference", as well as the low-altitude tour of Wuyuan. The AC311 helicopter also served as an airborne flight verification platform for the low-altitude airspace management and support system of the general aviation in Jiangxi-Zhejiang, and completed the trial flight verification of the flight service support system under complicated weather conditions.

The 13-ton large civilian helicopter AC313 used its advantages in forest fire prevention and emergency rescue, successfully extinguished the forest fires in Inner

Mongolia and Greater Khingan Range. It entered into the southern aviation forest protection market, and practically played the role of "forest guardian". The AC311 helicopter also performed well in aviation emergency rescue, and successfully completed the water comprehensive rescue rehearsal in Boyang Lake and emergency rescue rehearsal of advance relocation for disaster prevention in Leping, Jingdezhen. The AC313 and AC311 helicopters participated in the largest aviation emergency rescue drill in the history of Jiangxi Changhe Aviaition Industry Co., Ltd. *(江西昌河航空工業有限公司)("**Changhe Aviation**") to further verify their comprehensive capabilities in aviation emergency rescue.

The Group won favorable feedbacks from customers by continuously improving product quality and service guarantee measures. JONHON Optronic was awarded the honorary titles of Excellent Supplier and Best Technology Innovation Award by its customers such as Huawei, Zhongxing, Dongfeng Motor and Jianghuai Automobile. Shanghai Aviation Electric Co., Ltd. *(上海航空電器有限公司) and Rockwell Collins jointly won the "Gold Award for Excellent Suppliers of the MA Series Aircraft in 2018". AVIC Planning was awarded "Annual Best Contribution Award for Airport Construction and Design" by the 8th Annual of Airport Construction and Development International Summit (Shanghai).

The market expansion of the Group progressed smoothly. Hongdu Aviation CJ-6 primary trainer obtained the type certificate and production certificate issued by the Civil Aviation Administration, opening up a broad prospect for Hongdu Aviation in the sector of general aviation. Changhe Aviation entered into the AC311 and general aviation support services sales contract with the People's Government of Jingdezhen, and entered into a general aviation project cooperation agreement with Jishui County. AVIC Planning won the bid for the project design and project management missions of Xai-Xai Airport in Mozambique, and the deep research of the urban terminal building of Xiong'an New District, which reflected its leading technology strength in the sectors of terminal buildings and comprehensive transportation hubs.

The Pillars of a Great Power: United in One Purpose and Guaranteed with All Strengths

Multiple subsidiaries of the Group participated in the research and manufacturing of Large Scale Amphibious Aircraft - AG600 and State-produced Large Scale Aircraft - C919 and also the designing and building of Large Scale Continuous Transonic Wind Tunnel.

As suppliers of AG600, multiple subsidiaries of the Group facilitated the successful maiden flight on the water of Kung Long AG600, including, providing the aircraft AG600 with more than 80% of the airborne equipment integrated interconnection solution, and successfully obtaining the airworthiness approval label at one time;

equipping AG600 with fiber-optic attitude system and the ground proximity warning system, equipping products for the cockpit electronic instrumentation system, the engine indication and airborne warning system of AG600, and successfully completing the guarantee work for the maiden flight of AG600 on the water.

The Group equipped multiples of products for the core components and systems for C919 such as its fuselage, electromechanical systems and avionics systems, and maintained good cooperation relationship with Commercial Aircraft Corporation of China, Ltd.*（中國商用飛機有限責任公司)(“**COMAC**”). Multiple subsidiaries of the Group received the Supplier Excellence Award of COMAC. The first LRU (line replaceable unit) level evaluation test for control panel assemblies and dimming control system and the radio frequency sensitivity test for the dimming control power for C919 developed and manufactured by the Group successfully passed the on-site acceptance by Civil Aviation Administration of China. The overall labeling and delivery for the forward fuselage work packages of the C919 project was completed.

By using a number of key technologies, AVIC Planning participated in the design and building of the first large scale continuous transonic wind tunnel in China. The wind tunnel has been put into use currently and has undertaken the first type test mission, and could provide high-quality test data for many sectors such as aviation aerospace, energy, transportation, construction, and environmental protection.

OUTLOOK

In 2019, the growth of the world economy may slow down, instabilities and uncertainties my increase, and accordingly there is a certain downturn pressure on the economy in China. However, we firmly believe that the implementation of expansion of opening-up, supply-side structural reform and economic structural adjustment could promote technology innovation and technology progress, and lay a solid foundation for the sustainable development of economy in China.

