AviChina Industry & Technology Company Limited

中国航空科技工业股份有限公司

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

(Stock Code : 2357)

# Annual Report 2018

# Contents



# Company Profile

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

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

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

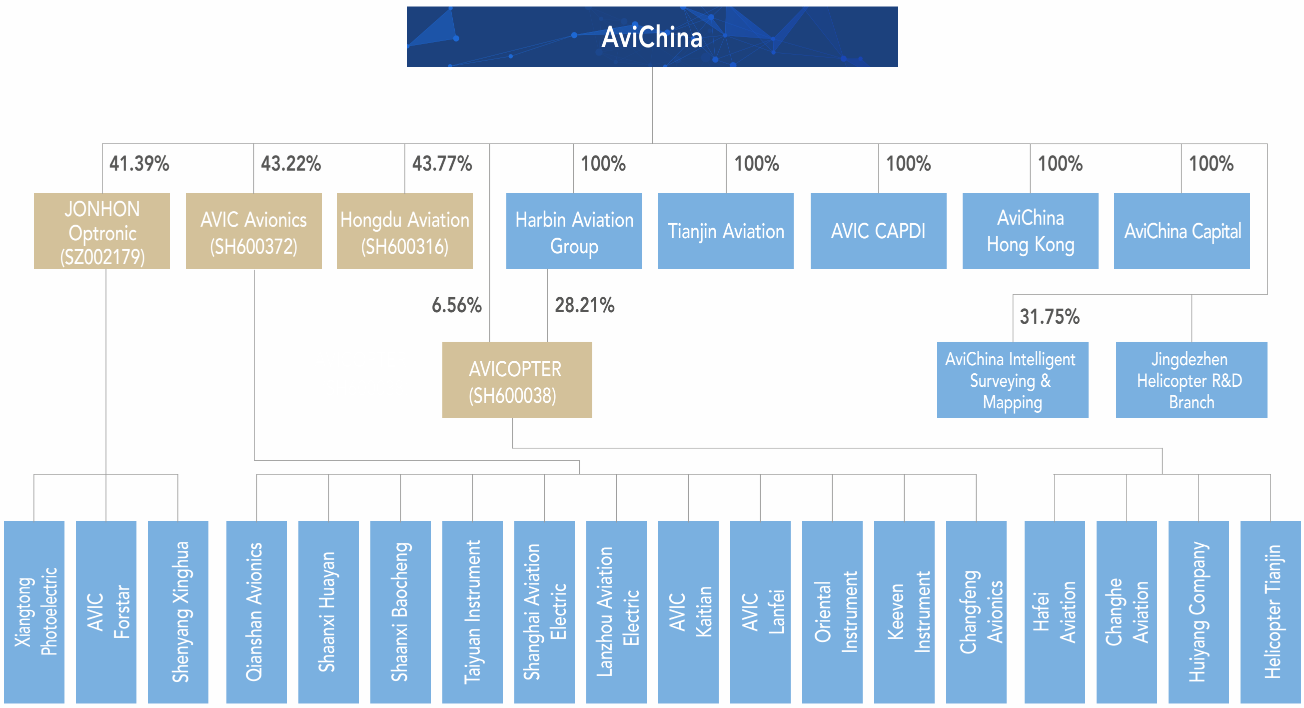
- the co-development and manufacture of aviation products with foreign aviation products manufacturers.

*To download this report:*

## PRINCIPAL PRODUCTS OF THE GROUP

The Z-8, Z-9, Z-11 helicopters series (including AC series); L15, K8 and CJ-6 (PT-6) trainers series; Y-12 multi-purpose aeroplanes series and the N-5 agricultural aeroplanes series; EC-120 helicopters jointly produced by the Group and Airbus Helicopters; CA109 helicopters jointly produced by the Group and Agusta S.p.A; aviation parts and components, avionics products and its accessories; aviation engineering services, such as planning, design and consultation services, etc.

## CORPORATE STRUCTURE OF THE GROUP
(As at 31 December 2018)



# Financial Highlights

## CONSOLIDATED PROFIT AND LOSS

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

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2018** | 2017 | Changes |
| Revenue | **35,153** | 32,597 | 7.84% |
| Profit before income tax | **2,903** | 2,758 | 5.26% |
| Profit attributable to equity holders of the Company | **1,288** | 1,222 | 5.40% |
| Gross profit margin | **22.12%** | 22.84% | -0.72% |
| Earnings per share for profit attributable to equity holders of the Company (RMB) | | | |
| – Basic | **0.215** | 0.205 | 4.88% |
| – Diluted | **0.215** | 0.205 | 4.88% |

## CONSOLIDATED ASSETS AND LIABILITIES

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

| | As at 31 December | | |
|---|---|---|---|
| | **2018** | 2017 | Changes |
| Total assets | **86,720** | 78,933 | 9.87% |
| Total liabilities | **51,748** | 47,773 | 8.32% |
| Non-controlling interests | **18,168** | 16,451 | 10.44% |
| Owner's equity (other than non-controlling interests) | **16,804** | 14,709 | 14.24% |



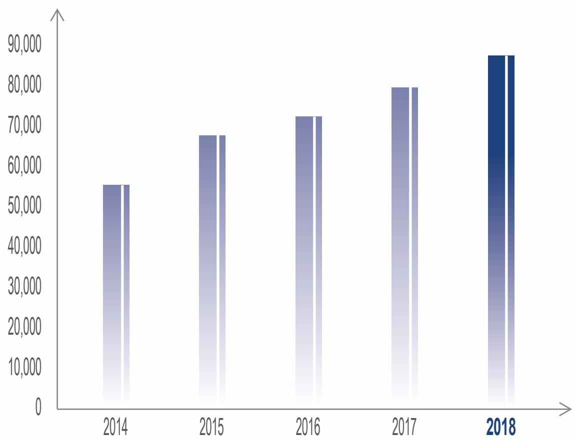
Financial information on the Group's comprehensive business in the recent five years starting from 1 January 2014 is summarized as follows:

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

| | As at 31 December/For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| Total assets | **86,720** | 78,933 | 71,628 | 67,112 | 54,722 |
| Total liabilities | **51,748** | 47,773 | 42,665 | 40,692 | 31,421 |
| Non-controlling interests | **18,168** | 16,451 | 15,161 | 13,760 | 12,486 |
| Owner's equity (other than non-controlling interests) | **16,804** | 14,709 | 13,802 | 12,660 | 10,815 |
| Revenue | **35,153** | 32,597 | 36,834 | 34,424 | 25,710 |
| Profit before income tax | **2,903** | 2,758 | 2,652 | 2,646 | 2,003 |
| Profit attributable to equity holders of the Company | **1,288** | 1,222 | 1,160 | 1,143 | 781 |
| Gross profit margin | **22.12%** | 22.84% | 19.11% | 19.43% | 19.05% |
| Earnings per share for profit attributable to equity holders of the Company (RMB) | | | | | |
| – Basic | **0.215** | 0.205 | 0.194 | 0.192 | 0.143 |
| – Diluted | **0.215** | 0.205 | 0.194 | 0.192 | 0.143 |

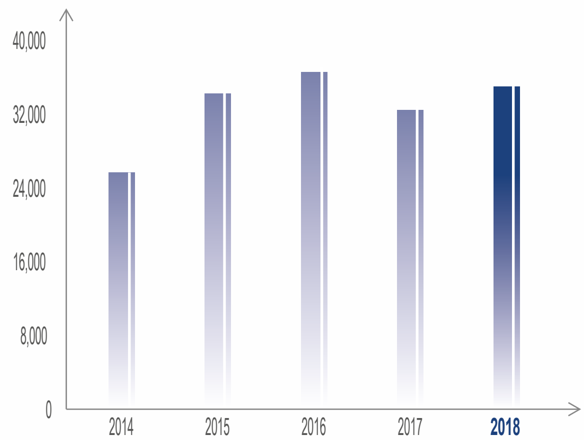
## TOTAL ASSETS

(RMB million)



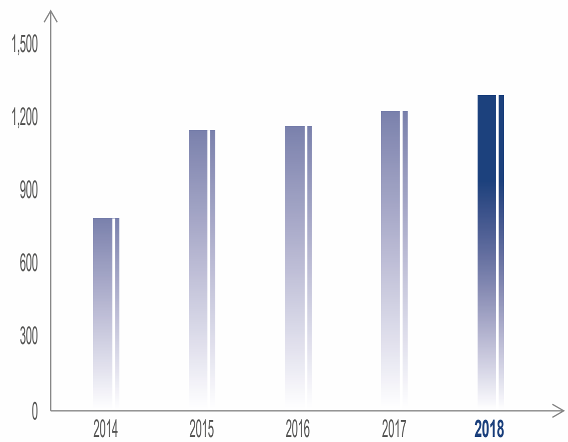

## REVENUE

(RMB million)



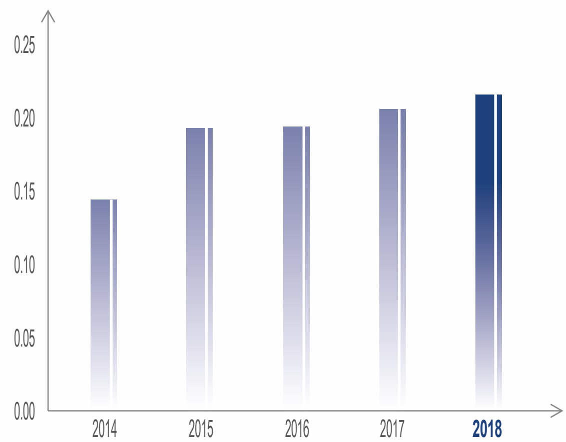

## PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(RMB million)




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

(RMB)



# Chairman's Statement

To all shareholders:

On behalf of the Board of the Company, I am pleased to present the annual results for the year of 2018.

"Sunny spring spreads beneficence and all the living things grow brilliance." The year 2018 marks the 40th anniversary of China's reform and opening up. During the 40-year's long journey of China's reform and opening up, AVIC has achieved a rapid growth and made significant contributions to the economic and social development of China by remaining true to its original aspiration of carrying forward patriotic spirit for aviation industry, practicing the mission of making China a strong aviation country and implementing the government's reform and opening up strategies. Meanwhile, the year 2018 is also the 15th anniversary of the listing of AviChina in Hong Kong. Since its listing, AviChina has continuously advanced the development of the aviation manufacturing industry, endeavored to advance and marched forward, with impressive results achieved in all aspects including the constantly improved industry chain, continually expanded business scope, steady growth in results indicators, and increasingly stronger international influence.

## ANNUAL RUSULTS

For the year ended 31 December 2018, the Group recorded a revenue of RMB35,153 million and the profit attributable to equity holders of the Company amounted to RMB1,288 million, achieving a stable growth in results.

## BUSINESS REVIEW

In 2018, China's economy faced downward pressures given the complexity and challenges in the external environment. In face of such challenges and pressures, as an enterprise operating in China's high-tech strategic industry, AVIC, the controlling shareholder of the Company, has insisted on deepening the reform and made sincere contributions in aviation weapons research and manufacturing, civil aviation industry development, management enhancement, etc.. Impressive results were delivered once again in the aviation weapons research and manufacturing and new breakthroughs were achieved in self-independent innovation and military-civilian integration. AVIC received the congratulations from President Xi Jinping for the completion of the maiden overwater flight of AG600 large scale amphibious aircraft for the purpose of firefighting and water rescue and completed the 100 international deliveries of "Pterosaur (翼龍)" serial unmanned aerial vehicles ("**UAVs**"). Excellent flight show of AVIC series civil and military aircraft at China International Aviation & Aerospace Exhibition in Zhuhai showed the capability and confidence of China aviation defence. It actively practiced the government's innovation-driven strategies and military-civilian integration strategies with the innumerable great achievements in "the Belt and Road" and multidirectional extension of the "Aerial Silk Road". It has been approved as the only military industry group included in the list of pilot enterprises of state-owned capital investment companies.

Against the backdrop of the development of Chinese aviation industry, the Company has been positively driving the development of aviation industry. The Company established AVIC Rongfu as a platform for management of military-civilian integration projects in aviation industry, so as to build a new centered and coordinated mode for the military-civilian integration of the aviation industry. The Company actively optimised its capital structure and was approved to be a pilot company of the H share full circulation project as the first central government-owned listed company, and so completed the conversion of all domestic shares, and successfully completed the H Share placement with enhanced shareholder background and industry investment capabilities. It launched the restructuring project of the acquisition of 100% equity interest of AVIC Helicopter, and initiated for the asset swap of Hongdu Aviation. The research and manufacturing of aviation products advanced in a steady pace and the L15 advanced trainer successfully made equipment with the army. The advanced multi-purpose medium helicopter AC352 was basically airworthy and qualified for trial flight. The Company obtained the approval for the civil aircraft airborne equipment and system research and verification project, participated in the investment in AVIC Cabin and integrated the resources at home and abroad with a view to sharpening its competitive edge in cabin system business. Meanwhile, the Company maintained active communications with investors, striving to enhance its corporate governance and brand awareness. During the year, the Company was awarded the "Golden Bauhinia Award--the Listed Company with the Best Investment Value", "the Award for Excellent Management Team of Listed Company in China for 2018", "the Golden Lion Award--the Listed Company with the Best Investment Value", etc. Moreover, the Company organized the "Open China Aviation Industry International Forum 2018" in Hong Kong and introduced the results achieved by the aviation manufacturing industry of China to the world and attended the Farnborough Airshow again with aviation entire aircraft for civil use, airborne system and components, aviation engineering services and other products, showing its new achievements in respect to international market expansion.

"One will be more knowledgeable as he travels, and will travel farther due to his knowledge so gained." The Board conducted conscientious review on the operation of the Company and realised that more efforts shall be given on the development of civil helicopter market and we shall be more open to international investment and cooperation. We will face bravely, know ourselves correctly and act proactively, transform pressures to driving forces and turn challenges into opportunities, make up shortcomings and overcome difficulties, with an aim to actively boost the healthy and rapid development of the Group.

## OUTLOOK

The year 2019 is the 70th anniversary of the founding of new China, a crucial year to the establishment of a comprehensive well-off society. China's economy will face more risks and challenges. Responding to the government's overall strategic requirements in the new era, AVIC proposed the strategy of "one heart, two integrations, three forces and five methods" for the new era which means keeping faith with the heart of contribution to the aviation industry of China and dedicating to the mission of becoming a strong aviation country; establishing a developing model of military-civilian integration and industrial integration; creating leading innovative spirit, advanced cultural power and remarkable competitiveness; adhering to the methods of intensive operation, precision management, market-oriented reform, systematized development and internationalized win-win.

The Company will be fully aware of our shortcomings, face the difficulties and firmly bear our responsibilities according to the overall development strategies of AVIC. The Company will make full use of the advantages of the parent company as a pilot state-owned capital investment company, optimize capital investment and improve operating efficiency; enhance its capability in aviation products development and system protection in an all-round way and expand defense products business; improve the helicopter industry chain, strengthen the overall competitiveness of civil aviation products, and innovate and expand the general aviation industry; capture the new opportunities brought by technological innovative capacity, implement systematic innovation engineering, promote the development of intelligent manufacturing, industrial-level UAVs and other high-tech industries, and explore new driving forces for development; build up the overseas business development capability to bring new driving forces and strengths for the economic development of China, and continue to prepare for the establishment of international merger fund, actively get integrated into the world aviation industry chain, grow rapidly through opening up and cooperation, and therefore gradually develop into an internationalized aviation industry group; meanwhile, it will enhance the basis for corporate governance, and strengthen risk management capacity to render effective support to its strategies and operations.

In 2019, as guided by the objective of making China a strong aviation country, the Board of the Company will lead the Company to become an industrial investment platform, an equity operation platform as well as a platform for the integration of domestic and foreign resources for high-tech aviation products and services universally used for military and civil purposes. With a hope in our mind, we are powerful. Our staff and I have full confidence for the new year. We will remain true to our heart, dedicate ourselves, and create values to return to the shareholders, striving to become a listed company with the best investment value in the China aviation industry.

## ACKNOWLEDGMENT

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

**Tan Ruisong**
Chairman
Beijing, 20 March 2019

# Management Discussion and Analysis

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

## SUMMARY

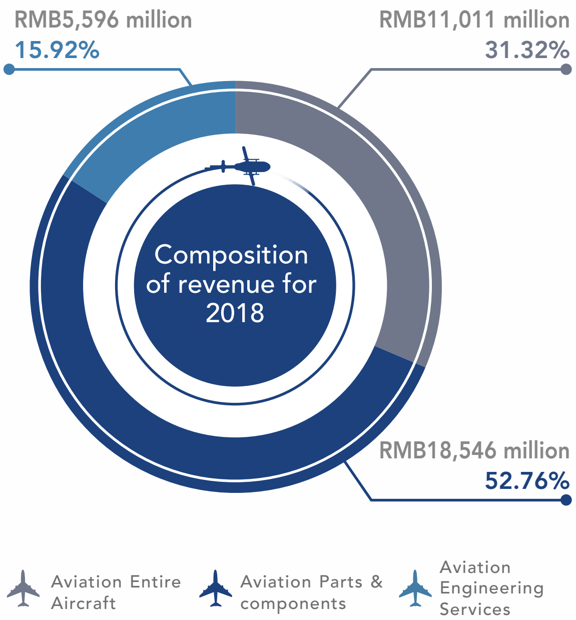
The businesses of the Group were divided into aviation entire aircraft segment, aviation parts and components segment, and aviation engineering services segment. The revenue, gross profit margin and other key financial performance indicators of these segments are analyzed in this report to intuitively demonstrate their operation and development.

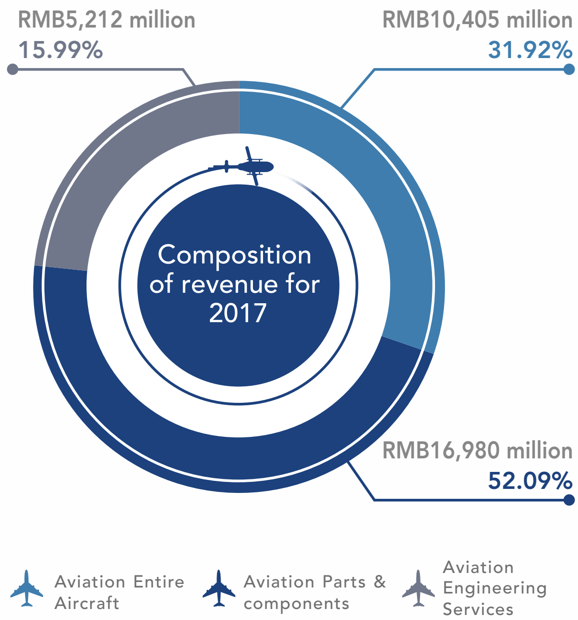
For the year ended 31 December 2018, the Group recorded a revenue of RMB35,153 million, representing an increase of RMB2,556 million or 7.84% as compared with that of RMB32,597 million in the corresponding period of the preceding year. The profit attributable to equity holders of the Company amounted 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 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 AVIC Avionics at the end of last year. Please refer to note 7 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 10 to the financial statements for details.

**7 Profit attributable to equity holders of the Company**

The profit attributable to equity holders of the Company for the year 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.

## 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.

## 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.

## 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% |
| Net 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.

## 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, which initiates the establishment of and manages military-civilian integration industry development fund for aviation industry 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 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 AVIC CAPDI 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 central government-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. 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 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. Several 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 Qianshan Avionics 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 "Open China Aviation Industry International Forum 2018" 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 Changhe Aviaition 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 and Rockwell Collins jointly won the "Gold Award for Excellent Suppliers of the MA Series Aircraft in 2018". AVIC CAPDI 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 CAPDI 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**"). Several 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 CAPDI 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 may 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 UAV 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.

## 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 | 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.

## REMUNERATION OF EMPLOYEES

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

## TRAINING FOR EMPLOYEES

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

In accordance with its development strategy in 2018, in order to facilitate the development of its various businesses, the Group actively established a new training environment, systematically organized its trainings, enhanced the specificity and effectiveness of trainings, expanded domestic and foreign training channels, reconstructed training system and mechanism, improved corresponding management systems and resources allocation mechanism. The international talent training results are obvious. During the year, the Company continuously organized trainings in various aspects such as knowledge for aviation industry, listing rules, accounting standards, compliance management, investment management to related staff of the Group. Through trainings, the employees can learn the latest laws, regulations and work skills in time, continuously enriching and improving themselves, which in turn will enhance the Group's competitiveness so as to adapt to the ever-changing market demand.

# DIRECTORS

## Executive Directors

### Mr. Tan Ruisong (譚瑞松)

*Member of the Development and Strategy Committee and the Nomination Committee*

57, a doctorate degree holder and a researcher level senior engineer. Mr. Tan is also the chairman of the board of AVIC. He graduated from Beijing University of Aeronautics and Astronautics in 1983 with a bachelor degree majoring in manufacture and design of engines, and received his master degree in shipping and ocean engineering and doctorate degree in management science and engineering from Harbin Engineering University in 2002 and 2006, respectively. Mr. Tan commenced his career in aviation industry in July 1983, and used to be deputy chief engineer, deputy general manager and general manager of Harbin Dongan Engine (Group) Co., Ltd., the chairman of the board of Harbin Aviation Industry (Group) Co., Ltd., vice general manager, general manager and chairman of AVIC. Mr. Tan has been a Director of the Company since June 2005, the vice chairman of the Board from June 2006 to June 2018. Mr. Tan served as the general manager of the Company from October 2008 to August 2016. Mr. Tan had been the Chairman of the Board of the Company from June 2018 to March 2019.

### Mr. Chen Yuanxian (陳元先)

*Member of the Development and Strategy Committee and the Nomination Committee*

58, chairman of the Board, a holder of the doctorate degree and researcher. He is the vice general manager of AVIC. Mr. Chen graduated from Nanjing University of Aeronautics and Astronautics with a bachelor degree majoring in man-machine engineering in 1982 and graduated from Beijing University of Aeronautics and Astronautics with a master degree and a doctorate degree majoring in man-machine engineering in 1988 and 1998, respectively. Mr. Chen has commenced his career in the aviation industry since 1982 as a technician, and was promoted as a vice director, deputy chief engineer and chief engineer of China Research Institute of Aero-Accessories* in subsequent years. He has been the director of China Research Institute of Aero-Accessories* since February 2000; director-general of Airborne Equipment Department of AVIC I since February 2003; deputy chief engineer of AVIC I since June 2007; deputy chief economist and director of Strategic Planning Department of AVIC in September 2008. In March 2013, he was appointed as a director and chief economist of AVIC. Mr. Chen was also a director of AVIC Capital from June 2012 to December 2015. Mr. Chen was a non-executive Director of the Company from June 2009 to May 2012. From March 2014 to May 2017, Mr. Chen served successively as the vice general manager and chief financial officer, the general manager and chief financial officer of the Company. Mr. Chen served as the general manager of the Company from March 2018 to March 2019. Mr. Chen has been the executive Director of the Company since June 2018, and the chairman of the Board of the Company since March 2019.

**Mr. Wang Xuejun (王學軍)**

*Member of the Development and Strategy Committee*

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

## Non-executive Director

**Mr. Li Yao (李耀)**

*Member of the Audit Committee and the Remuneration Committee*

53, a researcher level senior accountant. Mr. Li is also the chief accountant of AVIC. Mr. Li graduated from Beijing University of Aeronautics and Astronautics and received master's degree from Tsinghua University. Mr. Li commenced his career in aviation industry since July 1986. He had served as the deputy director of the Financial & Audit Department of AVIC II, the chairman of Jiangxi Changhe Automobile Co., Ltd., the director, the general manager and the chairman of AVIC Assets Management Division, the director of the Planning and Finance Department of AVIC and the deputy chief accountant of AVIC. Mr. Li had been the vice general manager & CFO of the Company from April 2003 to April 2010. Mr. Li has been the non-executive Director of the Company since May 2017.

**Mr. He Zhiping (何志平)**

*Member of the Development and Strategy Committee*

54, a master degree holder. Mr. He studied at the China Textile University (currently known as Donghua University) in Mechanical Engineering in 1979 and graduated with a master degree in engineering in 1986. Since 1987, Mr. He served as the assistant to the general manager of the United Rail Ltd, Shenzhen Branch of China Nonferrous Metals Company* (中國有色金屬深圳聯合公司科力鐵有限公司), the assistant to the general manager and vice general Manager of Hainan SanyaHuaya Enterprise Group Corporation* (海南三亞華亞企業集團公司), a director of China Great Wall Securities, LLC* (長城證券有限責任公司). He is currently the Chairman of the Board of China Wall King Holding Co., Ltd* (中國華建投資控股有限公司). Mr. He also serves social functions such as the vice president of the Revolutionary Area Development Association of Jiangxi Province, executive vice president of Gan General Chamber of Commerce and the Council of Donghua University. Mr. He has been the non-executive Director of the Company since August 2016.

**Mr. Patrick de Castelbajac**

*Member of the Development and Strategy Committee*

48, has a DESS (advanced post-graduate diploma) in Business and Tax Law from the University of Bordeaux, and a DEA (advanced post-graduate diploma) in Comparative Law from the Sorbonne University and Paris II Assas. Mr. Castelbajac successively worked at MBDA and Baker & McKenzie from 1997. He joined Airbus in 2002 and he was successively appointed vice-president of legal affairs for purchasing and intellectual property, vice-president of contract of the commercial division, head of negotiations for the sales of commercial aircraft and deputy contracts director. Mr. Patrick de Castelbajac was appointed as chief executive officer of ATR in June 2014. In December 2016, Mr. Castelbajac came back to Airbus as a member of the executive committee, becoming secretary-general of Airbus Commercial Aircraft and executive vice-president in charge of international and strategic affairs of Airbus Group. Mr. Castelbajac has been the non-executive Director of the Company since May 2017.

## Independent Non-executive Directors

**Mr. Liu Renhuai (劉人懷)**

*Member of Audit Committee, Remuneration Committee and Nomination Committee*

78, an academician of the Chinese Academy of Engineering, graduated from Lanzhou University in 1963. He was elected as academician of the division of mechanical and vehicle technology of Chinese Academy of Engineering in 1999 and one of the first academicians of the division of engineering management of Chinese Academy of Engineering in 2000. He used to work as the president of Jinan University, deputy director of the division of engineering management of Chinese Academy of Engineering, director of the guiding committee on education of mechanics for colleges and universities of the Ministry of Education, director of the management department of the Science & Technology Commission of Ministry of Education, chairman of Chinese Vibration Engineering Society, vice chairman of Chinese Mechanics Society and vice chairman of Chinese Society for Composite Materials from 1995 to 2016. He is currently a professor and a board member of Jinan University, director of the institute of applied mechanics, and director of the research center of strategic management of Jinan University. Mr. Liu served as a non-executive director of Sino-Tech International Holdings Limited (whose shares are listed on the Hong Kong Stock Exchange) from August 2010 to January 2012. He is currently an independent director of Guangdong Hongda Blasting Co., Ltd. (whose A shares are listed on the Shenzhen Stock Exchange) and an independent non-executive director of CSSC Offshore & Marine Engineering (Group) Co., Ltd (a A+H company whose shares are listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange). Mr. Liu Renhuai has been the independent non-executive Director of the Company since June 2014.

**Mr. Liu Weiwu (劉威武)**

*Member of the Remuneration Committee, Audit Committee and Nomination Committee*

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

**Mr. Wang Jianxin (王建新)**

*Member of the Audit Committee, Remuneration Committee and Nomination Committee*

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

## SUPERVISORS

**Mr. Zheng Qiang (鄭強)**

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

**Mr. Guo Guangxin (郭廣新)**

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

**Mr. Shi Shiming (石仕明)**

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

## SENIOR MANAGEMENT

**Mr. Tao Guofei (陶國飛)**

*Deputy General Manager & Chief Financial Officer*

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

**Mr. Gan Liwei (甘立偉)**

*Board Secretary*

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

# Report of the Board

The Board of Directors of AviChina hereby presents its Report of the Board together with the audited financial statements of the Group for the year ended 31 December 2018.

## BUSINESS OF THE GROUP

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

For details of the business and future business development of the Group, please refer to the section headed "Business review and outlook" from page 16 to page 21 of this annual report.

## ENVIRONMENTAL POLICIES

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

During this reporting period, the Company continuously strengthened the management of environmental protection, actively participated in energy saving and emission reduction, and pursued green development. For details, please refer to the section headed "Environmental, Social and Governance Report" on page 71 to page 96 of this annual report.

## RESULTS, DIVIDEND AND DIVIDEND POLICY

The results of the Group for 2018 are set out in the Consolidated Statement of Profit or Loss on page 104 of this annual report.

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 report, subject to adjustment (if any) based on the number of total issued shares as at the Record Date (as defined below).

The final dividend will be paid to those shareholders whose names appear on the Company's register of members at the close of business on Wednesday, 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.

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

1. make up of losses;
2. transfer to statutory common reserve fund;
3. transfer to discretionary common reserve fund;
4. payment of dividends to ordinary shares.

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

## INFORMATION ON TAX DEDUCTION

H shareholders shall be taxed for the dividends distributed by the Company in accordance with the Enterprise Income Tax Law of the PRC, the Individual Income Tax Law of the PRC and other relevant laws, regulations and rules. However, H shareholders may enjoy tax relief in accordance with the provisions of applicable tax treaties entered into by the countries/regions where they belong to by virtue of residential identification and the PRC. For details, please refer to the announcement of the Company dated 13 July 2018.

In addition, pursuant to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui [2014] No. 81) and the Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Program (Cai Shui [2016] No. 127), for domestic individual shareholders who invest in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the dividends. For domestic shareholders whose securities investment funds investing in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the Company will withhold and pay individual income tax at the rate of 20% on their behalf in the distribution of the dividends. As to the withholding tax having been paid abroad, an individual shareholder may file an application for tax credit with the competent tax authority which exercises jurisdiction over China Securities Depository and Clearing Corporation Limited with an effective tax credit document. For domestic enterprise shareholders who invest in H Shares of the Company through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, the Company will not withhold or pay enterprise income tax on their behalf in the distribution of the dividends, and the domestic enterprise shareholders shall report and pay the relevant taxes payable by themselves. Any dividend received in respect of H Shares of the Company which have been continuously held by a domestic resident enterprise shareholder for 12 months shall be exempted from enterprise income tax.

## SHARE CAPITAL

The Company's structure of share capital as at 31 December 2018 was as follows:

| Class of Shares | Number of Shares as at 31 December 2018 | Percentage of total number of Shares in issue as at 31 December 2018 (%) |
|---|---|---|
| Domestic Shares | 0 | 0 |
| Overseas listed foreign invested shares (H Shares) | 6,245,121,836 | 100 |
| **Total** | **6,245,121,836** | **100** |

Note: On 9 May 2018, the Company was approved by CSRC as a pilot company for H share full circulation project, and was allowed to convert and list up to 3,609,687,934 domestic shares into H shares. 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. Immediately upon completion of the H shares full circulation, all the domestic shares of the Company were converted into H shares, and the share capital of the Company was 5,966,121,836 H shares.

On 21 December 2018, the placing for 279,000,000 H shares was completed by the Company, and the total share capital of the Company increased from 5,966,121,836 H shares to 6,245,121,836 H shares.

## FIVE-YEAR FINANCIAL HIGHLIGHTS

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

## SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, pursuant to the register kept under Section 336 of the Securities and Futures Ordinance (the "**SFO**"), shareholders holding 5% or more equity interests in the class shares and underlying shares of the Company were as follows:

| Name of Shareholders | Class of Shares | Capacity | Number of Shares | Approximate percentage to share capital in issue | Nature of Shares held |
|---|---|---|---|---|---|
| AVIC (Note 1) | H Shares | Beneficial owner, Interest in controlled corporation | 3,499,531,569 | 56.04% | Long position |
| Airbus Group (Note 2) | H Shares | Beneficial owner | 312,255,827 | 5.00% | Long position |

Notes:

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

2 European Aeronautic Defence and Space Company – EADS N.V. officially changed its name to Airbus Group on 1 January 2014.

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any interests and short positions in 5% or more of the shares and underlying shares of the Company which had been recorded in the register kept under Section 336 of the SFO.

## PURCHASE, SALE AND REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities for the year ended 31 December 2018.

## PRE-EMPTIVE RIGHTS

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

## DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

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

## FIXED ASSETS

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

## RESERVES

Details of movement in reserves of the Group for the year ended 31 December 2018 are set out in the Consolidated Statement of Changes in Equity and Note 36 to the financial statements.

## DISTRIBUTABLE RETAINED EARNINGS

As at 31 December 2018, the Company had distributable retained earnings of RMB540,768,000.

## MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's total purchases from the five largest suppliers for the aviation business accounted for 14.15% of the Group's total purchases, of which, purchases from the largest supplier accounted for 4.54% of the Group's total purchases. The Group's sales to the five largest customers accounted for 42.64% of the Group's total sales, of which, sales to the largest customer accounted for 22.39% of the Group's total sales.

Purchases from the five largest suppliers in the aviation entire aircraft segment accounted for 32.45% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 10.51% of the total purchases in that segment. Sales to the five largest customers in the aviation entire aircraft segment accounted for 93.07% of the total sales in that segment, of which, sales to the largest customer accounted for 54.87% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation parts and components segment accounted for 9.19% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 2.09% of the total purchase in that segment. Sales to the five largest customers in the aviation parts and components segment accounted for 22.40% of the total sales in that segment, of which, sales to the largest customer accounted for 9.53% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation engineering services segment accounted for 13.40% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 4.03% of the total purchase in that segment. Sales to the five largest customers in the aviation engineering services segment accounted for 22.59% of the total sales in that segment, of which, sales to the largest customer accounted for 8.13% of the total sales in that segment.

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

## SUBSIDIARIES

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

## DIRECTORS

Details of the Directors are set out from pages 23 to 26 of this annual report. Details of changes of the Directors during the year 2018 are set out from pages 44 to 46 of this annual report.

## 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. As at the date 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 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 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. As at the date 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. As at the date 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. As at the date 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**"). As at the date 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 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 has conditionally agreed to allot and issue 276,281,994 shares and each of AviChina Hong Kong and AVIC Capital International has 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. As at the date 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**"). As at the date 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. As at the date 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, AVIC Kaitian entered into the Equity Transfer Agreement with 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. As at the date 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.

## CONNECTED TRANSACTIONS

### Continuing Connected Transactions

For the year ended 31 December 2018, the Group engaged in continuing connected transactions with AVIC, AVIC Avionics and its subsidiaries ("**AVIC Avionics Group**"), AVICOPTER and its subsidiaries ("**AVICOPTER Group**"). AVIC is the controlling shareholder of the Company and therefore is a connected person of the Company. AVIC has direct and indirect equity interest of 34.16% in AVIC Avionics, which is a subsidiary of the Company held as to 43.22% by the Company and is consolidated in the audited accounts of the Company. AVIC Avionics is therefore a connected subsidiary of the Company under the Hong Kong Listing Rules. Similarly, AVIC has indirect equity interest of 26.93% in AVICOPTER, which is a subsidiary of the Company held as to 34.77% by the Company and is consolidated in the audited accounts of the Company. AVICOPTER is therefore a connected subsidiary of the Company under the Hong Kong Listing Rules. The Group also entered into continuing connected transactions with AVIC Finance, which is a subsidiary of AVIC and therefore a connected person of the Company.

*With AVIC*

During the year 2018, the Group carried out the following continuing connected transactions with AVIC Group pursuant to the four continuing connected transaction agreements entered into between the Company and AVIC:

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

2 On 30 August 2017, the Company entered into the mutual provision of services agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group agreed to provide certain services relating to the production and business operations of the Group for a term of three years ending 31 December 2020 and the Group also agreed to provide certain services relating to the production and business operations of AVIC Group including but not limited to engineering technologies, engineering general contracting and equipment general contracting services for a term of three years ending 31 December 2020.

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

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

*With AVIC Avionics and AVICOPTER*

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

*With AVIC Finance*

6 On 30 August 2017, the Company entered into the financial services framework agreement with AVIC Finance, pursuant to which, AVIC Finance agreed to provide the Group with non-exclusive deposit services, loan services, settlement services, guarantee services and other financial services subject to the terms and conditions provided therein for a term of three years ending 31 December 2020.

*Entrusted Loan Framework Agreement*

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

*Financial Service Framework Agreement with AVIC Trust*

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

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

The annual caps of the year 2018 for the continuing connected transactions and the actual transaction amounts incurred by the Group in 2018 are set out below. For the year ended 31 December 2018, such continuing connected transactions of the Group were calculated on a consolidated basis as follows:

| | | 2018 Actual Amount (RMB million) | 2018 Annual Cap (RMB million) |
|---|---|---|---|
| 1 | Mutual Supply of Products Agreement | | |
| | (a) Annual expenditure of the Group | 6,414 | 17,200 |
| | (b) Annual revenue of the Group | 18,900 | 35,000 |
| 2 | Mutual Provision of Services Agreement | | |
| | (a) Annual expenditure of the Group | 202 | 2,400 |
| | (b) Annual revenue of the Group | 2,362 | 9,500 |
| 3 | Land Use Rights and Properties Leasing Agreement | | |
| | (a) Annual expenditure of the Group | 47 | 66 |
| | (b) Annual revenue of the Group | 8 | 27 |
| 4 | Trademarks and Technology Cooperation Framework Agreement | | |
| | (a) Annual expenditure of the Group | 0 | 570 |
| | (b) Annual revenue of the Group | 348 | 360 |
| 5 | Products and Services Mutual Supply and Guarantee Agreement | | |
| | (a) Annual expenditure of the Group | 502 | 1,300 |
| | (b) Annual revenue of the Group | 772 | 2,000 |

| | | 2018 Maximum daily outstanding balance of deposit (RMB million) | 2018 Cap for the maximum daily outstanding balance of deposit (RMB million) |
|---|---|---|---|
| 6 | Financial Services Framework Agreement with AVIC Finance | | |
| | (a) Maximum daily outstanding balance of deposits (including accrued interests) placed by the Group with AVIC Finance | 7,778 | 11,000 |

| | Actual Amount (RMB million) | Annual Cap (RMB million) |
|---|---|---|
| (b) Other financial services provided by AVIC Finance to the Group | 703 | 4,000 |

| | | 2018 | |
|---|---|---|---|
| | | Maximum daily outstanding balance of entrusted loans (RMB million) | Cap for the maximum daily outstanding balance of entrusted loans (RMB million) |
| 7 | **Entrusted Loan Framework Agreement** | | |
| | Maximum daily outstanding balance of entrusted loans of the Group | 50 | 300 |
| 8 | **Financial Service Framework Agreement with AVIC Trust** | | |
| | The maximum daily balance for the financial products to be purchased by the Group | 650 | 800 |

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

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

(a) the transactions were entered into in the ordinary and usual course of business of the Group;

(b) the transactions were either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties;

(c) the transactions were entered into in accordance with the terms under relevant agreements, and the terms hereunder were fair and reasonable and in the interests of the Company and its shareholders as a whole; and

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

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

(a) the transactions were approved by the Board;

(b) the prices for such transactions were determined in accordance with the pricing policies of the Group;

(c) the transactions were entered into in accordance with the relevant agreements governing the transactions; and

(d) the amounts of the transactions did not exceed the respective annual caps as set out above.

According to the Hong Kong Listing Rules, both the above transactions and part of the related party transactions mentioned in note 40 to the financial statements also constituted continuing connected transactions as defined under Chapter 14A of the Hong Kong Listing Rules. Such transactions were in compliance with the disclosure requirements of Chapter 14A of the Hong Kong Listing Rules.

**One-Off Connected Transactions**

1. AviChina Hong Kong entered into the Loan Agreement with AVICT Global Holdings Limited* (航信環球控股有限公司)("**AVICT Global**") and AVICT Dragon Holdings Limited* (航龍控股有限公司) ("**AVICT Dragon Holdings**") on 19 October 2018, pursuant to which, AviChina Hong Kong has agreed to grant the loan with an amount of no more than HK$86 million to AVICT Global for a term of twelve months, and AVICT Dragon Holdings agreed to grant the Debt Transfer Right to AviChina Hong Kong in connection with the loan. As at the date of entering into of the Loan Agreement, AVIC was the controlling shareholder of the Company. Both AVICT Global and AVICT Dragon Holdings were beneficially controlled by AVIC Trust, 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 AVICT Global and AVICT Dragon Holdings was a connected person of the Company. Each of the grant of the Loan by AviChina Hong Kong to AVICT Global and the grant of the Debt Transfer Right by AVICT Dragon Holdings to AviChina Hong Kong constitutes a connected transaction of the Company. For details, please refer to the announcement of the Company dated 19 October 2018.

2. On 7 December 2018, Huiyang Company entered into the Land Use Right Mortgage Agreement with AVIC Helicopter, pursuant to which, Huiyang Company agreed to set the mortgage for the benefit of AVIC Helicopter over the mortgaged properties to create security for the joint liability guarantee provided by AVIC Helicopter in favour of Huiyang Company for the loan. As at the date of entering into of the Land Use Right Mortgage Agreement, Huiyang Company was a non-wholly-owned subsidiary of the Company. AVIC Helicopter was a subsidiary of AVIC, which was the controlling shareholder of the Company. Therefore, AVIC Helicopter was a connected person of the Company. The entering into of the Land Use Right Mortgage 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 7 December 2018.

3. On 12 December 2018, Jinzhou (Baotou) Renewable Energy Co., Ltd.* (金州(包頭)可再生能源有限公司)(“**Jinzhou Renewable Energy**”), AVIC Renewable Energy and AVIC International Leasing Co., Ltd.* (中航國際租賃有限公司)(“**AVIC Leasing**”) entered into a series of agreements in relation to the sale and leaseback transaction. Such agreements include (i) the Transfer Agreement between Jinzhou Renewable Energy and AVIC Leasing, pursuant to which, Jinzhou Renewable Energy agreed to sell the assets to AVIC Leasing at a consideration of RMB200 million; (ii) the Leaseback Agreement between Jinzhou Renewable Energy and AVIC Leasing, pursuant to which, AVIC Leasing agreed to leaseback the assets to Jinzhou Renewable Energy during the lease period and upon expiry of the lease period and subject to full performance of its obligations by Jinzhou Renewable Energy under the Leaseback Agreement, AVIC Leasing shall transfer the title of the assets to Jinzhou Renewable Energy at a nominal price of RMB100; (iii) the Consulting Service Agreement between Jinzhou Renewable Energy and AVIC Leasing in connection with the provision of consulting services by AVIC Leasing for the sale and leaseback transaction at a consideration of RMB10 million; and (iv) three Security Agreements in favor of Jinzhou Renewable Energy for its performance under the Transfer Agreement, the Leaseback Agreement and the Consulting Service Agreement. As at the date of entering into the agreements in relation to the sale and leaseback transaction, Jinzhou Renewable Energy was a wholly-owned subsidiary of AVIC Renewable Energy and AVIC Renewable Energy was a non – wholly-owned subsidiary of the Company. AVIC Leasing was a subsidiary of AVIC, which was the controlling shareholder of the Company. Therefore, AVIC Leasing was a connected person of the Company. The sale and leaseback transaction constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 12 December 2018.

For other one-off connected transactions of the Group, please refer to paragraphs 1, 2, 3, 4, 6, 8 and 9 under the subsection headed “Material Acquisitions and Disposal of Subsidiaries and Associated Companies During the Reporting Period” of this session from page 34 to page 37.

## SIGNIFICANT EVENTS DURING THE REPORTING YEAR

1 On 9 May 2018, the Company was approved by 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 AVIC JONHON Optronic Technology Co., Ltd.” issued by CSRC. JONHON Optronic was allowed to publicly issue convertible corporate bonds with a total nominal value of RMB1.3 billion. On 8 November 2018, JONHON Optronic completed the issuance of A share convertible corporate bonds with a total amount of RMB1.3 billion. For details, please refer to the announcements 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. The net proceeds of the placing of the placing shares was approximately HK$1,346 million. Up to 31 December 2018, the Company has not used any net proceeds from the placing. The Company would use the proceeds from the placing of the placing shares for investment in aviation businesses, the industrialization projects of aviation research institutes and military-civilian fund for aviation industry, the funding of acquisitions of aviation equity interest or aviation assets in accordance with the Company's development strategy and for general corporate purposes as previously disclosed by the Company in due course depending on the business demands of the Company. For details, please refer to the announcements of the Company dated 14 December 2018 and 21 December 2018.

## CORPORATE GOVERNANCE

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

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Board, throughout the year ended 31 December 2018 and up to the date of this report, the Company maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Hong Kong Listing Rules.

## AUDITORS

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

The financial statements for the year 2018 have been audited by SHINEWING (HK) CPA Limited.

## 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. 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 was elected 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.

In March 2019, due to other work commitment, Mr. Chen Yuanxian and Mr. Yan Lingxi applied to the Board for resignation as the general manager and standing deputy general manager of the Company. 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 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 Xuejun 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 Xuejun 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.

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

## DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN BUSINESSES WHICH CONSTITUTE COMPETITION WITH THE COMPANY

As at 31 December 2018, none of the Directors or Supervisors or senior management had any interest in any businesses which may constitute competition, directly or indirectly, with the Company.