The Group will seize the new opportunities brought by opening-up expansion, transformation and upgrade and deepening reform. With an aim to build up a flagship company to provide high-tech aviation products and services universally used for military and civil purposes in China, it will focus on industry development, international merger and acquisition, equity operation, and go forward with its shareholders hand in hand to create a wonderful future together:

1. The Company will further implement the strategy of Military- Civilian Integration and financial - industrial combination to enlarge the revenue scale and carry out multi-dimensional and mutually beneficial cooperation to build an aviation supply chain system with international competitiveness;

2. The Company will proactively carry out "the Belt and Road" initiatives, enhance international cooperation, and strive to complete the establishment and operation of an international merger and acquisition fund of AVIC, so as to boost the construction of "Aerial Silk Road";

3. The Company will proceed with the acquisition of helicopter business and the assets swap of Hongdu Aviation;

4. The Company will deeply carry out the innovation-driven development strategy, concretely improve its high-tech innovation capabilities, and speed up the R&D and production of the innovative products such as unmanned aerial vehicle and light helicopter;

5. The Company will promptly implement the investments projects in relation to military-civilian integration industry development of AVIC so as to promote the military-civilian integration development of the aviation industry;

6. The Company will actively adapt to the development policies of the national general aviation industry and promote the industrialization development of general aviation in places with mature conditions;

7. The Company will exert vigorous efforts in investment and financing, equity operation, value management and capital integration, and keep on expanding the scale of aviation core businesses, optimizing the capital structure, so as to create value for shareholders.

CASH FLOW AND FINANCIAL RESOURCES

1 Liquidity and Capital Resources

As at 31 December 2018, the Group's cash and cash equivalents amounted to RMB12,122 million which was mainly derived from the following sources:

- cash and bank deposits at the beginning of the year;
- funds generated from its operations; and
- funds generated from share placing and issuance of convertible bonds by a subsidiary.

The Group's cash flow for each of the years 2018 and 2017 were as follows:

Unit: RMB million (except for percentage)

Main items of cash flow	2018	2017	Changes (amount)	Changes rate (percentage)
Net cash flows from operating activities	**508**	1,588	(1,080)	-68.01%
cash flows (used in) investing activities	**(1,493)**	(1,843)	350	-18.99%
Net cash flows from financing activities	**2,038**	2,443	(405)	-16.58%

2 Operating, Investing and Financing Activities

Net cash inflows from operating activities of the Group for 2018 amounted to RMB508 million, representing a decrease of net inflows by RMB1,080 million as compared with the net cash inflows of RMB1,588 million in the corresponding period of the preceding year, which was mainly attributable to the increase of receivables and inventory during the reporting period.

Net cash outflows from investing activities of the Group for 2018 amounted to RMB1,493 million, representing a decrease of net outflows by RMB350 million as compared with the net cash outflows of RMB1,843 million in the corresponding period of the preceding year. The main reasons were that fixed assets procured by certain subsidiaries of the Company decreased as compared with that of last year and fixed deposit with terms of over three months decreased according to the investment fund arrangement during the reporting period.

Net cash inflows from financing activities of the Group for the year 2018 amounted to RMB2,038 million, representing a decrease of net inflows by RMB405 million or 16.58% as compared with the net cash inflows of RMB2,443 million in the corresponding period of the preceding year. Net cash inflows from financing activities during the reporting period mainly derived from share placing by the Company and the issuance of convertible bonds by JONHON Optronic, a subsidiary of the Company, and the increase of bank loans of certain subsidiaries of the Company.

As at 31 December 2018, the Group's total borrowings and convertible bonds amounted to RMB13,247 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 RMB5,223 million, RMB3,800 million, RMB1,294 million and RMB2,930 million, respectively.

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

Maturity	*RMB million*
Within one year	3,800
In the second year	418
In the third to fifth year	2,326
After the fifth year	1,480
Total	8,024

As at 31 December 2018, the Group's bank borrowings amounted to RMB3,653 million with a weighted average interest rate of 4% per annum, accounting for 35.41% of the total borrowings. Other borrowings amounted to RMB6,664 million with a weighted average interest rate of 3% per annum, accounting for 64.59% of the total borrowings. The convertible bonds amounted to RMB2,930 million.

As at 31 December 2018, there was no significant balance of borrowings denominated in foreign currencies.

GEARING RATIO

As at 31 December 2018, the Group's gearing ratio was 15.28% (as at 31 December 2017: 15.10%), which was arrived at by dividing the total borrowings and convertible bonds by the total assets as at 31 December 2018.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2018, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2018, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

GUARANTEED AND SECURED LOANS

As at 31 December 2018, the Group's total secured borrowings amounted to RMB405 million, of which RMB65 million was secured by notes receivables and accounts receivables with a net book value of approximately RMB67 million, and RMB340 million was secured by a future receivable right with a cap of RMB512 million.

Borrowings and convertible bonds placed under guarantees amounted to RMB3,373 million, of which RMB1,094 million represented guarantees amongst the members of the Group, RMB241 million represented guarantees provided by fellow subsidiaries, RMB3 million represented guarantees provided by non-connected parties and RMB2,035 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.

USE OF PROCEEDS

Up to 31 December 2018, a total of RMB4,557 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. The remaining balance was deposited in the banks in the PRC as interest-bearing short term deposits.

EMPLOYEES

As at 31 December 2018, the Group had 49,710 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 businesses	**49,676**	**99.93**
Entire aircraft business	*18,834*	*37.89*
Parts and components business	*28,109*	*56.54*
Engineering services business	*2,733*	*5.50*
Other businesses	**34**	**0.07**
Total：	**49,710**	**100**

For the year ended 31 December 2018, the total staff costs of the Group amounted to RMB7,150 million, representing an increase of RMB409 million or 6.07% as compared with those of RMB6,741 million in the corresponding period of the preceding year.

PURCHASE, SALE AND REDEMPTION OF SHARES

Saved as the H share full circulation in June 2018 (for details, please refer to the section headed "Other Significant Events"), neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares for the year ended 31 December 2018.

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

1. On 1 February 2018, the Company entered into the Joint Venture Agreement with AVIC Manufacturing Technology Institute*(中國航空製造技術研究院)（"**AVIC Manufacturing Institute**"）, AVIC Aviation High-Technology Co., Ltd.*(中航航空高科技股份有限公司) ("**AVIC High-Technology**") and Beijing Hangyi Zhongchi Science and Technology Centre (Limited Partnership)*(北京航藝眾持科技中心（有限合夥）) in relation to the establishment of Beijing Hangwei High-Technology Connection Technology Co., Ltd*(北京航為高科連接技術有限公司) ("**Hangwei High-Technology**"). Pursuant to the Joint Venture Agreement, the Company agreed to make a capital contribution of RMB95 million in cash, representing 38% of the total capital contribution of Hangwei High-Technology. At the time of entering into the Joint Venture Agreement, AVIC was the controlling shareholder of the Company and AVIC Manufacturing Institute was a subsidiary of AVIC. AVIC High-Technology was owned as to 42.86% by AVIC, and was therefore a 30%-controlled company of AVIC. Therefore, both AVIC Manufacturing Institute and AVIC High-Technology were connected persons of the Company and the entering into of the Joint Venture Agreement constituted a connected transaction of the Company under Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the **"Hong Kong Listing Rules"**). For details, please refer to the announcement of the Company dated 1 February 2018.

2. On 26 February 2018, the Company, as the principal initiator, entered into the Joint Venture Agreement with AVIC and AVIC Capital Co., Ltd.* (中航資本控股股份有限公司) ("**AVIC Capital**") in relation to the formation of AVIC Rongfu, pursuant to which, the Company agreed to make a capital contribution of RMB70 million in cash, representing 50% of the total capital contribution of AVIC Rongfu. AVIC Rongfu became a subsidiary of the Company and its financial results would be consolidated into those of the Company. At the time of entering into the Joint Venture Agreement, AVIC was the controlling shareholder of the Company and AVIC Capital

was a subsidiary of AVIC. Therefore, both AVIC and AVIC Capital were connected persons of the Company. The entering into of the Joint Venture Agreement constituted a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. On 24 April 2018, AVIC Rongfu completed the industrial and commercial registration and obtained the certificate of business upon related approvals. The final registered name of the AVIC Rongfu as approved by the industrial and commercial administrative organs was AVIC Rongfu Fund Management Limited Company* (中航融富基金管理有限公司). AVIC Rongfu established and managed an AVIC military-civilian integration fund as a general partner, which shall be dedicated in investment in military-civilian integration development projects of aviation industry. For details, please refer to the announcements of the Company dated 26 February 2018 and 25 April 2018.

3. On 15 March 2018, to promote the industrialization for the aviation high-tech achievements of aviation research institutes, the Company entered into the Joint Venture Agreement with Chinese Aeronautical Radio Electronics Research Institute* (中國航空無線電電子研究所)("**Electronics Research Institute**"), AVIC Avionics System Co., Ltd. (中航航空電子系統有限責任公司)("**Avionics Systems**"), Aviclub Holding Co., Ltd.* (愛飛客控股有限責任公司)("**Aviclub Holding**"), Shanghai Advanced Avionics Company Ltd.* (上海埃威航空電子有限公司)("**Advanced Avionics**") and Shanghai Hanggong Enterprise Management Centre (Limited Partnership)* (上海航恭企業管理中心（有限合夥）) in relation to the establishment of AVIC Air Traffic Management System Equipment Co., Ltd.*(中航工業空管系統裝備有限責任公司)("**AVIC ATM System**"), pursuant to which, the Company agreed to make a capital contribution of RMB198 million in cash, representing 33% of the total capital contribution of AVIC ATM System. At the time of entering into the Joint Venture Agreement, AVIC was the controlling shareholder of the Company. Electronics Research Institute was a subsidiary institute of AVIC. Avionics Systems, Aviclub Holding and Advanced Avionics were subsidiaries of AVIC. Therefore, Electronics Research Institute, Avionics Systems, Aviclub Holding and Advanced Avionics were connected persons of the Company. The entering into of the Joint Venture Agreement constituted a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 15 March 2018.

4. On 21 August 2018, the Company entered into the Equity Transfer Agreement with AVIC, pursuant to which, the Company agreed to sell and AVIC agreed to acquire, 53.635% of the equity interest in China Aviation Publishing & Media Co., Ltd.* (中航出版傳媒有限責任公司) ("**CAPMC**"). Immediately upon completion of the transaction, the Company no longer held any equity interest in CAPMC, and CAPMC ceased to be a subsidiary of the Company, and the financial results of CAPMC ceased to be consolidated into the consolidated financial statements of the Company. At the time of entering into the Equity Transfer Agreement, AVIC was the

controlling shareholder of the Company, and therefore was a connected person of the Company. The entering into of the Equity Transfer Agreement between the Company and AVIC constituted a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 21 August 2018.