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

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

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

Save as disclosed in this annual report, during or at the end of the reporting year, none of the Directors or Supervisors or an entity connected with them had any material interest, directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group, in which the Company, subsidiaries of the Company, its holding company or subsidiary of the Group was a party.

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

As at 31 December 2018, save as disclosed below, none of the Directors, Supervisors or Chief Executive of the Company had interests or held short positions in the shares, underlying shares and/or debentures of the Company and/or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers".

| Name | Class of Shares | Capacity | Number of Shares | Approximate percentage of shareholdings to share capital in issue | Nature of Shares held |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Tan Ruisong | H Share | Beneficial owner | 563,811 | 0.009% | Long position |
| Chen Yuanxian (Chief executive) | H Share | Beneficial owner | 255,687 | 0.004% | Long position |
| Li Yao | H Share | Beneficial owner | 174,910 | 0.003% | Long position |
| **Supervisors** | | | | | |
| Zheng Qiang | H Share | Beneficial owner | 239,687 | 0.004% | Long position |
| | | Interest of spouse | 71,000 | 0.001% | Long position |
| Shi Shiming | H Share | Beneficial owner | 35,984 | 0.0006% | Long position |

Note: Based on the relevant disclosure of interests filed on the website of the Hong Kong Stock Exchange, as at 31 December 2018, Mr. Li Yao held 10,000 A shares in AVIC Capital (listed on Shanghai Stock Exchange with the Stock code: 600705), representing approximately 0.0001% of the total issued share capital of AVIC Capital. Mr. Zheng Qiang and his spouse jointly held 126,400 A shares in AVIC Capital, representing approximately 0.0014% of the total issued share capital of AVIC Capital. AVIC Capital is a subsidiary of AVIC, and therefore it is an associated corporation (within the meaning of Part XV of the SFO) of the Company.

## REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

## RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2018, none of the Directors or Supervisors was entitled to acquiring shares or debentures of the Company or its associated corporations (within the meaning of the SFO).

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existing during the year of 2018.

## COMPLIANCE WITH LAWS AND REGULATIONS

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

The Group has implemented internal control measures to ensure its compliance with such laws and regulations. During the year ended 31 December 2018, within the knowledge of the Directors, the Group does not have any violation of relevant laws and regulations in the PRC which gives rise to significant impact to the Group's development, performance and business.

## RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

## PRINCIPAL RISKS AND UNCERTAINTIES

For details of the financial risks of the Group, please refer to note 44 to the financial statements in this annual report. For details of the exchange rate risks of the Group, please refer to the section headed "Management Discussion and Analysis" in this annual report. Save as disclosed above, a number of other factors, including international policies, domestic and overseas economic conditions, may affect the result and business operations of the Group.

## PERMITTED INDEMNITY PROVISION

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

## SUBSEQUENT EVENTS

AviChina Hong Kong entered into the Loan Agreement with AVICT Global and AVICT Dragon Holdings on 30 January 2019, pursuant to which, AviChina Hong Kong has agreed to grant the loan with an amount of not more than HK$260 million to AVICT Global for a term of twelve months, and AVICT Dragon Holdings has agreed to grant the debt transfer right to AviChina Hong Kong in connection with the loan. As at the date of entering into of the Loan Agreement, AVIC is the controlling shareholder of the Company. Both AVICT Global and AVICT Dragon Holdings are beneficially controlled by AVIC Trust, a subsidiary of AVIC. AviChina Hong Kong is a wholly-owned subsidiary of the Company. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVICT Global and AVICT Dragon Holdings is a connected person of the Company. Each of the grant of the loan by AviChina Hong Kong to AVICT Global and the grant of the debt transfer right by AVICT Dragon Holdings to AviChina Hong Kong constitutes a connected transaction of the Company. For details, please refer to the announcement of the Company dated 30 January 2019.

# Report of the Supervisory Committee

To all shareholders,

During the year of 2018, the Supervisory Committee strictly complied with the Company Law of the PRC, the Articles of Association and the Procedural Rules for Meetings of the Supervisory Committee and duly adhered to the principles of honesty and integrity in performing the supervisory duties and exercising the rights conferred on it by the Articles of Association, and also in good faith safeguarded the shareholders' interests in a diligent, pragmatic and serious manner.

In 2018, the Supervisory Committee convened three meetings, at which ten resolutions were considered and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2017 annual report, 2018 interim report, the profits distribution plans for 2017 and the first six months of 2018, and annual financial budget plans of the Company for 2018. The Supervisory Committee also attended the Board meetings and the general meetings held in 2018 to monitor the validity of procedures for the convening of and resolutions of the Board meetings and general meetings. Through convening Supervisory Committee meetings and attending Board meetings and general meetings, the Supervisory Committee performed its duties of supervising the major operating activities of the Company, as well as the performance of Directors and senior management officers in discharging their duties, and made suggestions to the Board.

The Supervisors attended the meetings of the Audit Committee for the year 2018, acquired knowledge of the implementation and progress of concerns of the Audit Committee, and communicated with the independent non-executive Directors and auditors in respect of the Company's major operating matters to understand the operation and financial conditions of the Company.

The Supervisory Committee had reviewed the Report of the Board which the Board submitted to the general meeting, and considered that the report had fairly reflected the current position of the Company. In 2018, the Board and the senior management of the Company had duly performed various duties and made their best endeavors to make important contributions to the development of the Company.

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

The Supervisory Committee is fully confident in the prospect of the Company. In 2019, according to the work plan for the year, the Supervisory Committee will enhance its supervision over the Company's compliant operation and its construction of the risk control system, establish communication mechanism with intermediary institutions, and keep concern on the implementation of the resolutions of the Board. The Supervisory Committee will continue to strictly perform its duties in accordance with the Articles of Association and the relevant requirements, to strengthen the self-construction of the Supervisory Committee, to improve the supervision level, and to safeguard shareholders' interests.

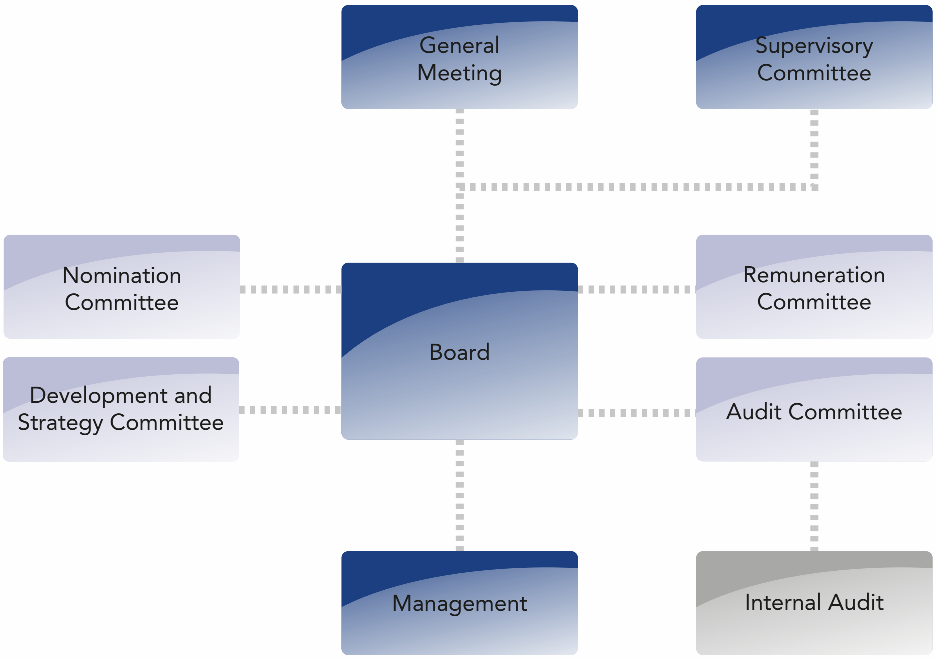
*Chairman of the Supervisory Committee*
**Zheng Qiang**

Beijing, 20 March 2019

# Corporate Governance Report

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

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




## BUSINESS MODEL AND LONG TERM STRATEGY

The Company mainly operates through its subsidiaries. The Company will give full play to its advantages, actively develop aviation business and perfect the aviation industry chain. The details of the business and financial review of the Group for the year 2018 are set out in the section headed "Management Discussion and Analysis" of this annual report.

## CORPORATE GOVERNANCE POLICY

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

– Corporate governance and related suggestions: In light of moderate growth of global economy and complex and sensitive international political situation in 2018, the Company discussed risks and risk management at Board meetings and the meetings of the relevant specialized committees. The Board conducted continuous assessment on potential influence of ever-changing external environment and amendments to national laws and regulations and regulatory rules on the business of the Company.

– Improvement of the capacity of Directors and senior management: The Company provided training for the newly appointed Directors, and from time to time provided information in relation to the supervision and the operations of the Company to the Directors to equip them with knowledge of the industry and the Group, and to facilitate the decision-making process of the Board and the specialized committees. During the reporting period, the Company arranged workshops in Hong Kong for Supervisors and senior management of the Company to study and discuss a series of topics such as macro-economy situation, national strategy, corporate governance for H share companies. The Company also arranged for a series of forums on the hot topics and important issues relating to the aviation business of the Company.

– Compliance with laws and regulations: During this year, to emphasize the importance of compliance with the PRC laws and regulations, the Company revised certain articles of the Articles of Association; meanwhile, the Company continued to revise and improve the rules and regulations of the Company according to the business model of the Company and the new requirements of laws and regulations to assure the Company's operation in compliance with rules and regulations. In respect of risk management and internal control, the Company worked on seeking and establishing a risk management and internal control system fitting for the business development and operation model of the Company, and continued to review and appraise the underlying risks which may affect the realization of the Company's operation goals, so as to comprehensively improve the Company's risk management and internal control level.

– Corporate governance report: The Board reviewed the corporate governance report contained in this annual report before the publication of this annual report and was of the view that the corporate governance report was in compliance with the relevant requirements of the Hong Kong Listing Rules.

## CORPORATE GOVERNANCE CODE

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

## THE BOARD

The Company is managed by the Board. The Board is responsible for leading and monitoring the Company and are collectively responsible for the overall management and supervision of the Company's affairs.

## DIRECTORS

As at the date of this report, the Board comprises nine Directors, including three executive Directors, namely, Mr. Tan Ruisong, Mr. Chen Yuanxian (chairman) and Mr. Wang Xuejun (general manager), three non-executive Directors, namely, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac, and three independent non-executive Directors, namely, Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin. The Directors have comprehensive industrial skills, knowledge and experience. With extensive professional knowledge and experience, the independent non-executive Directors have assumed the supervisory and balancing roles and they are capable to make judgments independently and objectively in order to protect the interests of the Company and its shareholders as a whole, which complies with the guidelines on the independence of independent non-executive Directors as set out in Rule 3.13 of the Hong Kong Listing Rules. In addition, the Company had received a written confirmation from each independent non-executive Director on their independence. Based on such confirmation and the relevant information available to the Board, the Company believes that each independent non-executive Director remains independent.

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

Each Director (including any non-executive Director) holds office for a period of three years, and is eligible for re-election upon expiration of the term of office. A list of Directors, their respective profiles and roles in the Board and specialized committees under the Board are set out on pages 23 to 26 of this annual report. Relevant information is also published on the website of the Company. There is no relationship (including financial, business, family or other material or relevant relationships) among members of the Board.

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

## RESPONSIBILITIES OF THE BOARD

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

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

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

## RESPONSIBILITIES OF THE MANAGEMENT

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

## CHAIRMAN AND GENERAL MANAGER

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

## DIRECTORS TRAINING

Every newly appointed Director will receive relevant training based on his experience and background so as to deepen his understanding of the culture and operation of the Group. The training generally consists of introduction for organization, businesses and governance practice of the Group. During the reporting period, the newly appointed executive Director Mr. Chen Yuanxian, non-executive Director Mr. Wang Xuejun, and independent non-executive Directors Mr. Liu Weiwu and Mr. Wang Jianxin had received training upon their respective appointment into the Board of the Company, and obtained materials and professional advices required for Directors' duty performance provided by the Company from time to time.

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

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

In addition, the Directors also proactively studied and learnt knowledge on corporate governance through reading relevant materials in order to consolidate their development in their respective specialties. The Directors of the Company also attended lectures on governing the company according to the strategy of "Rule of Law", the military-civilian integration development strategy, entrepreneurial spirit, etc. The trainings received by each Director during the reporting period were as follows:

| | Training Scope | | |
|---|---|---|---|
| Directors | Corporate Governance | Laws and Regulations | Business Management |
| **Executive Directors** | | | |
| Mr. Tan Ruisong | √ | √ | √ |
| Mr. Chen Yuanxian | √ | √ | √ |
| **Non-executive Directors** | | | |
| Mr. Li Yao | √ | √ | √ |
| Mr. Wang Xuejun* | √ | √ | √ |
| Mr. He Zhiping | √ | √ | √ |
| Mr. Patrick de Castelbajac | √ | √ | √ |
| **Independent Non-executive Directors** | | | |
| Mr. Liu Renhuai | √ | √ | √ |
| Mr. Liu Weiwu | √ | √ | √ |
| Mr. Wang Jianxin | √ | √ | √ |

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

## BOARD MEETINGS

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

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

The management has also provided the Directors and specialized committee members with appropriate and adequate information on a timely manner. This ensures that the Directors and specialized committee members are well-informed of the Company's latest development so as to facilitate discharging their duties.

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

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

The Board has established a Development and Strategy Committee, an Audit Committee, a Remuneration Committee and a Nomination Committee to ensure good corporate governance. Duties of these committees are set out in accordance with the principles of the Corporate Governance Code. Each committee reports directly to the Board. Minutes of committee meetings are kept by the company secretary. In 2018, the Company convened two meetings of the Audit Committee, one meeting of the Remuneration Committee and four meetings of the Nomination Committee. The terms of reference of the Audit committee, the Remuneration Committee and the Nomination Committee are published on the websites of the Company and the Hong Kong Stock Exchange.

Eleven meetings were held by the Board during 2018. The attendance record of every Director at the Board meetings in 2018 is set out below:

| Directors | Times of meeting should attend | Times of attendance | Times of attendance by proxy |
|---|---|---|---|
| **Executive Directors** | | | |
| Mr. Tan Ruisong | 11 | 11 | 0 |
| Mr. Chen Yuanxian* | 6 | 6 | 0 |
| Mr. Lin Zuoming* | 5 | 4 | 1 |
| **Non-executive Directors** | | | |
| Mr. Li Yao | 11 | 11 | 0 |
| Mr. Wang Xuejun** | 6 | 6 | 0 |
| Mr. He Zhiping | 11 | 11 | 0 |
| Mr. Patrick de Castelbajac | 11 | 8 | 3 |
| Mr. Wu Xiandong* | 5 | 5 | 0 |
| **Independent Non-executive Directors** | | | |
| Mr. Liu Renhuai | 11 | 9 | 2 |
| Mr. Liu Weiwu* | 6 | 5 | 1 |
| Mr. Wang Jianxin* | 6 | 6 | 0 |
| Mr. Lau Chung Man, Louis* | 5 | 4 | 1 |
| Mr. Yeung Chi Wai* | 5 | 5 | 0 |

* At the 2017 AGM, Mr. Chen Yuanxian was appointed as the new executive Director of the Company, and Mr. Lin Zuoming ceased to be the executive Director of the Company; Mr. Wang Xuejun was appointed as the new non-executive Director of the Company, and Mr. Wu Xiandong ceased to be the non-executive Director of the Company; Mr. Liu Weiwu and Mr. Wang Jianxin were appointed as the new independent non-executive Directors of the Company, and Mr. Lau Chung Man, Louis and Mr. Yeung Chi Wai ceased to be independent non-executive Directors of the Company.

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

In 2018, Directors who did not attend the Board meeting in person due to other business commitments all read the related meeting materials and appointed other Directors as proxy to present their opinions and exercise their voting rights on their behalf at the meeting.

## DEVELOPMENT AND STRATEGY COMMITTEE

As at the date of the report, the Development and Strategy Committee of the Company comprises the Directors, namely Mr. Tan Ruisong, Mr. Chen Yuanxian, Mr. Wang Xuejun, Mr. He Zhiping and Mr. Patrick de Castelbajac. Mr. Tan Ruisong is the chairman of the Development and Strategy Committee.

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

Members of the Development and Strategy Committee communicated with each other from time to time in 2018 on matters relating to the committee's development, the Company's future development strategies and international cooperation. No formal meeting was held by the committee during the reporting period.

## REMUNERATION COMMITTEE

As at the date of the report, the Remuneration Committee of the Company comprises the Directors, namely Mr. Liu Weiwu, Mr. Li Yao, Mr. Liu Renhuai and Mr. Wang Jianxin. Mr. Liu Weiwu is the chairman of the Remuneration Committee.

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

The Remuneration Committee is responsible for approving the emolument policies of the Directors, Supervisors and senior management staff and proposing to the Board amendments to the emolument policies and system. The Remuneration Committee will take into consideration factors such as work performance and experience of Directors and Supervisors when determining their remunerations and will report to the Board after each meeting. For the year ended 31 December 2018, the Remuneration Committee held one meeting to consider and approve the resolutions relating to the remuneration standard of Directors of the sixth session of the Board, Supervisors of the sixth session of the supervisory committee and the new session of senior management.

For the year ended 31 December 2018, remunerations of senior management members by band are set out as follows:

| Remuneration Band | Number |
|---|---|
| RMB450,000-600,000 (inclusive) | 2 |
| RMB600,000-700,000 | 2 |

Details of remunerations of Directors and Supervisors for the year ended 31 December 2018 are set out in Note 8 to the financial statements.

During the reporting period, the Remuneration Committee held one meeting and the attendance record of the meeting by members of the Remuneration Committee is as follows:

| Name of Director | Position | Times of meetings should attend | Times of attendance | Times of attendance by Proxy |
|---|---|---|---|---|
| Mr. Liu Weiwu* | Chairman of the Remuneration Committee, independent non-executive Director | 1 | 1 | 0 |
| Mr. Li Yao* | Non-executive Director | 1 | 1 | 0 |
| Mr. Liu Renhuai | Independent non-executive Director | 1 | 1 | 0 |
| Mr. Wang Jianxin* | Independent non-executive Director | 1 | 1 | 0 |
| Mr. Wu Xiandong* | Non-executive Director | 0 | 0 | 0 |
| Mr. He Zhiping* | Non-executive Director | 0 | 0 | 0 |
| Mr. Yeung Chi Wai* | Independent non-executive Director | 0 | 0 | 0 |
| Mr. Lau Chung Man, Louis* | Independent non-executive Director | 0 | 0 | 0 |

* On 29 June 2018, Mr. Liu Weiwu was appointed as the new independent non-executive Director of the Company and the Chairman of the Remuneration Committee; Mr. Li Yao was appointed as the member of the Remuneration Committee; Mr. Wang Jianxin was appointed as the new independent non-executive Director of the Company and the member of the Remuneration Committee; Mr. Wu Xiandong, Mr. He Zhiping, Mr. Yeung Chi Wai and Mr. Lau Chung Man, Louis ceased to be the members of the Remuneration Committee.

## AUDIT COMMITTEE

As at the date of the report, the Audit Committee of the Company comprises the Directors, namely Mr. Wang Jianxin, Mr. Li Yao, Mr. Liu Renhuai and Mr. Liu Weiwu. Mr. Wang Jianxin is the chairman of the Audit Committee.

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

The Audit Committee is responsible for monitoring the financial operation and audit procedures of the Company, assessing effectiveness of the internal control and risk management systems of the Company, performing its internal audit function, reviewing and supervising the performance of the corporate governance responsibilities of the Company as well as performing other duties and responsibilities assigned by the Board, and maintaining effective communication with the management, internal audit institution and external auditors of the Company.

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

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

During 2018, the Audit Committee:

– reviewed the financial statements and the annual results announcement for the year ended 31 December 2017;

– reviewed the interim financial statements and relevant interim results announcement for the six months ended 30 June 2018;

– reviewed the Company's profit distribution plan for the year 2017 and the interim profit distribution plan for the year 2018;

– reviewed the proposal relating to the appointment of international and domestic auditors of the Company for the year 2018 and determination of their respective remunerations;

– reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2018, and regarded the systems being effective and sufficient;

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

– reviewed the reports on operating results of the Company for the year 2017 and the first half of 2018, the internal control report of the Company for the year 2017, and listened to the report from the external auditors on its audit work in relation to the year 2017 and on its review of 2018 interim report as well as its recommendations to the management of the Company.

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

The Audit Committee held two meetings during 2018. The Audit Committee reviewed and evaluated the findings of the Auditor's Report issued by the external auditors, the accounting principles and standards applied by the Group and the risk management, internal control and the financial statements of the Company. The Audit Committee reported to the Board its scope of work, discussion results and recommendations after every meeting. The attendance record of the members of the committee is set out as follows:

| Name of Director | Position | Times of meetings should attend | Times of attendance | Times of attendance by alternate director |
|---|---|---|---|---|
| Mr. Wang Jianxin* | Chairman of the Audit Committee, independent non-executive Director | 1 | 1 | 0 |
| Mr. Li Yao | Non-executive Director | 2 | 2 | 0 |
| Mr. Liu Renhuai | Independent non-executive Director | 2 | 1 | 1 |
| Mr. Liu Weiwu* | Independent non-executive Director | 1 | 0 | 1 |
| Mr. Lau Chung Man, Louis* | Independent non-executive Director | 1 | 1 | 0 |
| Mr. Yeung Chi Wai* | Independent non-executive Director | 1 | 1 | 0 |

* On 29 June 2018, Mr. Wang Jianxin was appointed as the new independent non-executive Director of the Company and the chairman of the audit committee of the Board; Mr. Liu Weiwu was appointed as the new independent non-executive Director of the Company and the member of the audit committee of the Board; Mr. Lau Chung Man, Louis and Mr. Yeung Chi Wai ceased to be the members of the audit committee of the Board.

## EXTERNAL AUDITORS

In 2018, the payment made to the Company's external auditors in relation to auditing services amounted to RMB2.57 million. Such payment had been approved by the Audit Committee, the Board and the general meeting. In addition, the Company's external auditors also provided non-auditing services to the Company in the year 2018 and the payment made by the Company to the non-auditing services amounted to RMB50,000.

The statement of the external auditors of the Company in relation to their reporting responsibilities on the consolidated financial statements is set out on pages 101 to 103 of this annual report.

## NOMINATION COMMITTEE

As at the date of the report, the Nomination Committee of the Company comprises the Directors, namely Mr. Tan Ruisong, Mr. Chen Yuanxian, Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin. Mr. Tan Ruisong is the Chairman of the Nomination Committee.