5. On 12 October 2018, the Company, AVIC and Tianjin Free Trade Zone Investment Company Limited.*(天津保稅區投資有限公司) ("**Tianjin Free Trade Investment**", a wholly-owned subsidiary of the State-owned Asset Management Bureau of Tianjin Port Free Trade Zone) entered into the Equity Transfer Framework Agreement, pursuant to which, AVIC and Tianjin Free Trade Investment proposed to sell an aggregate of 100% of the equity interest in AVIC Helicopter to the Company (the "**Proposed Equity Transfer**"). At the time of entering into the Equity Transfer Framework Agreement, AVIC was the controlling shareholder of the Company. The Proposed Equity Transfer, if proceeded with, would constitute a connected transaction under Chapter 14A and a transaction under Chapter 14 of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 12 October 2018.

6. On 6 November 2018, AviChina Hong Kong Limited*(中航科工香港有限公司) ("**AviChina Hong Kong**") entered into the Subscription Agreement with AVIC Cabin System Co., Limited* (中航客艙系統有限公司)("**AVIC Cabin**") and AVIC Capital International Holding Co., Limited* (中航資本國際控股有限公司) ("**AVIC Capital International**"), pursuant to which, AVIC Cabin conditionally agreed to allot and issue 276,281,994 shares and each of AviChina Hong Kong and AVIC Capital International conditionally agreed to subscribe for 138,140,997 shares of AVIC Cabin for a consideration of RMB500 million in cash, respectively. On the same date, the Company entered into the Equity Transfer Agreement with AVIC Aerospace Life-Support Industries, Ltd. * (航宇救生裝備有限公司)("**AVIC Life-Support**"), AVIC International Development Aero Development Corporation* (中航國際航空發展有限公司)("**AVIC International Development**") and AVIC Cabin, pursuant to which, the Company, AVIC Life Support and AVIC International Development conditionally agreed to transfer all their equity interest in AVIC Hubei Ali-Jiatai Aircraft Equipment Co., Ltd.* (湖北航宇嘉泰飛機設備有限公司)("**Ali-Jiatai**"), representing 24.78%, 54.35% and 10.00% of equity interest, to AVIC Cabin for a consideration of 15,777,395, 34,604,577 and 6,366,987 new shares of AVIC Cabin, respectively. Upon completion of the Subscription Agreement and the Equity Transfer Agreement, AVIC Cabin would not become a subsidiary of the Company, and the financial results of AVIC Cabin would not be consolidated into the consolidated financial statements of the Company. In addition, the Company would no longer hold any direct interest in Ali-Jiatai. At the time of entering into the Subscription Agreement and the Equity Transfer Agreement, AVIC was the controlling shareholder of the Company and each of AVIC Cabin, AVIC Capital International,

AVIC Life-Support and AVIC International Development was a subsidiary of AVIC. AviChina Hong Kong was a wholly-owned subsidiary of the Company. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVIC Cabin, AVIC Capital International, AVIC Life-Support and AVIC International Development was a connected person of the Company, and the entering into of each of the Subscription Agreement and the Equity Transfer Agreement constituted a connected transaction of the Company under the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 6 November 2018.

7. On 14 November 2018, Hongdu Aviation, a non-wholly owned subsidiary of the Company, entered into the Intention Agreement with Hongdu Group. Pursuant to the Intention Agreement, Hongdu Aviation proposed to swap some of its components manufacturing business and assets for the relevant defense products business and assets of Hongdu Group ("**Proposed Asset Swap**"). The Proposed Asset Swap would help Hongdu Aviation optimize resource allocation, improve industrial structure, enrich product lines, increase revenue sources, improve revenue structure, and enhance the market competitiveness and profitability of Hongdu Aviation. At the time of entering into the Intention Agreement, AVIC was the controlling shareholder of the Company. Hongdu Aviation was a subsidiary of the Company and Hongdu Group was a subsidiary of AVIC. The Proposed Asset Swap (if implemented) would constitute a connected transaction of the Company under Chapter 14 and a transaction of the Company under Chapter 14 under the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 14 November 2018.

8. On 28 November 2018, Hongdu Aviation entered into the Equity Transfer Agreement with AVIC, pursuant to which, Hongdu Aviation agreed to sell and AVIC agreed to acquire, 21,100,152 shares of AVIC Zhonghang Electric Measuring Instruments Co., Ltd.* (中航電測儀器股份有限公司) ("**AVIC Electric Measuring**") (representing 3.57% of its issued shares as at the time of entering into the Equity Transfer Agreement) for a consideration of RMB184,837,331.52. Immediately upon completion of the transfer, Hongdu Aviation no longer held any equity interest in AVIC Electric Measuring. At the time of entering into the Equity Transfer Agreement, AVIC was the controlling shareholder of the Company, and therefore was a connected person of the Company. Hongdu Aviation was a non-wholly owned subsidiary of the Company at the time of entering into the Equity Transfer Agreement. The entering into of the Equity Transfer Agreement between Hongdu Aviation and AVIC constituted a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 28 November 2018.

9. On 27 December 2018, Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司) ("**AVIC Kaitian**") entered into the Equity Transfer Agreement with AVIC Airborne Systems Company Limited* (中航機載系統有限公司) ("**AVIC

Airborne Systems"), pursuant to which, AVIC Kaitian agreed to sell and AVIC Airborne Systems agreed to acquire, 26.77% of the equity interest in SAVI Avionics Technology Co., Ltd.* (賽維航電科技有限公司) ("**SAVI Avionics**") for a consideration of RMB127,519,600. Immediately upon completion of the transfer, AVIC Kaitian no longer held any equity interest in SAVI Avionics. At the time of entering into the Equity Transfer Agreement, AVIC Kaitian was a subsidiary of the Company and AVIC was the controlling shareholder of the Company. AVIC Airborne Systems was a wholly-owned subsidiary of AVIC and was therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The entering into of the Equity Transfer Agreement between AVIC Kaitian and AVIC Airborne Systems constituted a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 27 December 2018.

OTHER SIGNIFICANT EVENTS

1 On 9 May 2018, the Company was approved by China Securities Regulatory Commission ("**CSRC**") to participate in the H share full circulation pilot project. The 3,609,687,934 domestic shares of the Company were converted into H shares on 15 June 2018, and were listed on the Hong Kong Stock Exchange on 19 June 2018. For details, please refer to the announcements of the Company dated 9 May 2018, 30 May 2018, 1 June 2018, 11 June 2018 and 15 June 2018 in relation to participation in the H share full circulation pilot project by the Company.

2 On 27 August 2018, JONHON Optronic, a subsidiary of the Company, received "approval for public issuance of convertible corporate bonds by China Aviation Optical-Electrical Technology Co., Ltd." issued by CSRC. JONHON Optronic was allowed to publicly issue convertible corporate bonds with a total nominal value of not more than RMB 1.3 billion. On 8 November 2018, JONHON Optronic completed the issuance of A share convertible corporate bonds with a total amount of RMB 1.3 billion. For details, please refer to the announcement of the Company dated 27 August 2018 and 8 November 2018.

3 On 14 December 2018, the Company entered into the Placing Agreement with China International Capital Corporation Hong Kong Securities Limited (as the placing agent) in relation to the placing, on a fully underwritten basis, of an aggregate of 279,000,000 H shares at the placing price of HK$4.90 per placing share. On 21 December 2018, all conditions precedent to the placing, as set out in the Placing Agreement, had been satisfied (including the obtaining of permission to deal in the placing shares from the Hong Kong Stock Exchange), and the placing was completed on 21 December 2018. The total number of issued shares of the Company has increased from 5,966,121,836 H shares to 6,245,121,836 H shares. For details, please refer to the announcements of the Company dated 14 December 2018 and 21 December 2018.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As the term of all Directors of the fifth session of the Board and all supervisors of the fifth session of the Supervisory Committee expired at the annual general meeting held on 29 June 2018 ("**2017 AGM**"), members of the sixth session of the Board and the sixth session of the Supervisory Committee (with respect to shareholder representative supervisors) were elected at the 2017 AGM. The employee representative supervisor had been elected separately by the employee representative general meeting of the Company. The terms of the Directors of the sixth session of the Board and the supervisors of the sixth session of the Supervisory Committee shall commence from the date on which their proposed appointment to be approved at the 2017 AGM until the date on which the resolution relating to the election of the new session of the Board will be considered at the annual general meeting to be convened in 2021.

Certain members of the fifth session of the Board, namely Mr. Tan Ruisong (non-executive Director), Mr. Li Yao (non-executive Director), Mr. He Zhiping (non-executive Director), Mr. Patrick de Castelbajac (non-executive Director) and Mr. Liu Renhuai (independent non-executive Director), had been nominated as candidates for re-election as Directors of the sixth session of the Board. The remaining members of the fifth session of the Board, namely Mr. Lin Zuoming (executive Director), Mr. Wu Xiandong (non-executive Director), Mr. Lau Chung Man, Louis (independent non-executive Director) and Mr. Yeung Chi Wai (independent non-executive Director) had confirmed that they would not stand for re-election as Directors of the sixth session of the Board after expiry of their respective terms. Mr. Chen Yuanxian, Mr. Wang Xuejun, Mr. Liu Weiwu and Mr. Wang Jianxin had been nominated as the candidates for new members of the sixth session of the Board as executive Director, non-executive Director, independent non-executive Director and independent non-executive Director, respectively.

After the conclusion of the 2017 AGM during which all the resolutions in relation to the re-election and new appointment of Directors were duly passed, and the sixth session of the Board comprises the following members: Mr. Tan Ruisong (executive Director), Mr. Chen Yuanxian (executive Director), Mr. Li Yao (non-executive Director), Mr. Wang Xuejun (non-executive Director), Mr. He Zhiping (non-executive Director), Mr. Patrick de Castelbajac (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) .