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

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

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

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

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

The Nomination Committee held four meetings in 2018. The Nomination Committee discussed the composition and size of the board and professional committees, approved resolutions relating to change of Directors and Supervisors and resolutions relating to the adjustment of members of the senior management team of the Company. The attendance record of the Nomination Committee members at the meetings is as follows:

| Name of Director | Position | Times of meetings should attend | Times of attendance | Times of attendance by alternate director |
|---|---|---|---|---|
| Mr. Tan Ruisong* | Chairman of the Nomination Committee, executive Director | 0 | 0 | 0 |
| Mr. Chen Yuanxian* | Executive Director | 0 | 0 | 0 |
| Mr. Liu Renhuai | Independent non-executive Director | 4 | 4 | 0 |
| Mr. Liu Weiwu* | Independent non-executive Director | 0 | 0 | 0 |
| Mr. Wang Jianxin* | Independent non-executive Director | 0 | 0 | 0 |
| Mr. Lin Zuoming* | Executive Director | 4 | 4 | 0 |
| Mr. Wu Xiandong* | Non-executive Director | 4 | 4 | 0 |
| Mr. Lau Chung Man, Louis | Independent non-executive Director | 4 | 4 | 0 |
| Mr. Yeung Chi Wai | Independent non-executive Director | 4 | 4 | 0 |

* On 29 June 2018, Mr. Tan Ruisong was appointed as the chairman of the nomination committee of the Board; Mr. Chen Yuanxian was appointed as the new executive Director of the Company and the member of the nomination committee of the Board; Mr. Liu Weiwu and Mr. Wang Jianxin were appointed as the new independent non-executive Directors of the Company and members of the nomination committee of the Board. Mr. Lin Zuoming, Mr. Wu Xiandong, Mr. Lau Chung Man, Louis and Mr. Yeung Chi Wai ceased to be the members of the nomination committee.

## COMPANY SECRETARY

As approved by the Board, Mr. Xu Bin has been appointed as the Company Secretary and authorized representative of the Company since 25 August 2016.

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

## INTERESTS HELD BY DIRECTORS AND SECURITIES TRANSACTIONS

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

Interests of the Company held by the Directors as at 31 December 2018 have been disclosed in the Report of the Board of this annual report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Hong Kong Listing Rules and the Shares Trading Management Rules as its own guidelines for securities transactions by Directors, Supervisors and employees of the Company. The Shares Trading Management Rules of the Company is stricter than the Model Code to a certain degree. All Directors and Supervisors have been provided with a copy of the Model Code and the Shares Trading Management Rules upon appointments. Prior to two months and one month before the announcement of the annual or interim results of the Company, respectively, written reminders of the restrictions on dealing in any securities or derivatives of the Company under the Hong Kong Listing Rules will be provided to the Directors and the Supervisors appropriately. All Directors and Supervisors of the Company have confirmed their compliance with the Model Code in 2018 upon specific enquiries with them.

Employees who is likely to possess unpublished inside information of the Group are also required to comply with the Model Code. The Company is not aware of any breach in this regard in 2018.

## ACCOUNTABILITY AND AUDIT

### FINANCIAL REPORTING

The Directors are responsible for monitoring the preparation of the consolidated financial statements for every financial year and ensuring those consolidated financial statements present a true and fair view on the operating results, financial performance and cash flow of the Group in the relevant financial year. In preparing the consolidated financial statements for the year ended 31 December 2018, the Directors have:

– selected appropriate accounting policies and applied them consistently;

– adopted all relevant standards in compliance with the International Financial Reporting Standards; and

– made prudent and reasonable judgment and estimation and prepared the consolidated financial statements on a going concern basis.

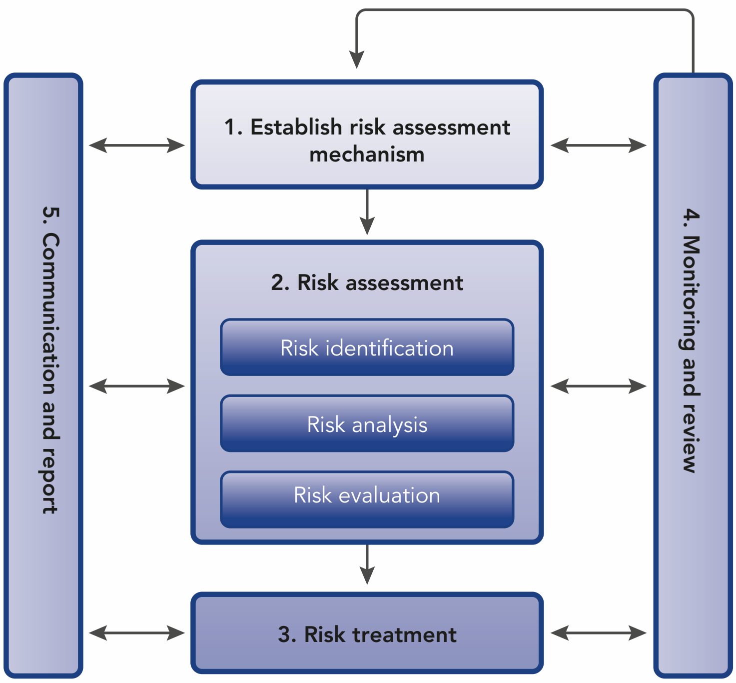
In accordance with the requirements of the Hong Kong Listing Rules, the Company has timely announced its annual and interim results within three and two months respectively after the end of the relevant financial periods.

## INTERNAL CONTROL

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

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

The Group has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective subsidiaries of the Group review and assess the status of potential risks which may impact on their ability to achieve their business objectives, and determine the nature and extent of such risks they are willing to take in achieving their business objectives. The Group adopts the relevant risk management principles in China as its approach to manage its business and operational risks and monitor its internal control. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:




Notes:

1 Set up the risk assessment mechanism of the Group;

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

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

4 Each subsidiary monitors the risk mitigating measures;

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

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

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

In 2018, the major subsidiaries of the Company issued internal control evaluation reports after evaluating the effectiveness of their own internal control in accordance with the provisions and requirements of The Basic Standard for Enterprise Internal Control of the PRC and its supporting guidelines, and appointed accounting firms to conduct independent audit on their internal control in 2018. During the reporting period, those companies established and effectively implemented the internal control of the businesses and items within the scope of the evaluation, achieving the objectives of internal control with no major defect identified. On this basis, and taking into account the comments on the internal control and the state of establishment of the internal control system of other subsidiaries and the risk management status of each subsidiary, the department responsible for internal control and audit evaluated the risk management and internal control of the Group as a whole and reported the evaluation conclusions to the Audit Committee and the Board. The Board reviewed through the Audit Committee the effectiveness of the risk management and internal control system of the Group for the year ended on 31 December 2018, including all the significant financial, operational and regulatory control and risk management functions, and was satisfied that such system was effective and sufficient. The Audit Committee also reviewed and was satisfied with the sufficiency of resources and the qualifications and experience of the employees for performing the Group's accounting and financial reporting functions, the adequacy of the employee training courses and the relevant budget. The Company also attaches high importance to continuously improve the Company's risk management and internal control system according to the business development model of the Company and the new requirements of laws and regulations, so as to adapt to new situations and new environment. However, due to the inherent limitations of the risk management and internal control system, the establishment of the Group's risk management and internal control system is for the purpose of managing potential risks rather than eliminating all the risks, which is impossible to achieve. Therefore, the internal control system can only provide a reasonable assurance, rather than an absolute assurance, for the Group to achieve its operational targets. Likewise, it is impossible for the internal control system to completely eliminate all material inaccurate statements made or all the losses caused to the Group.

## SUPERVISORY COMMITTEE

The Supervisory Committee is accountable to the general meetings of the Company. The sixth session of the Supervisory Committee was established in 2018, comprising two shareholder representative Supervisors (Mr. Zheng Qiang and Mr. Guo Guangxin) and one employee representative Supervisor (Mr. Shi Shiming). In 2018, the Supervisory Committee held three meetings and considered and approved ten resolutions. It supervised, on behalf of shareholders of the Company, the financial position of the Group, the legality and compliance of the performance of duties by the Directors and senior management of the Company, attended the Board meetings and general meetings and fulfilled its duties diligently.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## GENERAL MEETING

The general meeting is the supreme authority of the Company. It performs its functions according to laws and makes decisions on major issues in relation to the Company. The annual general meetings and extraordinary general meetings of the Company provide a channel for shareholders to communicate directly with the Board. In 2018, the Company convened one annual general meeting, at which nineteen resolutions in total were considered and approved. All Directors, Supervisors and members of the senior management of the Company endeavored to attend the general meetings. The following is the attendance record of the Directors:

| Director | Time(s) of meeting(s) should attend | Times of attendance |
|---|---|---|
| Mr. Tan Ruisong* | 1 | 1 |
| Mr. Chen Yuanxian* | 1 | 1 |
| Mr. Li Yao | 1 | 1 |
| Mr. Wang Xuejun* | 1 | 1 |
| Mr. He Zhiping | 1 | 1 |
| Mr. Patrick de Castelbajac | 1 | 0 |
| Mr. Liu Renhuai | 1 | 1 |
| Mr. Liu Weiwu* | 1 | 1 |
| Mr. Wang Jianxin* | 1 | 1 |

* On 29 June 2018, Mr. Tan Ruisong and Mr. Chen Yuanxian were appointed as the new executive Directors of the Company; Mr. Wang Xuejun was appointed as the new non-executive Director of the Company; Mr. Liu Weiwu and Mr. Wang Jianxin were appointed as the new independent non-executive Directors of the Company; Mr. Lin Zuoming, Mr. Wu Xiandong, Mr. Lau Chung Man, Louis and Mr. Yeung Chi Wai ceased to be the Directors of the Company.

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

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

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

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

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

## ARTICLES OF ASSOCIATION

For the year 2018, to emphasize the importance of compliance with the PRC laws and regulations, the Company amended certain articles of the Articles of Association of the Company. For details of the revision of the Articles of Associations, please refer to announcements of the Company dated 7 June 2018 and 29 June 2018.

The amended Articles of Association was uploaded on the website of the Company and the Hong Kong Stock Exchange on 29 June 2018.

## INFORMATION DISCLOSURE AND INVESTOR RELATIONS

The Board secretary is responsible for information disclosure of the Company. The Company has formulated and enforced its Rules on Information Disclosure and Confidentiality Management, its Rules on Information Disclosure and Investor Relations and Press Spokesman System (Trial) to ensure information disclosed by the Company is accurate, complete and made in a timely manner, and meanwhile, strictly supervise the dealing and publishing of inside information to keep such information in confidentiality before being disclosed. During the reporting period, the Company published its annual report, interim report and other relevant announcements (including the overseas regulatory announcements published by the subsidiaries of the Company whose shares are listed on other stock exchanges) in accordance with the Hong Kong Listing Rules and made detailed disclosures on material information and reported the progress of any significant issues relating to the Company.

The Company has assigned specific employees to assume the role of investor relations management. During the reporting period, due to the change of information disclosure methods required by the Hong Kong Stock Exchange, the Company had put more efforts in the maintenance of its websites to ensure that information is disclosed accurately and in a timely manner. The Company not only renews and modifies its Chinese and English websites continuously in accordance with the Hong Kong Listing Rules, but also regularly publishes and updates business news and information contained in its website to help investors understand the up-to-date situation of the Company clearly. Details of the businesses of the Group and announcements such as interim results and annual results could also be downloaded from the Company's website.

The Company also emphasized the mutual communication with its investors. During 2018, the Company maintained continuous dialogues and communications with shareholders pursuant to the requirements of the Corporate Governance Code. A specific department of the Company is in charge of the communication with shareholders, investors and other participants of the capital market. Through communications with the capital market, shareholders and investors are able to timely and fully understand the operations and development plans of the Company and the key concerns from investors. The annual general meetings and extraordinary general meetings also provide further platform and opportunities for shareholders to exchange opinions directly with members of the Board. Besides updating the website of the Company timely and periodically, the Company also opened a Wechat public account to provide investors with a convenient channel to learn the recent situation of the Company.

# Environmental, Social & Governance Report

This Report covers the environmental, social and governance (ESG) performance for the period from 1 January 2018 to 31 December 2018, part of which exceeds the aforesaid scope. The report follows the provisions of the Environmental, Social and Governance Reporting Guidelines of Hong Kong Stock Exchange. Unless otherwise specified, the financial data quoted in this report are derived from the audited financial report. Other data are derived from the internal official records of the Company and relevant statistics. The report was approved by the Board.

The Company firmly insists on our original intention of patriotic spirit, fulfills the corporate mission of aviation power, and adheres to the concept of "Dedication, Integrity, Innovation and Transcendence" with the vision of "being a listed company with the most investment value in aviation industry of China". While advancing the development of the aviation industry chain, the Company practices military-civilian integration and state-owned enterprise reform as a strategic deployment, continuously improves ESG management, and explores a new model for sustainable development.

## 1 ESG MANAGEMENT

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

### 1.1 Stakeholders Engagement

Stakeholders' expectations and feedbacks are important for the Company to formulate responsibility management strategy decisions and judge management effectiveness. The Company has established an effective communication mechanism with stakeholders, and actively engaged in communication and dialogue in 2018 with a total of six stakeholders including governmental and regulatory bodies, shareholders, customers and partners, environment, employees, community and the public to gain insights to and respond to the expectations of stakeholders in a timely manner.

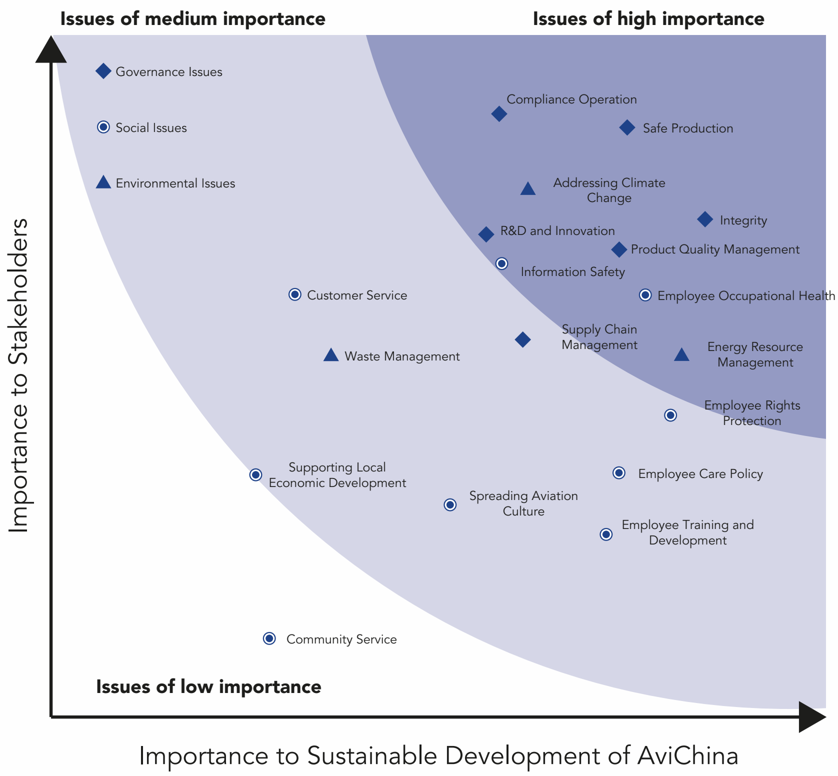
| Stakeholders | Expectations and Requirements | Communication and Response Methods |
|---|---|---|
| Governmental and Regulatory Bodies | To implement national policies, laws and regulations<br>To promote local economic development<br>To drive local employment<br>To advance industrial development | Submission of documents<br>Advice and suggestions<br>Special report<br>Negotiation and cooperation |
| Shareholders | Returns on investment<br>Compliant operation<br>Production safety | Company announcements<br>Telephone reception<br>Visitor reception |
| Customers and Partners | To perform contracts according to law<br>Integrity-based operation<br>High quality products and services | Business communications<br>Exchanges and seminars |
| Environment | Compliant emissions<br>To conserve energy and reduce emissions<br>To protect ecological systems | Working conferences<br>Report submissions<br>Investigations and inspections |
| Employees | Rights and interests maintenance<br>Occupational health<br>Compensation and benefits<br>Career development | Workers congress<br>Collective bargaining<br>Democratic communication platform |
| Community and the Public | To improve the community environment<br>To participate in public welfare undertakings<br>To provide transparent information | Company websites<br>Company announcements<br>Interviews and communications<br>Public welfares activities |

### 1.2 Judgement on Material ESG Issues

The Company, on the basis of the requirements of the Environmental, Social and Governance Reporting Guidelines of Hong Kong Stock Exchange, and with reference to Guidelines for Sustainable Development Report of Global Reporting Initiative, identifies materiality of ESG issues. To ensure more accurate and complete disclosure of ESG information, the Company conducted an anonymous survey to gain a broad understanding of the cognition and judgment on the Company's ESG performance from stakeholders including governmental and regulatory bodies, shareholders, customers and partners, environment, employees, community and the public. During the reporting period, the Company received a total of 3,029 valid questionnaires. Based on the results of the questionnaires and considering the situation of peers, the Company formed the materiality matrix of the reporting year, which was used as a basis for the disclosure of the contents of this report and a guiding direction for sustainable development management in the future.

The materiality matrix on sustainable development of the Company in 2018 is as follows:

ESG Materiality Matrix of AviChina in 2018



### 1.3 Integrity Governance

All subsidiaries of the Company have formulated corresponding anti-corruption and transparent governance construction systems, such as Assessment Measures on Corporate Integrity Risk Prevention and Control and Regulatory Measures on Corporate Integrity Risk Pre-warning. The Company strictly implements the selection process of leaders, standardizes the Company's integrity and promotes the implementation of a transparent and honest administration.

The Company has strengthened anti-corruption education to enhance the awareness of self-discipline and regulation and improves the pertinence and timeliness of anti-corruption education. The Company has also established an effective reporting program to prevent corruption and bribery, and has continuously smoothed the channels for supervision and reporting. During the reporting period, there were no corruption or bribery incidents in the Company and among internal employees.

Integrity management measures and monitoring methods of Shanghai Aviation Electric

Shanghai Aviation Electric has taken the following measures and monitoring methods in 2018 to enhance corporate integrity management:

- Interviews with leaders and key positions were organized to continuously improve employees' awareness of anti-corruption;
- Strict contract approval processes were established and supplier survey programs were organized to ensure that anti-corruption management work is in place;
- Supervision network was established to collect relevant information in a timely manner and regularly study and supervise measures;
- Anti-corruption reports and emails were set and a petition office was established to conduct regular training and exchanges and implement anti-corruption;
- Relevant information on report calls, emails and the like was posted on the internet on the eve of major holidays to effectively implement supervision responsibilities.

## 2 SUSTAINABLE OPERATION

Facing the complex and ever-changing economic environment, the Company takes compliant operations as the foundation, quality and efficiency improvement as its goal, R&D innovation as the driving force and safety production as guarantee, and insists on being innovation-driven, business lines optimization and open sharing. We have been implementing Aviation Power Strategy throughout our sustainable operations, firmly grasping the development opportunities and achieving key breakthrough and rapid development of the high-tech military-civilian integration in the aviation industry.

### 2.1 Product Responsibility

AviChina has been implementing the concept of "quality first", focusing on improving industrial manufacturing standards, cultivating capabilities of providing modern services and casting high standards of "aviation quality". In 2018, the Company further strengthened the whole-process product supervision from design to application, taking an all-round control from research and development to supply chain, forming an effective product quality assurance system.

*2.1.1 Whole-process quality control*

The Company strictly abides by the *Product Quality Law of the People's Republic of China (中華人民共和國產品品質法)*, *Regulations on the Administration of Permits for the Production of Industrial Products (工業產品生產授權管理條例)*, *Rules for the Domestic Transportation of Civil Aviation Goods (民用航空貨物國內運輸規則)* and other national laws and regulations applicable to the Company's product quality. During the reporting period, the company took the opportunity of the change of standards for product service quality control system, and implemented the latest quality control system requirements such as AS9100 for aerospace civilian product in a comprehensive and orderly manner, modifying the Company's military and civilian product quality control system correspondingly.

In 2018, the subsidiaries of the Company improved the quality control process around the main products, and improved the quality control operation documents and implementation measures such as the Corporate Quality Manual and Quality Control System File, and established a complete scientific research and production guarantee system from scientific research and development to manufacturing, inspection and testing. For example, Hafei Aviation became an excellent example of quality control system in the industry.

In addition, during the reporting period, the Company actively promoted the integration of quality control system and businesses, followed the national quality control system standards in the professional field in a timely manner, benchmarked global industry quality standards, strengthened third-party certification, and incorporated customer requirements for product quality into the quality control system. For some products, second-party user review was conducted to further enhance quality control.

Six special processes at Changhe Aviation, including heat treatment, chemical treatment, non-destructive testing, shot peening, composite materials, measurement and inspection, have passed the Nadcap certification of the US Performance Review Board (PRI Company).

Nadcap certification is an internationally authoritative third-party independent system jointly sponsored by the US aerospace and defense industry giants and the US Department of Defense, SAE, etc., which specifically certifies aerospace industry products and processes.

In addition to strict adherence to quality standards, during the reporting period, the Company carried out the development of aviation standards and final assembly standards, and participated in the formulation of hundreds of relevant industrial standards, effectively propelling the standardized production and management of aviation industry products and promoting the quality of aviation industry products.

*2.1.2 Client service*

The Company has always focused on customer service. During the reporting period, the Company has continuously improved the customer service management system, and fully implemented the management regulations such as the "product after-sales service management system", "regulations on customer communication and service", and clearly defined the customer complaint pipeline and the issue returning to zero process for quality issues, forming a management loop.

In addition, the defense nature of the aviation technology industry heightens the significance of customer information security, business secret management and protection. The Company strictly implements the existing management measures such as the *Customer Management Control Procedures, Information Security Management Procedures, Measures for Administration of Business Secrets of Civilian Products and International Markets Department*, promotes the establishment of information security agencies, strictly limiting the spread of business secrets according to the "minimization" principle. The Company uses internet technology to set up information access permissions and fully protect customers information and privacy to prevent practices of illegal use, leakage and sale of customer information and privacy.

### *2.1.3 Supply chain management*

While providing products and services on the whole value chain of the aviation industry, AviChina has taken supply chain management to a new level. As an important part of the Company's sustainable operation, supply chain management strictly follows the internal policies such as *Purchasing Control Program and External Supplier Evaluation Method*, implements supplier admission and exit mechanism, controls product quality from source, and regulates procurement process, to reduce operational risks, ensure legal compliance, and achieve standardized management of global multi-channel supply. During the reporting period, AviChina has a total of 7,144 global suppliers, of which 7,113 are domestic suppliers, accounting for 97%. Overseas suppliers are located in Europe, North America and other Asian countries.