At the Board meeting convened following the 2017 AGM, Mr. Tan Ruisong was appointed as the chairman of the sixth session of the Board.

Member of the fifth session of the Supervisory Committee, namely Mr. Zheng Qiang, had been nominated as a candidate for re-election as a shareholder representative supervisor of the sixth session of the Supervisory Committee. Remaining members of the fifth session of the Supervisory Committee, namely, Mr. Liu Fumin and Ms. Li Jing had confirmed that they would not stand for re-election as supervisors of the sixth session of the Supervisory Committee after expiry of their respective terms. Mr. Guo Guangxin had been nominated as a candidate for a shareholder representative supervisor of the sixth session of the Supervisory Committee, and Mr. Shi Shiming had been elected by the employee representative general meeting of the Company as the employee representative supervisor of the sixth session of the Supervisory Committee.

At the 2017 AGM, all the resolutions in relation to the re-election and new appointment of supervisors were duly passed. After the conclusion of the 2017 AGM, the sixth session of the Supervisory Committee comprises the following members: Mr. Zheng Qiang (Shareholder representative supervisor), Mr. Guo Guangxin (shareholder representative supervisor) and Mr. Shi Shiming (employee representative supervisor).

At the Supervisory Committee meeting following the 2017 AGM, Mr. Zheng Qiang was appointed as the chairman of the sixth session of the Supervisory Committee.

In February 2018, due to other work commitment, Mr. Yu Feng applied to the Board for resignation as the deputy general manager of the Company. At the Board meeting convened on 6 February 2018, the Board considered and approved the resolution in relation to the appointment of Mr. Yan Lingxi as the standing deputy general manager of the Company, with the term of office from the date of approval of such resolution to the date on which the Board removes his duty.

In March 2018, due to other work commitment, Mr. Qu Jingwen applied to the Board for resignation as the general manager of the Company. At the Board meeting convened on 16 March 2018, the Board considered and approved the resolution in relation to the appointment of Mr. Chen Yuanxian as the general manager of the Company. The term of office of Mr. Chen started from the date of approval of such resolution to the date on which the Board removes his duty.

In April 2018, due to other work commitments, Mr. Tang Jun applied to the Board for resignation as the deputy general manager of the Company, and Mr. Qu Jingwen applied to the Board for resignation as the chief financial officer of the Company. At the Board meeting held on 3 April 2018, the Board considered and approved the resolution in relation to the appointment of Mr. Tao Guofei as the deputy general manager and chief financial officer of the Company, with the term of office commencing from the date of approval of such resolution to the date on which the Board removes his duty.

FINAL DIVIDEND

The Board recommended the payment of a final dividend for the year 2018 in an aggregate amount of RMB187,353,655.08, representing a dividend of RMB0.03 per share (2017: 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 announcement, 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, 29 May 2019 (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, 24 May 2019 to Wednesday, 29 May 2019 (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, 23 May 2019.

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, 17 May 2019 (the "**2018 AGM**"). Subject to the approval of the Company's shareholders at the 2018 AGM, the aforementioned dividend is expected to be paid by the Company on or before 16 August 2019.

The 2018 AGM will be held on Friday, 17 May 2019. The H share register of members of the Company will be closed from Saturday, 27 April 2019 to Friday, 17 May 2019 (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, 17 May 2019 are entitled to attend and vote at the 2018 AGM. In order to be eligible to attend and vote at the 2018 AGM, holders of the Company's H shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, not later than 4:30 pm on Friday, 26 April 2019.

AUDIT COMMITTEE

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

The audit committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2018.

CORPORATE GOVERNANCE

The Company strictly complied with various applicable laws, rules and regulations as well as the Articles of Association of the Company to standardize its operation. The Board reviewed the corporate governance practices adopted by the Company for the year ended 31 December 2018 and was of the view that the Company had complied with the principles and code provisions set out in the Corporate Governance Code under the Hong Kong Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Hong Kong Listing Rules and the Shares Trading Management Rules of the Company as its own guidelines for securities transactions by Directors, supervisors and relevant employees of the Company. Upon specific enquiries with Directors and supervisors, the Board confirms that all Directors and supervisors of the Company had complied with the Model Code under the Hong Kong Listing Rules for the year ended 31 December 2018.

PROPOSED CHANGE OF DIRECTORS

Due to other work commitment, each of Mr. Tan Ruisong, Mr. Li Yao and Mr. Patrick de Castelbajac has tendered a resignation to the Board to retire as Director and other positions in the special committees under the Board, respectively. The terms of office of Mr. Tan Ruisong, Mr. Li Yao and Mr. Patrick de Castelbajac will not be terminated until the appointment of the candidates for new Directors has been approved at the 2018 AGM.

Each of Mr. Tan Ruisong, Mr. Li Yao and Mr. Patrick de Castelbajac has confirmed to the Company that he has no disagreement with the Board and there are no matters that need to be brought to the attention of the shareholders of the Company in connection with his resignation as the Director.