**Whole-process management of suppliers implemented by AVIC Optoelectronic Precision Electronics (Shenzhen) Co., Ltd.**

**System and threshold:** The Company's supplier management is based on internal policies such as *Purchasing Management Procedures and Supplier Management Procedures*, which provides institutional guarantee for the objectivity, impartiality and rationality of supplier selection, evaluation and re-evaluation, and makes clear daily management and quality assessment of suppliers to ensure product quality and timely delivery and meet the requirements of the Company.

**Regular evaluation:** The Company mainly evaluates suppliers from the quality system management performance on a monthly basis, covering modules such as filings, resource management, quality assurance, R&D and shipping, and evaluates suppliers' performance from five aspects: delivery date, technical capability, response, quality system and product environmental protection, which will be assessed by different departments. The suppliers are rated to A, B, C, and D, and different grades involve different business distribution ratios.

**Post-assessment:** Supplier evaluation includes product quality, delivery schedule and post-service evaluation. The supplier evaluation process covers the *Supplier Basic Information* survey, which includes the supplier's producing capacities and quality control capabilities. The supplier quality system assessment and the post-evaluation are performed according to the *Supplier Review Form* and the *Supplier Monthly Score Sheet*, respectively.

During the reporting period, the Company was committed to the sustainable development of the supply chain, the promotion of the supplier management committee and the improvement of the supplier management system, actively established a two-way communication channel with suppliers, and took measures such as risk prevention, special audit and issue returning to zero, to help suppliers build capacities that are in line with the Company's sustainability strategy and quality requirements.

**Hafei Aviation improves supplier management system and supplier delivery capability**

The Company established the Supplier Management Committee and a supplier admission and exit mechanism, and conducted on-site review on suppliers' information, including the possession of ISO 14001 and OHSAS 18000 certificates. The Company regularly evaluated suppliers from the aspects of product quality, delivery schedule and service level, and graded the suppliers according to the final score of the evaluation results.

The Company gives formal commendation in writing and priority in purchasing business, signing contracts and payment settlement to gold-label suppliers. For yellow-label suppliers, the Company requires that they develop corrective and preventive measures to address existing problems and improve supply capacity. For red-label suppliers, the Company listed them in a qualification list of suppliers to be observed. Such suppliers shall submit a quality improvement plan, on which the Company will organize a special review. If such problems cannot be improved or improvement failed the requirements during the observation period, their qualification as qualified suppliers will be cancelled.

## 2.2 R&D and Innovation

Guided by the development goals of becoming a flagship company to provide high-tech aviation products and services universally used for military and civil purposes in China, AviChina continued to increase investment in R&D during the reporting period, conducting research on aviation frontier and basic technologies, strengthening the in-depth integration of informationization and industrialization, improving intellectual property management to provide long-term incentives for scientific research and safeguard innovation results.

### *2.2.1 Enhancing scientific research strength*

Based on the three main businesses of aviation entire aircraft, aviation parts and components and aviation engineering services, and focusing on high-tech industries including new materials, electronics, communications, energy and precision manufacturing, the Company actively participated in the development of national aviation key aircraft models, successfully completed the national innovation research projects, made substantial breakthroughs in both aviation basic research and technology R&D and application, and achieved significant self-dependent innovation results during the reporting period.

**AviChina contributing to the maiden flight of AG600 "Kunlong", the amphibious aircraft**

On 20 October 2018, AG600 successfully made its first water take-off at Jingmen Airport in Hubei. AG600, Y-20 flying boxcar and the C919 large passenger aircraft are known as the "three Musketeers" of China's big aircraft. AG600 is currently the world's largest amphibious aircraft under research. It is China's first large special-purpose civil aircraft developed for fire extinction/water rescue and a major aviation equipment urgently needed for the construction of national emergency rescue system. The development of AG600 is based on self-dependent innovation and has completely independent intellectual property rights in core technologies. It is one of the landmark projects in innovative nation building. In the process of development, AviChina exerted the technical advantages as an aviation main business platform and made outstanding contributions to ensure its smooth maiden flight.

**Selected AviChina's Scientific Research and Innovation Achievements in 2018**

| | |
|---|---|
| JONHON Optronic | • supported the world's first 5G commercial service; JONHON Optronic provided a complete set of optical and electrical connection solutions for three major Korean telecommunication operators to open the world's first 5G commercial services, and established R&D centers and laboratories in Korea.<br><br>• equipped the control system of "Chongqing Liangjiang Star", the first commercial rocket produced by private enterprise in China, with a lot of parts and components, and reduced its weight by more than half by applying innovative technologies |
| Changhe Aviation | • The open avionics test system has passed 16 tests verification, reached mainstream levels in the field of international avionics testing, and laid a foundation for customized avionics integration of civil aircraft.<br><br>• successfully built a complete set of flight test integrated monitoring system for the Company's scientific research and production, covering the three major platforms with all models, achieving the interpretation function, laying an important foundation for ensuring helicopter flight safety and promoting the Company's flight test technology development. |
| AVIC CAPDI | completed 67 research and development projects in smart manufacturing, green building, BIM and other technical fields and more than 100 business construction projects. Among them, the "Asymmetric open type integral tension cable membrane structure and construction and design method thereof" applied by the Steel Structure Technology Center gained US patents. |
| Taiyuan Instrument | Self-developed products, such as human aircraft integrated atmospheric parameter acquisition and processing system and solid state wind speed wind direction smart measurement sensor, have received extensive attention from the society. |

While strengthening technology research and development, the Company focuses on building innovative research platforms, and each subsidiary actively applies for qualifications for national and local research technology center. In 2018, AVIC Kaitian won the titles of National Enterprise Technology Center and National High-tech Enterprise. AVIC Lanfei established the High Light Profiles Division and Xi'an R&D Center officially started operation. In addition, AviChina strengthened the construction of national key engineering laboratories, established a long-term improving mechanism for scientific research strength, and provided effective guarantees for the realization of autonomous control of aviation technology.

*2.2.2 Strengthening foreign cooperation*

The aviation industry is an open and developing global industry. In the past 40 years, the comprehensive strength of China's aviation industry to carry out international cooperation has been greatly enhanced and the level of cooperation has been continuously improved. The cooperation between civil aircraft and large parts projects has been upgraded from processing trade to first-tier suppliers and sole suppliers and the international cooperation mode has jumped from subcontracted production to peer-to-peer cooperation at levels of entire aircraft, system and capital. Nowadays, collaborations featuring mutual integration and win-win have become mainstream of global industries. AviChina insists on "going out" and participating in the globalization of the aviation industry chain, finding the market soil for the Company's scientific research and innovation, and providing a sound platform for talents and technology exchange.

**AviChina's debut at Farnborough Air Show creating an international business card**

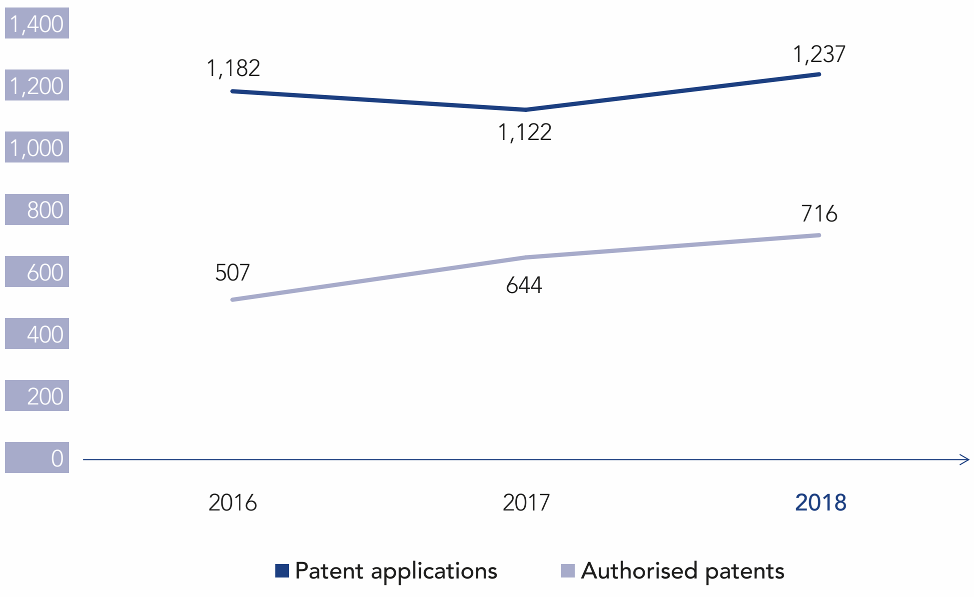
In July 2018, AviChina took its civil aviation entire aircraft, aviation parts and components and aviation engineering services again at the Farnborough Air Show to fully demonstrate its new achievements in international market development and send invitations to global partners and investors, achieving a leap from internationalization 1.0 (M&A) to internationalization 2.0 (M&A + integration). Shortly after the air show, Brand Finance, a UK brand evaluation agency, released the list of "World's Top 25 Valuable Aviation Aerospace and Defense Brands in 2018", on which AviChina was the only mainland company shown on the list and ranked 20th.

*2.2.3 Intellectual property rights management*

The Company has always attached great importance to intellectual property management and regarded intellectual property management as a booster for technology research and development, and has continuously improved its intellectual property management system from the management structure to the operational level. The Company strictly abides by the *Patent Law of the People's Republic of China, Anti- unfair Competition Law of the People's Republic of China* and other national laws and regulations, and effectively encourages technological innovation and protects scientific research results through the formulation and implementation of the *Intellectual Property Protection Regulations, Patent Management Measures* and other related measures. Meanwhile, the Company actively promoted the normalization of intellectual property talent training, greatly improved the intellectual property management level of the technology center, and integrated intellectual property work into the research project establishment, implementation, acceptance and other aspects. As the result, the competitiveness of scientific research projects was significantly enhanced.

During the reporting period, the Company applied for 1,237 patents and was authorised 716 patents, seeing an increase of 10% and 11% respectively compared with last year. The intellectual property management has shown remarkable effectiveness.

The number of AviChina's Patents 2016 - 2018




**Taiyuan Instrument — patents are growing rapidly year by year**

Taiyuan Instrument values patent management and has established Shanxi Provincial Technology Center. Its annual patent application growth rate reached 20%. In 2018, the company completed 33 patent application projects, representing a year-on-year increase of 21.7%. By the end of 2018, the total number of corporate patent applications reached 137, of which 91 were invention patents, accounting for 66.4%. The company has 73 valid patents, including 40 invention patents, 31 utility model patents, and 2 appearance patents, covering all its key technical fields and gradually forming a core and peripheral patent system layout and effective patent protection.

## 3 ENVIRONMENTAL RESPONSIBILITY

AviChina has always taken green and high efficiency as the principle and vigorously responded to the national low-carbon development strategy by establishing a sound environmental management system, improved energy efficiency by strengthening waste management and noise monitoring, and reduced environmental impact by strengthening daily awareness of conservation with an aim to build resource-saving and environment-friendly enterprise.

## 3.1 Establishing Sound Environmental Management Mechanism

In order to strengthen environmental management and implement environmental management policies, the Company continued to optimize its environmental management mechanism. All subsidiaries were required to establish an environmental management committee, implement the national environmental protection policy, deploy annual environmental protection development plans, as well as standardize and supervise the implementation of environmental protection. Besides, the Group set up relevant department to formulate related management systems and standards, handle and investigate environmental pollution accidents, assist the production workshop to develop accident prevention measures, so as to maintain the normal operation of the environmental management system.

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

In 2018, the Company continued to promote the creation of "Green Aviation Industry" by having more subsidiaries such as AVIC Lanfei passing the "Green Aviation Industry Enterprise" basic-level certification. The Company strictly implements the "three simultaneous environmental protection" work, and all environmental impact assessment of new construction projects were carried out in accordance with laws and regulations, so as to actively promote environmental protection acceptance.

## 3.2 Enhancing Waste Management

The Company conducted compliance testing on waste gas, waste water and noise, classified, stored and made compliance disposal of general industrial solid waste and hazardous waste in strict accordance with the *Environmental Protection Law of the People's Republic of China, Water Pollution Prevention and Control Law of the People's Republic of China, Air Pollution Prevention and Control Law of the People's Republic of China, Law of the People's Republic of China on Solid Waste Pollution Prevention, Law of the People's Republic of China on Environmental Noise Pollution Prevention and Control* and other laws and regulations and effectively reduced pollutant emissions through a number of technological reforms.

### *3.2.1 The Reduction of Waste Gas Emission and Waste Water Discharge*

The Company's business mainly generates such exhaust emissions as sulfur dioxide, nitrogen oxides and soot. In order to effectively reduce various pollutant emissions, the Company carried out the renovation of the exhaust emission system in 2018, and regularly maintained discharge devices to prevent pollution caused by equipment aging.

- AVIC Lanfei invested more than RMB2 million to renovate the low-nitrogen burner of the boiler to reduce, the emission concentration of nitrogen oxide from 150mg/L to 30mg/L;

- Shanghai Aviation Electric effectively reduced dust emissions by installing reverse bag dust removal equipment and filtering exhaust devices;

- Shaanxi Baocheng adopted such technologies as activated carbon adsorption and waste gas mist purification to reduce volatile organic compounds and acid gas emissions;

- Huiyang Company invested more than RMB3 million to install waste gas treatment facilities such as photo-oxidation and catalysis in the old factory to reduce dust and volatile organics emissions.

The Company laid emphasis on wastewater discharge management and adopted measures such as loop utilization to reduce wastewater and COD discharge. For example, in 2018, Changhe Aviation used a total of more than 1.9 million tons of wastewater.

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

| Type of emissions/discharges | 2017 | 2018 |
|---|---|---|
| Total waste gas emissions (ten thousand standard cubic meters) | 1,130,572 | 490,713 |
| Sulfur dioxide emissions (tons) | 145 | 87 |
| Nitrogen oxide emissions (tons) | 239 | 241 |
| Total soot emissions (tons) | 179 | 119 |
| Total waste water discharge (tons) | 3,792,738 | 3,438,792 |
| COD discharge (tons) | 281* | 223 |

* Note: JONHON Optronic, a subsidiary of the Company, has added a correction supplementary note for this data, please refer to the correction supplementary announcement about 2017 annual report released by JONHON Optronic for details.

### *3.2.2 Solid Waste Disposal*

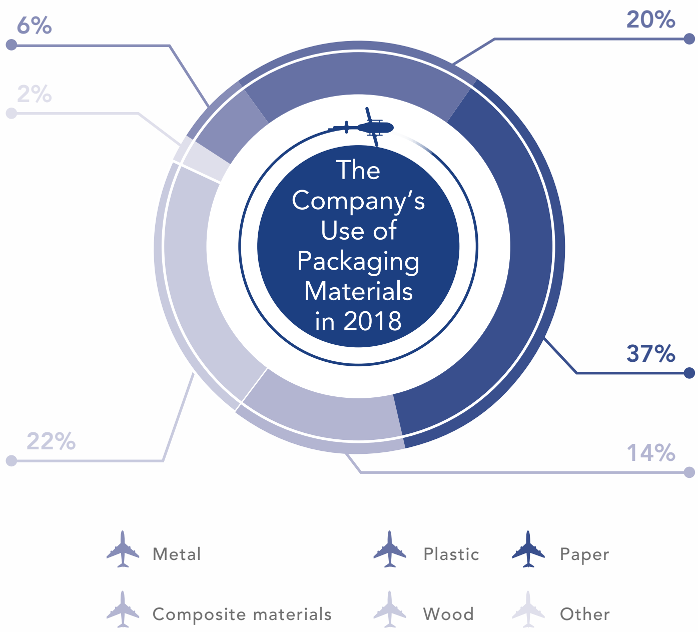
In the aspect of hazardous waste management, the Company classifies and collects hazardous wastes according to the national hazardous waste inventory, strictly declares in accordance with the requirements of the environmental protection department, fills out the five-link list of hazardous waste transfer, and hands over the waste to qualified units for compliance disposal. Meanwhile, the whole process control from generation, collection, storage and transfer of hazardous wastes, and self-examination and self-correction are carried out on a regular basis. In 2018, JONHON Optronic introduced electroplating sludge drying technology and reduced the generation of electroplating sludge by about 180 tons throughout the year.

For general industrial solid waste such as metal chips generated during production and processing, the Company carries out recycling by selling out, and domestic garbage is handed over to relevant departments for disposal.

The packaging materials such as plastics, metals, papers, woods and composite materials are mainly recycled to save the use of packaging materials.

Table: the Company's Solid Waste Discharge

| Type of discharge | 2017 | 2018 |
|---|---|---|
| General industrial solid wastes (tons) | 12,206 | 13,140 |
| Density of general industrial solid wastes (tons per RMB10,000 revenue) | 3.7 | 3.7 |
| Hazardous waste (tons) | 1,895 | 1,789 |
| Density of hazardous waste (kg per RMB10,000 revenue) | 0.58 | 0.51 |
| Use of packaging materials (tons) | 4,957 | 3,764 |
| Density of packaging materials used (kg per RMB10,000 revenue) | 1.5 | 1.1 |




*3.2.3 Noise Control*

The Company strictly controls the impact of noise pollution of factory areas, and entrusts professional agencies to monitor factory boundary noise once every quarter to ensure that the noise of all factory areas meets the requirements of the *Emission Standard for Industrial Enterprise Noise at Factory Boundaries*.

In addition, the Company comprehensively controls the factory boundary noise by reducing the mechanical vibration of equipment, reducing traffic noise of factory areas and strengthening the greening, so as to reduce its impact on surrounding environment and residents. In 2018, Changhe Aviation replaced the noisy piston air compressor with a screw air compressor, reducing the noise intensity by one-third.

### 3.3 Saving Resource and Energy

In accordance with the *Energy Conservation Law of the People's Republic of China* and other relevant laws and regulations, the Company has formulated an energy management system by focusing on transforming high-energy-consuming equipment, optimizing energy-saving technologies, and strengthening inspections and rectifications of exuding, smoking, dripping and leaking. Some subsidiaries have incorporated energy performance into employee assessment standards to effectively improve the efficiency of resource and energy use.

#### *3.3.1 Enhancing Efficiency of Energy Use*

Our subsidiaries have taken measures to reduce energy consumption by eliminating high-energy-consuming equipment, strengthening secondary utilization and raising employees' awareness of energy conservation. In 2018, the Company's comprehensive energy consumption was 104,000 tons of standard coal, and the comprehensive energy consumption for per RMB10,000 revenue was 0.03 tons/RMB10,000.

**Oriental Instrument vigorously carried out energy conservation**

In 2018, Oriental Instrument completed the "distilled water electrical equipment in the thermal-meter factory reforming steam heating self-made" (熱表分廠蒸餾水用電設備改造蒸汽加熱自製) project, prepared distilled water by replacing the traditional electric heating condensing equipment with steam generated by boiler, saving 30,000 kWh of electricity every year. The steam replacement rate after the transformation reached to 90%, which greatly improves energy efficiency.

By promoting LED green high-efficiency lighting and implementing such cost reduction projects as the "Balanced Configuration of Transformer Load at Factory Areas" and "Update and Upgrade on Reactive Power Compensation Device of Power Supply System, Oriental Instrument saves 170,000 kWh of electricity every year.

**Hafei Aviation conducted energy saving knowledge training**

Taking the National Energy-saving Publicity Week as an opportunity, Hafei Aviation popularized employees' energy-saving knowledge and improved their energy-saving awareness by sharing energy-saving cases of each unit and conducting energy-saving knowledge contest. In 2018, Hafei Aviation has more than 500 participants in the training and more than 3,600 people participated in the energy-saving knowledge contest.

Table: the Company's Energy Consumption

| Type of energy | 2017 | 2018 |
|---|---|---|
| GHG emissions (tons of equivalent $CO_2$ emissions) | 50.3 | 49.5 |
| GHG emissions intensity (tons of equivalent $CO_2$ emissions per RMB10,000) | 0.15 | 0.14 |
| Coal consumption (tons) | 49,371 | 46,510 |
| Gasoline consumption (tons) | 889 | 867 |
| Kerosene consumption (tons) | 4,173 | 4,895 |
| Diesel consumption (tons) | 240 | 245 |
| Natural gas consumption (ten thousand standard cubic meters) | 1,379 | 1,562 |
| Electricity consumption (ten thousand kWh) | 31,004 | 32,930 |
| Outsourcing thermal power(million kJ) | 228,880 | 102,208 |

### *3.3.2 Enhancing Water Resource Management*

The Company strengthened water management by strengthening the secondary reuse of water resources and water-saving renovation of water equipment, effectively reducing water waste. In 2018, the Company's total water consumption was 6,248,144 tons, the water consumption for per RMB10,000 revenue was 1.8 tons/RMB10,000, representing a decrease of 14% compared to last year.

| | |
|---|---|
| AVIC Lanfei | Improved the centralized water supply management system by increasing the frequency of inspection and maintenance of the water pipe network and ensuring the integrity of the water pipe network and appliances. Water consumption in 2018 decreased by 2.6% compared to 2017. |
| Changfeng Avionics | A water reuse system was constructed in the sewage treatment station. The electroplating wastewater was reused in the electroplating production line after being treated by the sewage treatment system, and the reclaimed water reuse rate reached over 50%. Meanwhile, a rainwater collecting system was established in the landscape area of the factory. Rainwater enters the landscape area after being collected and treated, and the environment can be greened in the case of sufficient water. |
| Lanzhou Aviation Electric | A loop water tower was installed and the high-low temperature tank loop water system was transformed to save water resources. |
| Qianshan Avionics | The most stringent water resources management system was adopted to further strengthen water management and improve water conservation measures. |

| | |
|---|---|
| Hafei Aviation | Water-intensive workshops and process equipment were under supervision and evaluation, wastewater recycling management was strengthened to increase recycling volume, and water conservation measures were implemented. Throughout 2018, the water treatment and use amount reached 145,000 tons, and cooling water, rainwater and cycle water consumption was about 800,000 tons. |

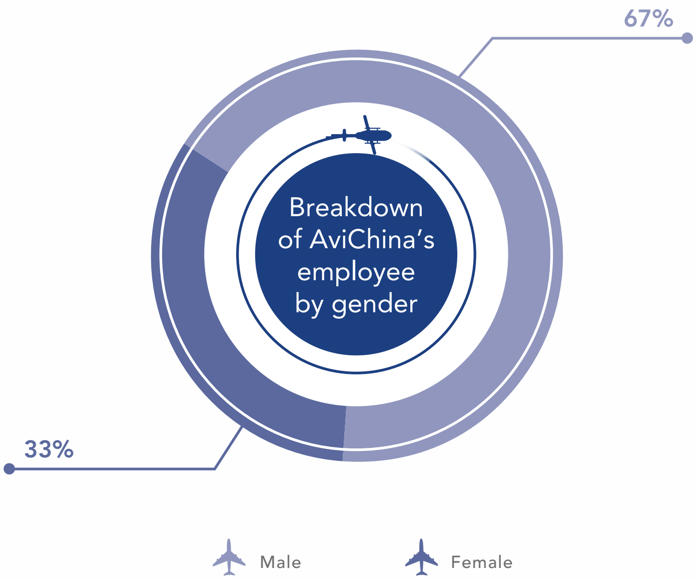
## 4 EMPLOYEE CARING

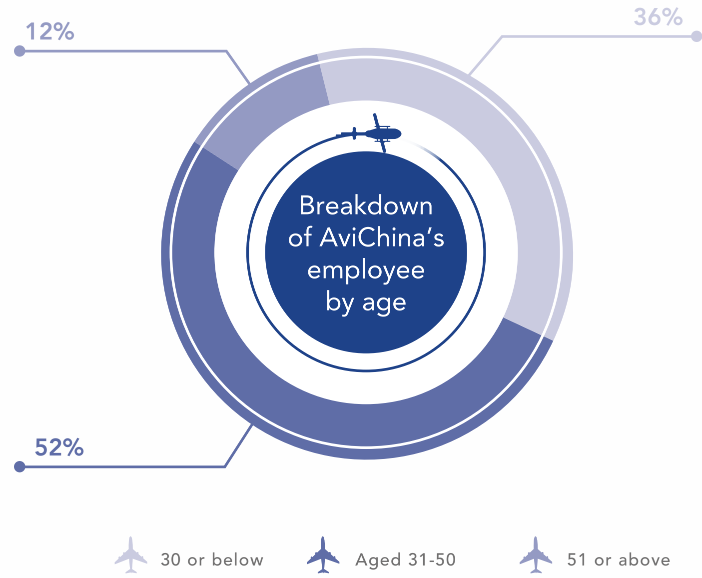
Talent is the foundation of an enterprise and one of the most important core resources for enterprise development. The Company continuously standardizes the recruitment system, to safeguard employees' rights and interests, and provide employees with quality training resources and promotion platforms. In addition, the Company cares for the physical and mental health of employees, fully protects their occupational health, promotes the balance of work and life of employees, and strives to enhance their sense of well-being and belonging.