The Board takes this opportunity to express sincere gratitude for the contributions that Mr. Tan Ruisong, Mr. Li Yao and Mr. Patrick de Castelbajac have made for the Company during their terms of service.

According to the relevant articles in the Articles of Association in relation to the composition of the Board, the Board shall consist of nine Directors. Accordingly, the Company proposed that, three new Directors who would fill their vacancies shall be elected at the 2018 AGM. Mr. Lian Dawei ("**Mr. Lian**"), Mr. Yan Lingxi ("**Mr. Yan**") and Mr. Xu Gang ("**Mr. Xu**") have been nominated as the candidates of non-executive Directors with a term of office commencing from the date on which their proposed appointment to be approved at the 2018 AGM until the date on which the resolution relating to the election of the new session of the Board will be considered at the annual general meeting to be convened in 2021. The salary of Mr. Lian, Mr. Yan and Mr. Xu will be determined by the Remuneration Committee of the Company by reference to their qualifications, experience and the prevailing market conditions, subject to the authorization of the 2018 AGM. As at the date of this announcement, no director service contract has been entered into between each of Mr. Lian, Mr. Yan and Mr. Xu and the Company.

The biographical details of Mr. Lian, Mr. Yan and Mr. Xu are set out as follows:

Mr. Lian Dawei (廉大爲), 56, 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 Planning, etc.. Mr. Lian has been the chairman of the board of AVIC Planning since August 2016.

Mr. Yan Lingxi (閆靈喜), 48, 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 Aviation Industry of China Corporation, respectively. He was appointed as the deputy director and the director of the corporate assets management department of Aviation Industry of China Corporation 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 Aviation Industry of China Corporation, 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 has been the standing deputy general manager of the Company from February 2018 to March 2019.

Mr. Xu Gang (徐崗), 47, 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.

As far as the Directors are aware, save as disclosed above, as at the date of this announcement, each of Mr. Lian, Mr. Yan and Mr. Xu does not hold any directorships in other public listed companies nor did they hold any position with the Company or other members of the Group in the last three years. Save for 267,740 H shares (representing 0.004 % of the issued share capital of the Company as at the date of this announcement) held by Mr. Yan, each of Mr. Lian, Mr. Yan and Mr. Xu does not have any relationship with any Director, supervisor, senior management or substantial or controlling shareholders of the Company, and each of Mr. Lian, Mr. Yan and Mr. Xu has no other any interests or short positions within the meaning of Part XV of the Securities and Futures Ordinance in the shares, underlying shares or debentures of the Company or any of its associated corporations.

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

CHANGE OF CHAIRMAN OF THE BOARD, SENIOR MANAGEMENT AND RE-DESIGNATION OF DIRECTOR

Due to other work commitment, Mr. Tan Ruisong applied to the Board for resignation as the Chairman of the Board. At the Board meeting held on 20 March 2019, Mr. Chen Yuanxian ("**Mr. Chen**") was elected as the chairman of the sixth session of the Board.

Due to other work commitment, Mr. Chen and Mr. Yan applied to the Board for resignation as the general manager and standing deputy general manager of the Company. At the Board meeting held on 20 March 2019, the Board considered and approved the resolution in relation to the appointment of Mr. Wang Xuejun (**"Mr. Wang"**) as the general manager of the Company, with the term of office commencing from the date of approval of such resolution to the date on which the Board removes his duty.

Considering that Mr. Wang will hold an executive position in the Company upon his appointment as the general manager of the Company on 20 March 2019, the Board resolved to re-designate Mr. Wang from a non-executive Director to an executive Director, with effect from the same date. And his term of office remains the same with that of other members of the Board.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

To reflect the actual changes in the share capital of the Company as a result of the H share placing (for details, please refer to the announcements of the Company dated 14 December 2018 and 21 December 2018), the Board proposed to increase the registered capital of the Company and revise Article 19 and Article 22 in the Articles of Association, details of which are as follows (and amendments are showed in track changes):

"Article 19 Upon the approval of the securities regulatory authorities of the State Council, a total number of 1,679,800,500 shares of overseas listed foreign invested shares (including 1,527,090,000 shares issued by the Company, and 152,710,500 existing shares held by State-owned shareholder of the Company sold pursuant to the relevant requirements of the PRC regulations on reduction of State-owned shares), had been issued and sold after the establishment of the Company.

Upon the approval of the securities regulatory authorities of the State Council, the Company issued and sold 305,416,000 shares of overseas listed foreign invested shares on 10 March, 2010, and Aviation Industry Corporation of China sold

29,217,402 existing shares pursuant to the relevant requirements of the PRC regulations on reduction of state-owned shares. The Company issued 183,404,667 domestic shares on 18 January, 2012; the Company issued and allotted 342,000,000 shares of overseas listed foreign invested shares on 2 March, 2012; the Company issued 491,692,669 Domestic Shares in June 2016; 3,609,687,934 domestic shares of the Company were converted into overseas listed foreign invested shares in June 2018; the Company issued and allotted 279,000,000 shares of overseas listed foreign invested shares in December 2018.