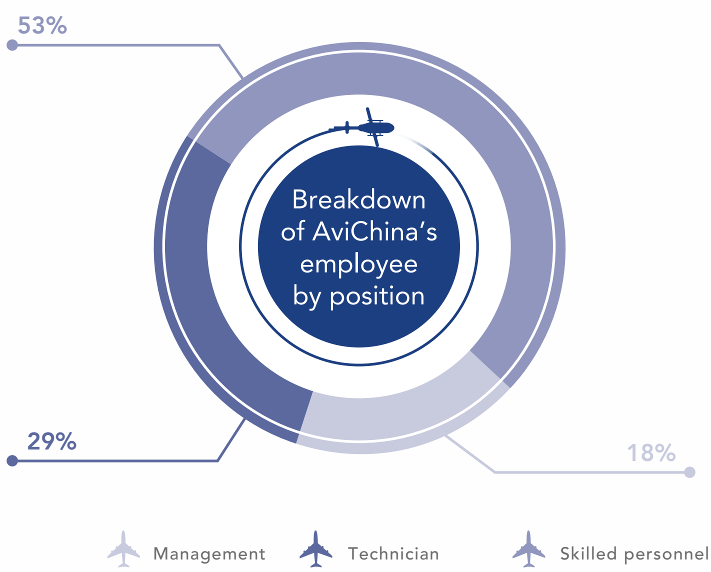
### 4.1 Employee Recruitment

The Company adheres to a fair and equal employment policy, strictly follows the *Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China* and other laws and regulations and establishes the management systems of *Labor Contract Management Measures and Human Resources Management Procedures* to ensure that employees are not treated differently due to age, gender, ethnicity, race and marital status in the recruitment process, child labor and forced labor are eliminated and resolutely prohibited.

As of 31 December 2018, the total number of employees of AviChina was 49,710.






## 4.2 Employee Development

The Company is committed to creating a comprehensive career development path and platform, focusing on providing individualized training and promotion guidance for employees, and actively providing a broad space for development for all types of talents, laying a solid foundation for the Company's development.

### *4.2.1 Improving employee training system*

The Company is committed to building a multi-level employee training system, which covers technology, skills, management and other fields, including basic quality enhancement, professional skills improvement and management capability development, helping employees improve their capabilities and expand their professional knowledge, and achieving common growth of employees and enterprise.

In 2018, AviChina's employee training hours totalled more than 1.49 million, and average training hours for each employee was 31 hours.

**Shanghai Aviation Electric carried out multi-level training**

In 2018, Shanghai Aviation Electric organized a total of 107 in-house trainings and 205 outsourcing commissioned trainings with trainees of up to 3,394. The focus is on young crops, professional and technical classes, ideal and belief classes, expert lecture and individualized training programs in various departments. The training programs are for new employees who have been employed for 1-3 years, technical backbone personnel and leading cadres, experts and engineers at different levels, categories and positions. The training method combines concentrated theoretical study, tutor counseling and position practice, covering all aspects including technology, management, quality, 6S and confidentiality. The multi-level series of trainings meets the needs of training at all levels and positions in a more targeted and efficient manner, and provides a solid guarantee for talent output and improvement and management team building.

*4.2.2 Culturing leadership talents*

The Company has established a platform for culturing skilled and leadership talents, and from key universities, major projects, foreign countries, school-enterprise cooperation, postdoctoral workstations and other projects, has achieved the introduction of high-tech talents. Combining market and high-tech development, the Company provides high-tech and cutting-edge technology training to promote the formation and development of high-level R&D innovation teams to ensure the research and development strength of AviChina.

**Hongdu Aviation organized a series of training on "New Technology Lecture" (新技術大講堂)**

In 2018, Hongdu Aviation organized a series of training on artificial intelligence development, namely "New Technology Lecture – Aviation Manufacturing Technology", to enhance the research and production capacity of various models and customer service capabilities of the Company, including cutting-edge technology and frontier domain knowledge such as protection system engineering methodology import training, virtual reality technology engineering application training and manufacturing process knowledge series training, to ensure the smooth development of related research and development, manufacturing, production and after-sales management.

*4.2.3 Improving occupational development mechanism*

Based on the law of talent growth in aviation enterprises, the Company has established a talent training mode suitable for different stages of development based on their personal characteristics, professional direction, ability and developmental rules, to provide counseling on positioning, mechanism construction and path design for their occupational development. On this basis, employees can not only obtain different career development channels through position setting, rotations and internal open recruitment, but also obtain inter-organizational career development opportunity through the transfer of talents to superior units and external enterprises. With a sound career development mechanism, AviChina is fully committed to helping employees achieve their career dreams and create personal achievements.

**AviChina's "Mentoring Apprentices" Activity**

On 20 September 2018, AviChina organized the launching ceremony of the "Mentoring Apprentices" in 2018. Five new employees gave tea to the experienced seniors and formed a teacher-student relationship through simple and solemn apprenticeship. The purpose and significance of the activity is to emphasize that talents are an important resource for enterprise development. By playing the role of mature talents, young employees can be promoted to become talents and realize the value preservation and appreciation of human capital. The "Mentoring Apprentices" activity is the inheritance of enterprise knowledge management, which not only stimulates the enthusiasm of backbone employees, but also enhances the motivation for young employees to continuously improve and realize a "win-win" situation in enterprise talent cultivation.

## 4.3 Safe Production

The Company continued to improve its safety production responsibility system, risk system and supervision system, and comprehensively improved the level of occupational safety and health management. The Company maintained a relatively stable safety production situation during the year and effectively guaranteed the smooth progress of scientific research and production. Under the guarantee of various safety work, the Company had no work-related deaths during the reporting period, and the number of working days lost due to work-related injuries was 0.00612 days per person.

### *4.3.1 Safe production management system*

The Company fully implemented the responsibility of safe production by establishing a safety production and occupational health and safety management system in strict accordance with the *Safe Production Law* and other relevant laws and regulations, and issued and revised internal systems such as *Safety Production Responsibility System*, *Dangerous Operation Control Management Regulations* and *Management Measures on Work-related Accident*, which covers the division of safety production responsibility, safety inspection, dangerous operation approval and supervision, and procurement and distribution of labor protection products. In 2018, the Company closely focused on the needs of scientific research and production and implemented requirements of safety production practice in a multi-faceted manner, such as carrying out occupational health dynamic management in an orderly manner, strictly controlling risk sources, regularly organizing hidden danger investigations, going onsite to prevent and contain the occurrence of major accidents, and establishing an emergency response management system to carry out emergency drills. Besides, the Company paid attention to the implementation of the safety management requirements of relevant parties, inspected and managed activities and work of all units, suppliers and contractors associated with it, and further improved the Company's safety management system.

**Changhe Aviation took various measures to implement safe production**

**Organize special inspections to eliminate hidden problems.** On 22 June 2018, the heads of the Enterprise Planning Department, Technical Safety and Environmental Protection Department and other relevant personnel focused on the inspection of the implementation of flood control and heatstroke prevention and cooling work in each unit, and special inspections were carried out on key parts and important places such as boiler room, autoclave and nitrate tank, and the relevant units were required to immediately rectify the problems and safety hazards discovered by the inspection, and steadily promote the safety management informationization of dangerous points.

**Conduct emergency drills to improve emergency response capabilities** The Company's Comprehensive Management Department, flight test station and other related units jointly organized an emergency evacuation drill on emergency landing of helicopter under special circumstance to test the response speed and the rationality of the emergency plan, and improve the emergency response and rescue capabilities of employees during flight emergencies.

**Conduct fire inspection**

On 19 December and 28 December 2018, under organization of the Company, heads of the Production and Dispatching Department, the Procurement and Supply Department and other units conducted two safety fire inspections on New Year's Eve, and carried out a comprehensive inspection on key areas and important places such as dangerous points of Class I and II and key areas for fire prevention of the Company. Besides, the Technical Safety and Environmental Protection Department issued the Notice on Doing Good Job in Safety Production Supervision and Fire Safety during New Year's Day and Spring Festival to ensure the safety of the workshop during the holidays.

*4.3.2 Guaranteeing occupational health*

In accordance with the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases* and related laws and regulations, the Company formulated the *Measures for the Prevention and Control of Occupational Diseases* and other system requirements to ensure that employees conduct health checkups when they are on duty, on-the-job or resigned. In 2018, the occupational disease examination rate and filing rate of AviChina were both 100%. In addition, the Company entrusted third-party service agencies to comprehensively monitor the concentration (indensity) of occupational hazards such as dust, noise, high temperature and chemical poisons in the workplace, and the pass rate was 100%. The Company distributed personal protective device that meets the national occupational health standards for the victims, and the competent department supervised and directed the distribution and proper wearing of personal protective device. While paying attention to the occupational health of employees, the Company valued more on mental health of employees and engaged experts to provide psychological consultation services for employees to promote the healthy work and happy life of employees.

### 4.4 Caring for Employees' life

The Company attached great importance to the working environment and physical and mental health of employees and strived to create a work-life balance atmosphere for employees by constantly optimizing the working environment and organizing employees to participate in various cultural and sports activities.

Our offices are equipped with hot and cold air conditioning systems and ergonomic desks and chairs, as well as table tennis, badminton courts, basketball courts, dance studios, nursing rooms and other facilities to facilitate employees to relax after work.

In order to promote a healthy life philosophy, the Company encourages employees to develop their own hobbies, and actively organizes various cultural and sports activities, such as fun sports games, ball games, yoga training classes and youth network fellowship to help employees reduce work pressure.

## 5 CONTRIBUTING TO OUR COMMUNITY

The Company always keeps social responsibility in mind, and is well aware of the relationship between contributing to the community and the sustainable development of the Company. The Company actively participates in public welfare undertakings and makes every effort to give back to society. In 2018, while driving the economic development of the region, the Company carried out diversified voluntary activities such as targeted poverty alleviation, aviation science popularization education, environmental protection and community services. The Company spent 46,961 hours on volunteer service throughout the year.

### 5.1 Supporting Local Economic Development

The Company actively supports local infrastructure construction, explores new military-civilian integration industrial development models and promotes the development of aviation industrial parks in various regions. Meanwhile, the Company improves the scientific research level of the aviation industry and the region integrates by establishing science and technology cooperation projects and integrating external technical forces such as private enterprises, external scientific research institutions and universities. In addition, the Company promotes the adjustment of industrial structure and the coordinated development of local related industries, increases employment and taxation, and promotes the professional integration of various industries such as equipment manufacturing.

**Changhe Aviation drives the development of Jingdezhen Aviation Parts Industrial Park**

The aviation industry is an industry with a high degree of technology, talents and capital agglomeration, and can effectively promote the rapid development of the economy and society. Changhe Aviation and Jingdezhen High-tech Zone signed a strategic cooperation agreement to jointly build a first-class aviation parts industrial park, which is an important part of the "National General Navigation Comprehensive Industrial Demonstration Zone" in Jingdezhen High-tech Zone of Jiangxi Province.

In 2018, a total of 19 enterprises in Jingdezhen Aviation Parts Industrial Park went through the entry formalities. 18 enterprises have started construction, with a total purchase of about 450 mu, a total investment of RMB872 million and GFA of nearly 280,000 square meters. The development of aviation industry parks is of great significance to Jingdezhen. Jingdezhen Aviation Parts Industrial Park can not only create employment opportunities, increase residents' income, expand tax sources, and thus stimulating consumption, but also promote the upgrading of local industrial structure.

### 5.2 Spreading Aviation Culture

The Company has always been committed to popularizing aviation technology and knowledge, creating an aviation culture atmosphere and raising national aviation awareness. In 2018, the Company continued to devote itself to youth aviation culture communication project and inheriting aviation spirit by carrying out unusual aviation science popularization activities, bringing aviation books and explaining aviation knowledge to students.

**Changfeng Avionics conducted the "Love Airlines, Love the Motherland" activity to promote aviation knowledge into the campus**

Changfeng Avionics has built the Changfeng Aviation National Defense Education Base, actively undertaking social experience activities for students in Suzhou, conducting aviation science education and disseminating aviation culture to improve youth national defense awareness and technological awareness. In 2018, the fifth aviation knowledge into campus activity was conducted. Receptions were given to 8 batches and over 150 young students throughout the year.

## 5.3 Participating in Public Welfare Activities

In 2018, the Company undertook one of the three major tasks of China—targeted poverty alleviation, and carried out poverty alleviation projects in depth according to the requirements of the central government, regional governments and poverty alleviation offices. In addition, the Company regulated volunteer services and actively organized activities such as respecting the elderly, donating blood and protecting the environment to contribute to the community.

**Examples of the Group's Targeted Poverty Alleviation Projects in 2018**

| Subsidiaries | Targeted Poverty Alleviation Projects |
|---|---|
| Keeven Instrument | Invested more than RMB170,000 by way of purchasing agricultural and sideline products of the fixed-point poverty alleviation counties |
| Huiyang Company | Invested approximately RMB60,000 directly in helping the fixed-point poverty alleviation counties |
| AVIC Lanfei | Actively assisted the fixed-point poverty alleviation counties by way of giving financial aid incentives and poverty alleviation donations with a total donation of more than RMB180,000 |

| Subsidiaries | Targeted Poverty Alleviation Projects |
|---|---|
| Shanghai Aviation Electric | Worked with Baini Village, Guanling, Guizhou Province to conduct poverty alleviation activity, and purchased 5,000 kilograms of local dragon fruit |
| Taiyuan Instrument | Carried out fixed-point poverty alleviation cooperation with Mujiawa Village, Peijiagou Township, Shilou County, Luliang District, and provides poverty alleviation fund of RMB30,000 every year |
| Oriental Instrument | Coordinated fixed-point poverty alleviation work arrangement, and carried out agricultural poverty alleviation project in Ningqiang and Lueyang, with accumulated support funds of over RMB120,000 |
| JONHON Optronic | Sent urgently needed computers, projectors, books, stationery and other teaching supplies for Beicun Primary School of the fixed-point poverty alleviation village at Xishandi Township, Luoning County of Luoyang City |

Examples of the Group's Other Public Welfare Projects in 2018

| Subsidiaries | Public Welfare |
|---|---|
| Hafei Aviation | On the World Volunteer Service Day, Wu Daguan volunteer service teams at all levels entered communities and streets, walked into nursing homes, took care of the elderly person of no family and sent materials and blessings to them |
| Qianshan Avionics | In response to the call for pollution control in Xi'an, more than 40 employees were organized to participate in the thousand-people planting tree activity |
| Lanzhou Aviation Electric | Throughout the year, 35 employees made voluntary blood donation. |

# Independent Auditor's Report

信永中和
ShineWing

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

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

## OPINION

We have audited the consolidated financial statements of AviChina Industry & Technology Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 104 to 244, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

# Independent Auditor's Report

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

## KEY AUDIT MATTERS (Continued)

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Expected credit loss ("ECL") of accounts receivables* | |
| As at 31 December 2018, the Group's accounts receivables was significant to the consolidated financial statements. The estimation of ECL is based on a significant degree of management judgement and may be subject to management bias.<br><br>The conclusions are dependent upon management's judgement in making assumptions and selecting inputs to the ECL calculation based on number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. | Our audit procedures to assess the ECL of accounts receivables included, but are not limited to the audit procedures below. We obtained an understanding of the ECL assessment process for accounts receivables, performed walkthroughs and identified and tested relevant controls within the transaction process; communicated with management in regard to their estimation of the ECL. We have checked the ageing analysis, and selected samples to trace to the original supporting documents; inquired management about their consideration for the material and/or long-aged individual items, and examined the historical collection and evaluated the financial strength of the customers concerned; and examined subsequent collections by checking to the bank receipts and related original documents; and assessed the appropriateness of the ECL provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the ECL. |

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

## KEY AUDIT MATTERS (Continued)

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Revenue recognition for construction contracts (the percentage of completion method)* | |
| As at 31 December 2018, the Group's revenue recognition on construction contracts was significant to the consolidated financial statements. The Group uses the input method in accounting for its contract revenue. Significant management judgement is involved in using input method as it requires management to estimate the total estimated cost as well as the cost incurred up to the date as a proportion of the total estimated cost for each contract. | Our audit procedures to assess the revenue recognition included, but are not limited to the audit procedures below. We obtained an understanding of the contract accounting process, performed walkthroughs and identified and tested relevant controls within the process; checked the contract revenue recognised to the original contract clause; examined the compilation of the total estimated cost and discussed with management and various project officials to assess whether the estimation uncertainties have been adequately addressed; examined the cost incurred up to the date by reviewing the breakdown, selected samples to check to the original supporting documents; and recalculated the percentage of completion and performed gross profit analysis. |

# Independent Auditor's Report

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

## KEY AUDIT MATTERS (Continued)

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of inventories* | |
| As at 31 December 2018, the Group's inventories were significant to the consolidated financial statements. Management estimates the net realisable value for finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and writes down obsolete and slow-moving items in inventories to net realisable value. This assessment of impairment of inventories requires significant management estimates on current market conditions. | Our audit procedures to assess the impairment risk of inventories included, but are not limited to the audit procedures below. We obtained an understanding of the impairment assessment process for inventories, performed walkthroughs and identified and tested relevant controls within the transaction process; observed stock take performed by management, and identified the obsolete or slow-moving items; obtained the final stock list and selected samples to check to subsequent net realisable values; and examined the impairment calculation and the aging analysis prepared by management and checked the subsequent usage and sales of inventories. |

## OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

# Independent Auditor's Report

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

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

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

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

Hong Kong
20 March 2019

# Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| REVENUE | 5 | 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 | 5 | 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 | 7 | (408,271) | (330,108) |
| Share of profits of: | | | |
| Joint ventures | | 25,823 | 22,196 |
| Associates | | 186,952 | 152,352 |
| PROFIT BEFORE TAX | 6 | 2,903,425 | 2,757,885 |
| Income tax expenses | 10 | (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 | 12 | RMB0.215 | RMB0.205 |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

| | 2018<br>RMB'000 | 2017<br>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) income 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 Statement of Financial Position

As at 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | 14,962,386 | 14,527,086 |
| Investment properties | 14 | 365,106 | 281,545 |
| Land use rights | 15 | 1,640,279 | 1,689,809 |
| Goodwill | 16 | 69,122 | 69,188 |
| Other intangible assets | 17 | 575,863 | 619,438 |
| Investments in joint ventures | 18 | 141,772 | 122,433 |
| Investments in associates | 19 | 970,799 | 928,027 |
| Available-for-sale investments | 20 | – | 1,290,426 |
| Financial assets at fair value through other comprehensive income | 21 | 888,628 | – |
| Deferred tax assets | 22 | 324,183 | 288,221 |
| Prepayments, deposits and other receivables | 25 | 1,424,001 | 810,567 |
| Contract assets | 26 | 856,741 | – |
| **Total non-current assets** | | 22,218,880 | 20,626,740 |
| **CURRENT ASSETS** | | | |
| Inventories | 23 | 23,150,274 | 23,220,449 |
| Accounts and notes receivables | 24 | 21,272,651 | 17,541,036 |
| Prepayments, deposits and other receivables | 25 | 2,791,983 | 3,647,643 |
| Contract assets | 26 | 2,074,429 | – |
| Financial assets at fair value through profit or loss/held for trading | 27 | 280,629 | 23,660 |
| Pledged deposits | 28 | 1,414,308 | 1,502,878 |
| Term deposits with initial terms of over three months | 28 | 1,394,771 | 1,307,509 |
| Cash and cash equivalents | 28 | 12,122,364 | 11,063,187 |
| **Total current assets** | | 64,501,409 | 58,306,362 |
| **TOTAL ASSETS** | | 86,720,289 | 78,933,102 |

# Consolidated Statement of Financial Position

As at 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Accounts and notes payables | 29 | 25,324,860 | 24,084,796 |
| Other payables and accruals | 30 | 3,718,943 | 9,374,200 |
| Interest-bearing bank and other borrowings | 31 | 9,022,435 | 5,345,625 |
| Obligations under finance leases | 34 | 59,803 | 45,305 |
| Contract liabilities | 26 | 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 | 31 | 1,294,190 | 5,042,527 |
| Deferred income from government grants | 32 | 777,498 | 816,095 |
| Deferred tax liabilities | 22 | 36,640 | 82,441 |
| Convertible bonds | 33 | 2,930,007 | 1,531,945 |
| Obligations under finance leases | 34 | 474,415 | 373,802 |
| Other payables and accruals | 30 | 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 |

# Consolidated Statement of Financial Position

As at 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | 35 | 6,245,122 | 5,966,122 |
| Reserves | 36 | 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 |