The current shareholding structure of the Company is: the total number of issued ordinary shares of the Company amounts to ~~5,966,121,836~~6,245,121,836 shares, ~~of which, 3,297,780,902 shares are held by Aviation Industry Corporation of China, representing 55.28% of the Company's total issued ordinary shares; 183,404,667 shares are held by AVIC Mechanical & Electrical Systems Co., Ltd., representing 3.07% of the Company's total issued ordinary shares; 99,488,927 shares are held by China Huarong Asset Management Corporation, representing 1.66% of the total issued ordinary shares; 14,706,448 shares are held by China Cinda Asset Management Co., Ltd, representing 0.25% of the Company's total issued ordinary shares; 14,306,990 shares are held by China Orient Asset Management Corporation, representing 0.24% of the Company's total issued ordinary shares; 2,356,433,902 shares are held by holders of overseas listed foreign invested shares, representing 39.50% of the Company's total issued ordinary shares~~ all being overseas listed foreign invested shares."

"**Article 22** The registered capital of the Company is RMB~~5,966,121,836~~ 6,245,121,836."

At the same time, due to the demand of business operations of the Company, the Board proposed to revise Article 92 of the Articles of Association of the Company, details of which are as follows:

"**Article 92** The Board shall be accountable to the shareholders' general meeting and exercise the following functions and powers:

1. to convene shareholders' general meetings and to report on its work to the shareholders' general meeting;

2. to implement the resolutions of the shareholders' general meeting;

3. to decide on the business plans and investment plans of the Company;

4. to formulate the annual financial budgets and final accounts of the Company;

5. to formulate the profit distribution plans and plans for making up losses of the

Company;

6. to formulate plans for the increase or reduction of the registered capital of the Company and plans for the issue of bonds;

7. to draft plans for the merger, division or dissolution of the Company;

8. to draft plans for changes in the corporate form of the Company;

9. to engage or dismiss the Company's general manager, and based on the recommendations of the general manager, to engage or dismiss the deputy general manager(s) and the chief financial officer(s) of the Company, decide on their remuneration, authorize the manager to determine investment, financing programs, connected transactions and annual guarantee plans for the Company's subsidiaries, each amount of which shall be within the respective caps as approved by the Board;

10. to formulate the basic management systems of the Company;

11. to formulate proposals for any amendments to the Articles of Association;

12. to decide on the establishment of special committees and the appointment and dismissal of relevant persons in charge;

13. to propose the appointment and change of the Company's accounting firms at the shareholders' general meetings;

14. to consider and decide on matters related to the changes to the proportion of shares ~~of subsidiaries held~~ in PRC listed companies actually controlled by the Company due to the issue of new shares (including new issue, ~~or~~ placement or convertible bonds, etc.) by such listed companies;

15. to consider and decide on the transfer, pledge or creation of rights of any third parties of all or part of shares held in PRC listed companies ~~by subsidiaries~~ actually controlled by the Company;

~~16. to consider and decide on all resolutions to be proposed at the general meetings of PRC listed companies in which subsidiaries have interests and subsidiaries' votes are necessary in accordance with the articles of association of such listed companies;~~

16~~7~~. to draft material acquisition or disposal proposals of the Company (assets acquired or disposed of (including interests) exceeding 20% of the net assets shown in the latest Company's balance sheets considered at the general meeting); and

17~~8~~. to exercise any other powers conferred by the shareholders' general meetings or by the Articles of Association.

Resolutions by the Board on matters referred to in the preceding paragraphs may be passed by the affirmative votes of more than half of the Directors with the exception of resolutions on matters referred to in items 6, 7, and 11 above which shall require the affirmative votes of more than two-thirds of the Directors. The Board shall comply with State laws, administrative regulations, the Articles of Association and shareholders' resolutions to perform duties.

Resolutions by the Board in respect of the matters specified in items 14~~,~~ and 16~~, and 17~~ above, if required to be passed at the shareholders' general meeting pursuant to the relevant requirements of the Hong Kong Stock Exchange, should be proposed and considered at the shareholders' general meeting after being passed."

The proposed amendments to the Articles of Association will be submitted for the consideration and approval of the shareholders by way of a special resolution at the 2018 AGM, at which an authorization will also be sought to authorise any executive Director of the Company to make corresponding revision to the amendments to the Articles of Association according to the opinions of the relevant regulatory authorities. The proposed amendments to the Articles of Association are also subject to the approval, registration and/or filing with the relevant regulatory authorities.

THE ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2018 will be dispatched to the shareholders of the Company and will be published on the websites of The Stock Exchange of Hong Kong and of the Company (http://www.avichina.com) in due course.

By order of the Board
AviChina Industry & Technology Company Limited*
Chen Yuanxian
Chairman

Beijing, 20 March 2019

As at the date of this announcement, the Board comprises executive Directors Mr. Tan Ruisong, Mr. Chen Yuanxian, Mr. Wang Xuejun, non-executive Directors Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac as well as independent non-executive Directors Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin.
**For identification purposes only*