The consolidated financial statements on pages 104 to 244 were approved and authorised for issue by the board of directors on 20 March 2019 and are signed on its behalf by:

| | |
|---|---|
| Director | Director |
| **Chen Yuanxian** | **Li Yao** |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

| | Attributable to equity holders of the Company | | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Capital reserve RMB'000 | Equity component of convertible bonds of subsidiaries RMB'000 | Fair value reserve RMB'000 | Currency translation reserve RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Subtotal RMB'000 | RMB'000 | RMB'000 |
| As at 31 December 2017 (as previously reported) | 5,966,122 | 3,840,969 | 352,610 | (162,317) | 2,920 | 241,248 | 4,467,709 | 14,709,261 | 16,450,473 | 31,159,734 |
| Change in accounting policy | – | – | – | (57,752) | – | – | 57,752 | – | – | – |
| As at 1 January 2018 (as restated) | 5,966,122 | 3,840,969 | 352,610 | (220,069) | 2,920 | 241,248 | 4,525,461 | 14,709,261 | 16,450,473 | 31,159,734 |
| Profit for the year | – | – | – | – | – | – | 1,287,942 | 1,287,942 | 1,292,733 | 2,580,675 |
| Other comprehensive income for the year, net of tax | – | – | – | (80,733) | 8,632 | – | – | (72,101) | (61,864) | (133,965) |
| Total comprehensive (loss) income for the year | – | – | – | (80,733) | 8,632 | – | 1,287,942 | 1,215,841 | 1,230,869 | 2,446,710 |
| Revised of fair value reserve from disposal of financial assets at fair value through other comprehensive income | – | – | – | (64,638) | – | – | 64,638 | – | – | – |
| Disposals of interests in subsidiaries | – | – | – | – | – | – | – | – | (48,122) | (48,122) |
| Capital injection by non-controlling shareholders of subsidiaries | – | (4,252) | – | – | – | – | – | (4,252) | 168,590 | 164,338 |
| Issue of shares | 279,000 | 905,221 | – | – | – | – | – | 1,184,221 | – | 1,184,221 |
| Issue of shares by a subsidiary upon exercise of convertible bonds | – | 109 | (22) | – | – | – | – | 87 | 134 | 221 |
| 2017 final dividend (Note 11) | – | – | – | – | – | – | (178,984) | (178,984) | – | (178,984) |
| Contribution from non-controlling shareholders of subsidiaries (Note (b)) | – | – | – | – | – | – | – | – | 278,442 | 278,442 |
| Recognition of equity-settled share-based payment expenses of a subsidiary | – | 9,231 | – | – | – | – | – | 9,231 | 13,589 | 22,820 |
| Recognition of equity component of convertible bonds | – | – | (64,789) | – | – | – | – | (64,789) | 387,759 | 322,970 |
| Dividends to non-controlling shareholders of subsidiaries | – | – | – | – | – | – | – | – | (269,781) | (269,781) |
| Transfer to statutory surplus reserve (Note 36 (c)) | – | – | – | – | – | 29,763 | (29,763) | – | – | – |
| Appropriation (Note 36 (c)) | – | – | – | – | – | 20,066 | (20,066) | – | – | – |
| Changes in ownership interests in subsidiaries without change of control | – | (46,298) | – | – | – | – | – | (46,298) | (13,232) | (59,530) |
| Others | – | 5,253 | – | – | – | – | (25,196) | (19,943) | (30,458) | (50,401) |
| As at 31 December 2018 | 6,245,122 | 4,710,233* | 287,799* | (365,440)* | 11,552* | 291,077* | 5,624,032* | 16,804,375 | 18,168,263 | 34,972,638 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

| | Attributable to equity holders of the Company | | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Capital reserve RMB'000 | Equity component of convertible bonds of a subsidiary RMB'000 | Fair value reserve RMB'000 | Currency translation reserve RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Subtotal RMB'000 | RMB'000 | RMB'000 |
| **As at 1 January 2017** | 5,966,122 | 4,250,049 | – | (36,006) | 15,434 | 187,277 | 3,418,722 | 13,801,598 | 15,161,247 | 28,962,845 |
| Profit for the year | – | – | – | – | – | – | 1,222,280 | 1,222,280 | 1,194,284 | 2,416,564 |
| Other comprehensive loss for the year, net of tax | – | – | – | (126,311) | (12,514) | – | – | (138,825) | (96,416) | (235,241) |
| Total comprehensive (loss) income for the year | – | – | – | (126,311) | (12,514) | – | 1,222,280 | 1,083,455 | 1,097,868 | 2,181,323 |
| Disposals of interests in subsidiaries | – | – | – | – | – | – | – | – | (4,804) | (4,804) |
| Capital injection by non-controlling shareholders of subsidiaries | – | – | – | – | – | – | – | – | 189,126 | 189,126 |
| Business combinations involving entities under common control (Note (a)) | – | (413,571) | – | – | – | – | – | (413,571) | – | (413,571) |
| 2016 final dividend | – | – | – | – | – | – | (119,322) | (119,322) | – | (119,322) |
| Contribution from non-controlling shareholders of subsidiaries (Note (b)) | – | – | – | – | – | – | – | – | 191,212 | 191,212 |
| Recognition of equity-settled share-based payment expenses of a subsidiary | – | 7,311 | – | – | – | – | – | 7,311 | 10,448 | 17,759 |
| Recognition of equity component of convertible bonds | – | – | 352,610 | – | – | – | – | 352,610 | – | 352,610 |
| Dividends to non-controlling shareholders of subsidiaries | – | – | – | – | – | – | – | – | (203,532) | (203,532) |
| Transfer to statutory surplus reserve (Note 36 (c)) | – | – | – | – | – | 25,244 | (25,244) | – | – | – |
| Appropriation (Note 36 (c)) | – | – | – | – | – | 28,727 | (28,727) | – | – | – |
| Others | – | (2,820) | – | – | – | – | – | (2,820) | 8,908 | 6,088 |
| **As at 31 December 2017** | 5,966,122 | 3,840,969* | 352,610* | (162,317)* | 2,920* | 241,248* | 4,467,709* | 14,709,261 | 16,450,473 | 31,159,734 |

Note (a):

On 29 December 2017, the Company obtained the control over AVIC Renewable Energy Investment Co., Ltd. ("AVIC Renewable Energy") through business combinations involving entities under common control.

Note (b):

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

* These reserve accounts comprise the consolidated reserves of RMB10,559,253,000 (2017: RMB8,743,139,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | 2,903,425 | 2,757,885 |
| Adjustments for: | | | |
| Interest expense | | 553,577 | 456,506 |
| Share of profits of joint ventures | 18 | (25,823) | (22,196) |
| Share of profits of associates | 19 | (186,952) | (152,352) |
| Interest income | 7 | (193,151) | (177,069) |
| Gain on disposal of property, plant and equipment | 5 | (108,344) | (56,543) |
| Gain on disposal of investments in associates | 5 | (10,827) | (37,704) |
| Gain on disposal of available-for-sale investments | 5 | – | (81,767) |
| Gain on disposal of financial assets at fair value through profit or loss | 5 | (128,302) | – |
| Gain on disposal of subsidiaries | 5 | (2,060) | (12,214) |
| Fair value gains on financial assets at fair value through profit or loss/held for trading | 5 | (4,581) | (2,914) |
| Depreciation on investment properties | 14 | 8,181 | 11,918 |
| Depreciation on property, plant and equipment | 13 | 1,078,881 | 1,034,003 |
| Amortisation of other intangible assets | 17 | 46,242 | 52,072 |
| Amortisation of land use rights | 15 | 41,306 | 36,873 |
| Impairment of available-for-sale investments | 6 | – | 6,071 |
| Impairment of property, plant and equipment | 6 | – | 1,350 |
| Impairment of other intangible assets | 6 | – | 41,029 |
| Impairment of accounts receivables and prepayments, deposits and other receivables | 6 | 155,282 | 158,878 |
| Write-down of inventories to net realisable value | 6 | 103,965 | 57,519 |
| Share-based payment expense | 6 | 22,820 | 17,759 |
| Dividend income from financial assets at fair value through profit or loss/at fair value through other comprehensive income/available-for-sale investments and financial assets held for trading | | (18,207) | (11,109) |
| Operating cash flows before movements in working capital | | 4,235,432 | 4,077,995 |
| Increase in inventories | | (2,807,131) | (1,623,378) |
| Increase in accounts and notes receivables | | (3,924,934) | (1,461,433) |
| Decrease in contract assets | | 782,875 | – |
| Increase in prepayments, deposits and other receivables | | (588,618) | (735,096) |
| Increase in accounts and notes payables | | 1,244,940 | 47,782 |
| Increase in contract liabilities | | 1,924,027 | – |
| Increase in other payables and accruals | | 209,641 | 2,414,592 |
| Decrease (increase) in pledged deposits | | 88,570 | (467,571) |
| Cash from operations | | 1,164,802 | 2,252,891 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| Interest received | | 193,151 | 177,069 |
| Interest paid | | (439,911) | (456,506) |
| Income tax paid | | (410,309) | (385,519) |
| Net cash flows from operating activities | | 507,733 | 1,587,935 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (1,728,288) | (1,919,928) |
| Purchase of investment properties | | – | (3,233) |
| Purchase of land use rights | | (5,268) | (15,927) |
| Purchase of other intangible assets | | (2,667) | (19,272) |
| Purchase of financial assets at fair value through profit or loss | | (252,308) | – |
| Additions to available-for-sale investments | | – | (88,119) |
| Additions to investment in a joint venture | 18 | – | (23,066) |
| Additions to investments in associates | 19 | (92,700) | (60,000) |
| Acquisition of a subsidiary | | (206,744) | (202,019) |
| Redemption of term deposits with initial terms of over three months | | 1,307,509 | 717,656 |
| Addition of term deposits with initial terms of over three months | | (1,394,771) | (1,307,509) |
| Government grant for purchase of property, plant and equipment | 32 | 49,294 | 209,178 |
| Proceeds from disposal of property, plant and equipment | | 196,032 | 476,429 |
| Proceeds from disposal of investment properties | | – | 2,435 |
| Disposal of available-for-sale investments | | – | 82,843 |
| Disposals of financial assets at fair value through profit or loss/held for trading | | 145,379 | 10,311 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

| | Notes | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| Disposals of financial assets at fair value through other comprehensive income | | 191,237 | – |
| Disposal of investments in associates | | 108,361 | 49,170 |
| Disposal of investment in a joint venture | | – | 7,520 |
| Disposal of investments in subsidiaries | 46 | 37,635 | 67,648 |
| Dividend received from joint ventures | 18 | 6,484 | 10,509 |
| Dividends received from financial assets at fair value through profit or loss/at fair value through other comprehensive income/ available-for-sale investments and financial assets held for trading | | 17,659 | 14,759 |
| Dividend received from associates | 19 | 130,445 | 147,641 |
| Net cash flows used in investing activities | | (1,492,711) | (1,842,974) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | 8,289,126 | 6,144,715 |
| Repayments of borrowings | | (8,430,531) | (5,498,282) |
| Proceeds from convertible bonds | | 1,613,729 | 1,884,555 |
| Proceeds from sale and lease back transactions | | 150,000 | – |
| Repayment of obligations under finance leases | | (43,782) | (26,328) |
| Repayments to a fellow subsidiary | | (412,063) | – |
| Capital injection by non-controlling shareholders of subsidiaries | | 164,338 | 191,212 |
| Advance from non-controlling shareholders of subsidiaries | | 19,988 | – |
| Proceed from placing | | 1,185,766 | – |
| Payments for acquisition of additional interests in a subsidiary | | (59,530) | – |
| Dividends paid to equity holders of the Company | | (178,984) | (119,322) |
| Dividends paid to non-controlling shareholders of subsidiaries | | (260,222) | (133,477) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| Net cash flows from financing activities | | 2,037,835 | 2,443,073 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 1,052,857 | 2,188,034 |
| Cash and cash equivalents at beginning of year | | 11,063,187 | 8,879,976 |
| Effect of foreign exchange rate changes, net | | 6,320 | (4,823) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 12,122,364 | 11,063,187 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 28 | 14,931,443 | 13,873,574 |
| Less: Pledged deposits | 28 | (1,414,308) | (1,502,878) |
| Term deposits with initial terms of over three months | 28 | (1,394,771) | (1,307,509) |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | 28 | 12,122,364 | 11,063,187 |

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

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

### Information about principal subsidiaries

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

| Name | Place of incorporation/ registration and business | Issued paid up/ registered share capital | Percentage of equity attributable to the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | 2018 | | 2017 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| Harbin Aviation Industry (Group) Ltd. (哈爾濱航空工業(集團)有限公司) | PRC | RMB450,000,000 | 100 | – | 100 | – | Manufacture and sale of aero products and related services |
| Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司) | PRC | RMB717,114,512 | 43.77 Note(a) | – | 43.77 Note(a) | – | Design, development, manufacture and sale of basic trainers, general-purpose aeroplanes and other aero products, including parts and components |

## 1. CORPORATE AND GROUP INFORMATION (Continued)

**Information about principal subsidiaries** (Continued)

| Name | Place of incorporation/ registration and business | Issued paid up/ registered share capital | Percentage of equity attributable to the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | 2018 | | 2017 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| AVIC Jonhon Optronic Technology Co., Ltd. (中航光電科技股份有限公司) | PRC | RMB790,940,909 | 41.39 Note(a) | – | 41.17 Note(a) | – | Research and development, manufacture and sale of electrical connectors, optical components and cable assemblies |
| China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司) | PRC | RMB1,759,182,006 | 43.22 Note(b) | – | 43.22 Note(b) | – | Holding investments in companies engaged in aviation equipment business |
| Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司) | PRC | RMB293,163,439 | 100 | – | 100 | – | Manufacture and sale of aviation electrical engineering products and accessories |
| China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究總院有限公司) | PRC | RMB750,000,000 | 100 | – | 100 | – | Delivery of planning, design, consultation, construction, operation and other related aviation engineering services |
| AviChina Hong Kong Limited (中航科工香港有限公司) | Hong Kong | HKD1,000 | 100 | – | 100 | – | Design, sale and development of aviation products, finance and investment, information consulting, training and house rental |
| AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司) | PRC | RMB220,500,000 | 32.61 Note(b) | – | 32.61 Note(b) | – | Development, manufacture, remodelling and sale of Unmanned Aerial Vehicle products |

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about principal subsidiaries (Continued)

| Name | Place of incorporation/ registration and business | Issued paid up/ registered share capital | Percentage of equity attributable to the Company 2018 Direct | 2018 Indirect | 2017 Direct | 2017 Indirect | Principal activities |
|---|---|---|---|---|---|---|---|
| AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司) | PRC | RMB200,000,000 | 100 | – | 100 | – | Aviation industry project investment, consulting research and technology transfer |
| AVICOPTER PLC (中航直升機股份有限公司) | PRC | RMB589,476,716 | 6.56 | 28.21 Note(b) | 6.56 | 28.21 Note(b) | Research, development, design, manufacture and sale of aero products, including parts and components |
| Jiangxi Changhe Aviation Industry Company Limited (江西昌河航空工業有限公司) | PRC | RMB630,422,696 | – | 34.77 Note(b) | – | 34.77 Note(b) | Manufacture and sale of general-purpose aeroplane and helicopters |
| Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司) | PRC | RMB86,838,030 | – | 34.77 Note(b) | – | 34.77 Note(b) | Manufacture aviation propellers, speed governors, feathering pumps, helicopter rotors, tail rotors, hovercrafts with propellers |
| Tianjin Helicopter Co., Ltd. (天津直升機有限責任公司) | PRC | RMB250,000,000 | – | 34.77 Note(b) | – | 34.77 Note(b) | Research and manufacture of helicopters, other aircrafts and aerospace components, and production, sale and maintenance services |
| Harbin Hafei Aviation Industry Co., Ltd. (哈爾濱哈飛航空工業有限責任公司) | PRC | RMB500,000,000 | – | 34.77 Note(b) | – | 34.77 Note(b) | Design, development, manufacture and sale of helicopters, other aircrafts and electrical engineering products |

## 1. CORPORATE AND GROUP INFORMATION (Continued)

**Information about principal subsidiaries** (Continued)

| Name | Place of incorporation/ registration and business | Issued paid up/ registered share capital | Percentage of equity attributable to the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | 2018 | | 2017 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司) | PRC | RMB320,000,000 | – | 43.22 Note(b) | – | 43.22 Note(b) | Manufacture and sale of aviation electrical engineering products and accessories |
| Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司) | PRC | RMB360,000,000 | – | 43.22 Note(b) | – | 43.22 Note(b) | Manufacture and sale of aviation electrical engineering products and accessories |
| Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司) | PRC | RMB260,000,000 | – | 43.22 Note(b) | – | 43.22 Note(b) | Research, manufacture and sale of aviation auto control equipment and instruments |
| Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司) | PRC | RMB321,680,000 | 1.56 | 37.49 Note(b) | 1.56 | 37.49 Note(b) | Research, manufacture and sale of air data systems and various types of aviation instruments |
| Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀錶有限責任公司) | PRC | RMB452,000,000 | – | 43.22 Note(b) | – | 43.22 Note(b) | Manufacture and sale of aviation electrical engineering products and accessories |
| AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司) | PRC | RMB110,000,000 | – | 43.22 Note(b) | – | 43.22 Note(b) | Manufacture and sale of aviation electrical engineering products and accessories |
| AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司) | PRC | RMB292,000,000 | – | 43.22 Note(b) | – | 43.22 Note(b) | Manufacture and sale of aviation electrical engineering products and accessories |

## 1. CORPORATE AND GROUP INFORMATION (Continued)

### Information about principal subsidiaries (Continued)

| Name | Place of incorporation/ registration and business | Issued paid up/ registered share capital | Percentage of equity attributable to the Company 2018 Direct | 2018 Indirect | 2017 Direct | 2017 Indirect | Principal activities |
|---|---|---|---|---|---|---|---|
| AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司) | PRC | RMB355,737,500 | – | 34.58 Note(b) | – | 34.58 Note(b) | Manufacture and sale of aviation electrical engineering products and accessories |
| Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司) | PRC | RMB63,432,216 | – | 43.22 Note(b) | – | 43.22 Note(b) | Manufacture and sale of aviation instruments, sensors and autopilot products and related products |
| Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司) | PRC | RMB59,632,782 | – | 43.22 Note(b) | – | 43.22 Note(b) | Research, manufacture, sale of avionics, airborne equipment and aviation products and related services |
| Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司) | PRC | RMB100,000,000 | – | 43.22 Note(b) | – | 43.22 Note(b) | Manufacture and sale of aeronautic instruments and other civil mechanical and electrical instruments |
| AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限責任公司) | PRC | RMB80,856,400 | – | 26.02 Note(a) | – | 25.88 Note(a) | Research, manufacture, sale, maintenance and related service of aviation electric equipment, electric connectors and related products |
| AVIC Forstar S&T Co., Ltd. (中航富士達科技股份有限公司) | PRC | RMB65,720,000 | – | 22.97 Note(a) | – | 22.85 Note(a) | Manufacture of electric connectors, wires and cables, cable components, microwave components, optoelectronic devices, antennas, power supplies, instruments and meter production and marketing |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 1. CORPORATE AND GROUP INFORMATION (Continued)

**Information about principal subsidiaries** (Continued)

| Name | Place of incorporation/ registration and business | Issued paid up/ registered share capital | Percentage of equity attributable to the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | 2018 | | 2017 | | |
| | | | Direct | Indirect | Direct | Indirect | |
| Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司) | PRC | RMB2,360,000 | – | 21.11 Note(a) | – | 21.00 Note(a) | Research and development, manufacture and sale of optical fibre connectors, optical-module ceramic cores, active and passive optical fibre communication devices, and new ceramic materials |
| AVIC Optoelectronic Precision Electronics (Shenzhen) Co., Ltd. (中航光電精密電子(深圳)有限公司) | PRC | RMB50,000,000 | – | 21.11 Note(a) | – | 21.00 Note(a) | Manufacture and sale of electrical connectors |
| China Aviation International Construction and Investment Co., Ltd. (中國航空國際建設投資有限公司) | PRC | RMB130,000,000 | – | 100 | – | 100 | Project contracting of aviation, civil and industrial construction |
| China Aviation Integration Equipment Co., Ltd. (中航工程集成設備有限公司) | PRC | RMB61,000,000 | – | 100 | – | 100 | Research, manufacture and sale of mechanical equipment |
| China Aviation Engineering Supervision (Beijing) Co., Ltd. (中航工程監理(北京)有限公司) | PRC | RMB6,000,000 | – | 100 | – | 100 | Construction supervision and engineering consulting |
| AVIC CAPDI Engineering Consulting (Beijing) Co., Ltd. (中航工程諮詢(北京)有限公司) | PRC | RMB3,000,000 | – | 100 | – | 100 | Engineering consulting |
| AVIC CAPDI (Macau) Company Limited (中航院設計諮詢(澳門)有限公司) | Macau | MOP600,000 | – | 100 | – | 100 | Engineering, designing and consulting |
| AVIC Renewable Energy Investment Co., Ltd. (中國航空工業新能源投資有限公司) | PRC | RMB329,687,591 | – | 69.30 | – | 69.30 | Engineering consulting and power generation |

## 1. CORPORATE AND GROUP INFORMATION (Continued)

**Information about principal subsidiaries** (Continued)

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

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

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

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

## 2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

**Basis of consolidation**

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

## 2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Basis of consolidation** (Continued)

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| IFRS 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.

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.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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 RMB'000 | Impact on adoption of IFRS 9 RMB'000 | Impact on adoption of IFRS 15 RMB'000 | Carrying amount as at 1/1/2018 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 RMB'000 | Impact on adoption of IFRS 9 RMB'000 | Impact on adoption of IFRS 15 RMB'000 | Carrying amount as at 1/1/2018 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.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

**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.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in Note 2.4 below.

***(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").

## 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:*

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.

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 ("ECL") 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) RMB'000 | Adoption of IFRS 9-Reclassification RMB'000 | Carrying amount at 1 January 2018 (IFRS 9)* 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.

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 RMB'000 | Retained earnings 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 IFRS 9 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 Group's accounting policies for its revenue streams are disclosed in detail in Note 2.4 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 RMB'000 | Impact on adoption of IFRS 15-Reclassification RMB'000 | Carrying amount as restated at 1 January 2018** 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.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

### 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 RMB969,316,000 and accounts and notes receivables of RMB31,021,000 were reclassified to contract assets and the amount of consideration received from sales of goods of 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.

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

| | As reported RMB'000 | Impacts of adopting IFRS 15** RMB'000 | Amounts excluding impacts of adopting IFRS 15 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

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

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

**IFRS 16 Leases**

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

**IFRS 16 Leases** (Continued)

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately RMB133,719,000 as disclosed in note 38. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Company are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under IFRS 16. The directors of the Company expect that the adoption of IFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

**Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments provide guidance on addressing the acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its joint venture and associate. An investing entity is required to recognise the gain or loss arising from selling or contributing assets that constitutes or contains a business to a joint venture or associate in full. An investing entity is required to recognise the gain or loss arising from selling or contributing assets that does not constitute or contain a business to a joint venture or associate only to the extent of the unrelated investors' interests in that joint venture or associate.

The effective date of Amendments to IFRS 10 and IAS 28 has not yet been determined. However, earlier application is permitted. The amendments should be applied prospectively.

The directors of the Company anticipate that the application of Amendments to IFRS 10 and IAS 28 will have no material impact in the Group's consolidated financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

**Amendments to IAS 28 Long-term Investments in Associates and Joint Ventures**

The amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Amendments to IAS 28 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted. The amendments should be applied retrospectively.

The directors of the Company anticipate that the application of Amendments to IAS 28 will have no material impact in the Group's consolidated financial statements.

**Annual Improvements to IFRSs 2015-2017 Cycle**

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, which are summarised below.

Amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. Amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

Amendments to IAS 12 clarify that the income tax consequences of dividends as defined in IFRS 9 (i.e. distribution of profits) should be recognised when a liability to pay a dividend is recognised. The income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated distributable profits were originally recognised.

Amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments apply to annual periods on or after 1 January 2019 with earlier application permitted.

The directors of the Company anticipate that the application of the amendments included in the Annual Improvements to IFRSs 2015-2017 Cycle will have no material impact in the Group's consolidated financial statements.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates and joint ventures

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

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

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

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

### Merger accounting

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Merger accounting** (Continued)

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

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

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

**Goodwill**

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Fair value measurement**

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

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

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

Level 1 – based on quoted market prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of non-financial assets**

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Related parties**

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment and depreciation

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

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

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

| | |
|---|---|
| Buildings | over the shorter of 20 – 40 years or lease term |
| Plant and equipment | 5 – 18 years |
| Furniture, fixtures, other equipment and motor vehicles | 3 – 8 years |

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Investment properties**

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

**Land use rights**

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

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

**Intangible assets (other than goodwill)**

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

***Research and development costs***

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Intangible assets (other than goodwill)** (Continued)

***Technology know-how***

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

***Trademarks and licences***

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

***Contractual customer relationships***

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

***Service concession arrangements***

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Leases**

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

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

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

**Financial instruments**

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IFRS 9 (applicable on or after 1 January 2018)***

*Financial assets*

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

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

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

Equity instruments designated as at FVTOCI

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IFRS 9 (applicable on or after 1 January 2018)*** (Continued)

*Financial assets* (Continued)

Financial assets at FVTPL

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

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

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

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IFRS 9 (applicable on or after 1 January 2018)*** (Continued)

*Financial assets* (Continued)

Impairment of financial assets

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

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

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

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IFRS 9 (applicable on or after 1 January 2018)*** (Continued)

*Financial assets* (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IFRS 9 (applicable on or after 1 January 2018)*** (Continued)

*Financial assets* (Continued)

Impairment of financial assets (Continued)

Definition of default

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

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

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

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IFRS 9 (applicable on or after 1 January 2018)*** (Continued)

*Financial assets* (Continued)

Impairment of financial assets (Continued)

Write-off policy

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

Measurement and recognition of expected credit losses

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IFRS 9 (applicable on or after 1 January 2018)*** (Continued)

*Financial assets* (Continued)

Derecognition of financial assets

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

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

*Financial liabilities and equity instruments*

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IFRS 9 (applicable on or after 1 January 2018)*** (Continued)

*Financial liabilities and equity instruments* (Continued)

Financial liabilities subsequently measured at amortised cost

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

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

***Under IAS 39 (applicable before 1 January 2018)***

*Investments and other financial assets*

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IAS 39 (applicable before 1 January 2018)*** (Continued)

*Investments and other financial assets* (Continued)

Loans and receivables

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

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IAS 39 (applicable before 1 January 2018)*** (Continued)

*Investments and other financial assets* (Continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IAS 39 (applicable before 1 January 2018)*** (Continued)

*Investments and other financial assets* (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

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

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

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

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

Available-for-sale financial investments

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

***Under IAS 39 (applicable before 1 January 2018)*** (Continued)

*Financial liabilities*

Initial recognition and measurement

Financial liabilities are classified as other financial liabilities.

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

The Group's financial liabilities include accounts and notes payables, other payables and accruals, obligations under finance leases, convertible bonds, interest-bearing bank and other borrowings.

Subsequent measurement

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

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

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

Derecognition of financial liabilities

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

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

*Equity instruments*

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

**Offsetting of financial instruments**

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Convertible bonds

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

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

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

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

### Inventories

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Cash and cash equivalents**

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

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

**Provisions**

A provision, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the grantor, is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

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

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

**Income tax**

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Income tax** (Continued)

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

– when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

– when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Government grants**

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

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

**Revenue recognition**

***Policy applicable to the year ended 31 December 2018 (with application of IFRS 15)***

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue recognition** (Continued)

***Policy applicable to the year ended 31 December 2018 (with application of IFRS 15)*** (Continued)

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- The Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or

- The Group' performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

*Contract assets and contract liabilities*

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

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

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

The Group recognised revenue from the following major sources:

- sales of aviation products

- provision of services

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue recognition** (Continued)

***Policy applicable to the year ended 31 December 2018 (with application of IFRS 15)*** (Continued)

*The sale of aviation products and services*

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue recognition** (Continued)

***Policy applicable to the year ended 31 December 2018 (with application of IFRS 15)*** (Continued)

*Rental income*

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

*Interest income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

*Dividend income*

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

***Policy applicable to the year ended 31 December 2017***

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

(a) from the sale of aviation products, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;

(c) from the rendering of services including that from operating service provided under service concession arrangements, over the service terms as the services are rendered, as further explained in the accounting policy for "Contracts for services" below;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue recognition** (Continued)

***Policy applicable to the year ended 31 December 2017*** (Continued)

*Construction contracts*

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

Revenue from fixed price construction contracts including construction or upgrade services of the infrastructure under a service concession arrangement is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

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

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

*Contracts for services*

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payments

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

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

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Other employee benefits

*Pension scheme*

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

*Housing benefits*

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

*Termination benefits*

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

### Borrowing costs

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

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Foreign currencies**

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

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

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

The resulting exchange differences are recognised in other comprehensive income and accumulated in the currency translation reserve.

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

**Judgements**

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

**Judgements** (Continued)

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

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

*Classification between investment properties and owner-occupied properties*

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

**Estimation uncertainty**

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

*Impairment of non-financial assets (other than goodwill)*

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

*Deferred tax and income tax*

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

**Estimation uncertainty** (Continued)

***Depreciation and amortisation***

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

***Impairment allowances on financial assets***

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

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

***Impairment of inventories***

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

***Revenue recognition***

When the group transfers control of a good or service over time, revenue is recognised by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each performance obligation in the contract. Significant judgments and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligation at the reporting date. Based on the Group's experience and nature of the contracts undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that costs to complete and revenue can be reliably estimated.

## 4. OPERATING SEGMENT INFORMATION

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

The executive directors 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.

## 4. OPERATING SEGMENT INFORMATION (Continued)

| Year ended 31 December 2018 | Aviation entire aircraft RMB'000 | Aviation parts and components RMB'000 | Aviation engineering services RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Segment Revenue:** | | | | |
| Sales to external customers | 11,010,731 | 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.

## 4. 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.

## 4. OPERATING SEGMENT INFORMATION (Continued)

### Information about major customers

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Customer A[1] | 7,869,665 | 8,079,171 |

1 Revenue from Aviation entire aircraft.

## 5. REVENUE, OTHER INCOME AND GAINS

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

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

| | 2018<br>RMB'000 | 2017<br>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 |

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Disaggregation of revenue by timing of recognition** | | |
| 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 |

## 5. 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 |

## 6. PROFIT BEFORE TAX

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

| | Notes | 2018<br>RMB'000 | 2017<br>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 | 14 | 8,181 | 11,918 |
| Property, plant and equipment | 13 | 1,078,881 | 1,034,003 |
| Less: Amortisation of deferred income from government grants | 32 | (63,383) | (222,765) |
| | | 1,023,679 | 823,156 |
| Amortisation: | | | |
| Land use rights | 15 | 41,306 | 36,873 |
| Other Intangible assets | 17 | 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 | 13 | – | 1,350 |
| Other intangible assets | 17 | – | 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.

## 7. FINANCE COSTS, NET

| | 2018<br>RMB'000 | 2017<br>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%).

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Fees | 775 | 760 |
| Other emoluments: | | |
| Salaries and allowances | 1,104 | 356 |
| | 1,879 | 1,116 |

### (a) Independent non-executive directors

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Mr. Liu Weiwu[1] | 80 | – |
| Mr. Wang Jianxin[1] | 105 | – |
| Mr. Liu Renhuai | 190 | 170 |
| Mr. Lau Chung Man, Louis[2] | 105 | 210 |
| Mr. Yeung Chi Wai[2] | 105 | 210 |
| | 585 | 590 |

There were no other emoluments payable to the independent non-executive directors during the year (2017:Nil).

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

### (b) Executive directors and non-executive directors

| | Fees RMB'000 | Salaries and allowances RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Executive directors: | | | | | |
| Mr. Tan Ruisong[1] | – | – | – | – | – |
| Mr. Chen Yuanxian[1 & 5] | – | 658 | – | – | 658 |
| Mr. Lin Zuoming[2] | – | – | – | – | – |
| Non-executive directors: | | | | | |
| Mr. Wang Xuejun[1] | – | – | – | – | – |
| Mr. Wu Xiandong[2] | – | – | – | – | – |
| Mr. Li Yao | – | – | – | – | – |
| Mr. Patrick de Castelbajac | – | – | – | – | – |
| Mr. He Zhiping | 190 | – | – | – | 190 |
| | 190 | 658 | – | – | 848 |

| | Fees RMB'000 | Salaries and allowances RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| 2017 | | | | | |
| Executive director: | | | | | |
| Mr. Lin Zuoming[2] | – | – | – | – | – |
| Non-executive directors: | | | | | |
| Mr. Tan Ruisong[1] | – | – | – | – | – |
| Mr. Wu Xiandong[4] | – | – | – | – | – |
| Mr. Li Yao[4] | – | – | – | – | – |
| Mr. Patrick de Castelbajac[4] | – | – | – | – | – |
| Mr. Gu Huizhong[4] | – | – | – | – | – |
| Mr. Gao Jianshe[4] | – | – | – | – | – |
| Mr. He Zhiping | 170 | – | – | – | 170 |
| Mr. Kiran Rao[4] | – | – | – | – | – |
| | 170 | – | – | – | 170 |

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

### (b) Executive director and non-executive directors (Continued)

There was no arrangement under which directors waived or agreed to waive any remuneration during the year (2017: Nil). The emoluments paid or payable to each of the directors were paid by the Company.

### (c) Supervisors

| | Fees RMB'000 | Salaries and allowances RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Supervisors: | | | | | |
| Mr. Zheng Qiang | – | – | – | – | – |
| Mr. Liu Fumin[3] | – | – | – | – | – |
| Ms. Li Jing[3] | – | 187 | – | – | 187 |
| Mr. Guo Guangxin[3] | – | – | – | – | – |
| Mr. Shi Shiming[3] | – | 259 | – | – | 259 |
| | – | 446 | – | – | 446 |

| | Fees RMB'000 | Salaries and allowances RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| 2017 | | | | | |
| Supervisors: | | | | | |
| Mr. Zheng Qiang | – | – | – | – | – |
| Mr. Liu Fumin | – | – | – | – | – |
| Ms. Li Jing | – | 356 | – | – | 356 |
| | – | 356 | – | – | 356 |

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

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

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

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

4 On 18 May 2017, Mr. Wu Xiandong, Mr. Li Yao and Mr. Patrick de Castelbajac were appointed as the new non-executive directors of the Company; Mr. Gu Huizhong, Mr. Gao Jianshe and Mr. Kiran Rao were resigned as the non-executive directors of the Company.

5 Mr. Chen Yuanxian was also the general manager of the Company and his emoluments disclosed above represented services rendered by him as the general manager.

## 9. FIVE HIGHEST PAID EMPLOYEES

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Salaries and allowances | 7,133 | 5,166 |

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

| | Number of employees | |
|---|---|---|
| | 2018 | 2017 |
| HK$1,000,001 to HK$1,500,000 (equivalent to 2018: approximately RMB840,000 to RMB1,260,000 and 2017: approximately RMB833,000 to RMB1,250,000) | 5 | 5 |

During the years ended 31 December 2018 and 2017, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals has waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

## 10. 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<br>RMB'000 | 2017<br>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<br>RMB'000 | 2017<br>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 |

## 11. DIVIDENDS

| | 2018<br>RMB'000 | 2017<br>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.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 5,979,116,357 (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<br>RMB'000 | 2017<br>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 |

## 13. PROPERTY, PLANT AND EQUIPMENT

2018

| | Construction in progress RMB'000 | Buildings RMB'000 | Plant and equipment RMB'000 | Furniture, fixtures, other equipment and motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 1 January 2018 | 3,024,030 | 7,511,015 | 8,806,258 | 3,027,335 | 22,368,638 |
| Additions | 1,348,040 | 56,653 | 158,938 | 150,645 | 1,714,276 |
| Transfer upon completion | (747,858) | 224,875 | 332,611 | 190,372 | – |
| Disposal/write-off | (38,454) | (34,056) | (94,413) | (53,377) | (220,300) |
| Disposal of subsidiaries | (7,404) | – | (12,813) | (5,159) | (25,376) |
| Transfer to investment properties | (43,424) | (61,102) | – | – | (104,526) |
| As at 31 December 2018 | 3,534,930 | 7,697,385 | 9,190,581 | 3,309,816 | 23,732,712 |
| **Accumulated depreciation and impairment** | | | | | |
| As at 1 January 2018 | – | (1,742,605) | (4,019,631) | (2,079,316) | (7,841,552) |
| Depreciation | – | (218,347) | (583,255) | (277,279) | (1,078,881) |
| Elimination on disposal/write-off | – | 13,811 | 72,750 | 46,051 | 132,612 |
| Transfer to investment properties | – | 5,984 | – | – | 5,984 |
| Disposal of subsidiaries | – | – | 9,197 | 2,314 | 11,511 |
| As at 31 December 2018 | – | (1,941,157) | (4,520,939) | (2,308,230) | (8,770,326) |
| **Net book value** | | | | | |
| As at 31 December 2018 | 3,534,930 | 5,756,228 | 4,669,642 | 1,001,586 | 14,962,386 |

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

2017

| | Construction in progress RMB'000 | Buildings RMB'000 | Plant and equipment RMB'000 | Furniture, fixtures, other equipment and motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 1 January 2017 | 2,805,823 | 7,234,111 | 7,889,595 | 2,826,927 | 20,756,456 |
| Additions | 1,906,939 | 123,857 | 332,103 | 159,970 | 2,522,869 |
| Transfer from investment properties | – | 16,307 | – | – | 16,307 |
| Transfer upon completion | (1,374,907) | 260,016 | 877,785 | 237,106 | – |
| Disposal/write-off | (193,735) | (117,773) | (293,182) | (196,025) | (800,715) |
| Disposal of subsidiaries | (120,090) | – | (43) | (643) | (120,776) |
| Transfer to investment properties | – | (5,503) | – | – | (5,503) |
| As at 31 December 2017 | 3,024,030 | 7,511,015 | 8,806,258 | 3,027,335 | 22,368,638 |
| **Accumulated depreciation and impairment** | | | | | |
| As at 1 January 2017 | – | (1,559,917) | (3,751,214) | (1,896,476) | (7,207,607) |
| Depreciation | – | (226,719) | (554,477) | (252,807) | (1,034,003) |
| Transfer from investment properties | – | (1,666) | – | – | (1,666) |
| Impairment | – | – | (1,350) | – | (1,350) |
| Elimination on disposal/write-off | – | 45,697 | 287,388 | 69,550 | 402,635 |
| Disposal of subsidiaries | – | – | 22 | 417 | 439 |
| As at 31 December 2017 | – | (1,742,605) | (4,019,631) | (2,079,316) | (7,841,552) |
| **Net book value** | | | | | |
| As at 31 December 2017 | 3,024,030 | 5,768,410 | 4,786,627 | 948,019 | 14,527,086 |

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2018, certain of the Group's property, plant and equipment with a carrying value of approximately RMB58,867,000 (31 December 2017: RMB63,600,000) were situated on leasehold lands in the PRC which are granted by AVIC for the Group's use at no cost or have been leased from certain subsidiaries of the ultimate holding company under long-term leases. The remaining period of the Group's rights on the leasehold land at 31 December 2018 ranged from 4 to 31 years (31 December 2017: 5 to 32 years).

The Group was in the process of applying for the legal titles for buildings with a net book value of approximately RMB1,722,260,000 as at 31 December 2018 (31 December 2017: RMB976,741,000).

The carrying value of plant and equipment of approximately RMB4,669,642,000 (31 December 2017: RMB4,786,627,000) includes an amount of approximately RMB671,906,000 (31 December 2017: RMB419,108,000) in respect of assets held under finance leases.

## 14. INVESTMENT PROPERTIES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Carrying amount at 1 January | 281,545 | 301,877 |
| Additions | – | 3,233 |
| Transfer from owner-occupied property | 112,034 | 7,394 |
| Depreciation | (8,181) | (11,918) |
| Transfer to owner-occupied property | – | (19,041) |
| Exchange realignment | 2,376 | – |
| Written-off | (22,668) | – |
| Carrying amount at 31 December | 365,106 | 281,545 |
| At valuation | 654,367 | 476,842 |

Investment properties are located in the mainland China and Hong Kong and their valuations as at 31 December 2018 and 2017 were determined by the directors of the Company based on either the observable market prices of similar buildings in the same districts or the discounted cash flow method, which are within Level 2 of the fair value hierarchy.

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

The Group was in the process of applying for the legal titles for investment properties with a net book value of approximately RMB172,250,000 as at 31 December 2018 (31 December 2017: RMB81,365,000).

## 15. LAND USE RIGHTS

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Cost** | | |
| As at 1 January | 1,976,301 | 1,957,705 |
| Additions | 5,268 | 15,927 |
| Transfer from investment properties | – | 4,916 |
| Transfer to investment properties | (15,780) | (2,247) |
| As at 31 December | 1,965,789 | 1,976,301 |
| **Accumulated amortisation** | | |
| As at 1 January | (286,492) | (249,459) |
| Amortisation | (41,306) | (36,873) |
| Transfer from investment properties | – | (516) |
| Transfer to investment properties | 2,288 | 356 |
| As at 31 December | (325,510) | (286,492) |
| **Net book amount** | | |
| As at 31 December | 1,640,279 | 1,689,809 |

## 16. GOODWILL

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Carrying amount at 31 December | 69,122 | 69,188 |

The goodwill acquired in the acquisitions of Shenzhen Xiangtong Photoelectric Technology Co., Ltd. ("Xiangtong Photoelectric") in 2014 and AVIC Forstar S&T Co., Ltd. ("AVIC Forstar") in 2013 is fully allocated to each cash-generating unit respectively. As of 31 December 2018, the Group performed an impairment assessment of goodwill based on the respective recoverable amounts of the CGUs and concluded that no impairment provision was necessary. The recoverable amount of each CGU is determined based on a value-in-use calculation using the discounted cash flow method. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

The key assumptions used for value-in-use calculations in 2018 were annual volume growth rates of 10% to 19% and 11% to 15% (2017: 9% to 10% and 4% to 11%) for the five-year forecast, growth rates beyond the five-year period of 0% and 0% (2017: 0% and 0%) and pre-tax discount rates of 13% and 13% (2017: 15% and 15%) for Xiangtong Photoelectric and AVIC Forstar, respectively.

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

## 17. OTHER INTANGIBLE ASSETS

2018

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

## 17. OTHER INTANGIBLE ASSETS (Continued)

2017

| | Development costs RMB'000 | Service concession arrangement RMB'000 | Technology know-how RMB'000 | Trademarks and licences RMB'000 | Contractual customer relationships RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| As at 1 January 2017 | 50,630 | 598,286 | 141,505 | 80,982 | 19,302 | 890,705 |
| Additions | 6,068 | 387 | 18,885 | – | – | 25,340 |
| Disposal/write off | – | (1,030) | (13,550) | – | – | (14,580) |
| As at 31 December 2017 | 56,698 | 597,643 | 146,840 | 80,982 | 19,302 | 901,465 |
| **Accumulated amortisation and impairment** | | | | | | |
| As at 1 January 2017 | – | (27,129) | (87,802) | (79,474) | (6,434) | (200,839) |
| Amortisation | – | (23,947) | (23,032) | (1,474) | (3,619) | (52,072) |
| Elimination on disposal/write off | – | 283 | 11,630 | – | – | 11,913 |
| Impairment | – | (41,029) | – | – | – | (41,029) |
| As at 31 December 2017 | – | (91,822) | (99,204) | (80,948) | (10,053) | (282,027) |
| **Net book amount** | | | | | | |
| As at 31 December 2017 | 56,698 | 505,821 | 47,636 | 34 | 9,249 | 619,438 |

**Concession assets**

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

## 18. INVESTMENTS IN JOINT VENTURES

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Share of net assets, as at 1 January | 122,433 | 95,200 |
| Increase in investments | – | 23,066 |
| Share of profit for the year | 25,823 | 22,196 |
| Disposal of investments | – | (7,520) |
| Dividend declared | (6,484) | (10,509) |
| Share of net assets, as at 31 December | 141,772 | 122,433 |

## 19. INVESTMENTS IN ASSOCIATES

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Share of net assets, as at 1 January | 937,753 | 849,153 |
| Increase in investments | 101,299 | 60,000 |
| Share of profit for the year | 186,952 | 152,352 |
| Disposal of investments | (98,001) | (11,466) |
| Dividend declared | (147,945) | (147,641) |
| Transfer from subsidiaries | – | 35,355 |
| | 980,058 | 937,753 |
| Provision for impairment | (9,259) | (9,726) |
| Share of net assets, as at 31 December | 970,799 | 928,027 |

## 20. AVAILABLE-FOR-SALE INVESTMENTS

| | 2017 |
|---|---|
| | RMB'000 |
| Listed equity investments, at fair value | 614,236 |
| Unlisted equity investments, at cost (Note) | 774,147 |
| | 1,388,383 |
| Less: Provision for impairment | (97,957) |
| | 1,290,426 |

During 2017, the fair value loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to approximately RMB246,081,000 and cumulative gain of approximately RMB54,120,000 was reclassified from other comprehensive income to the consolidated statement of profit or loss for the year.

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

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

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

**Financial assets at FVTOCI comprise:**

| | 31/12/2018<br>RMB'000 | 1/1/2018<br>RMB'000 |
|---|---|---|
| Equity instruments designated as at FVTOCI | | |
| – Listed | 307,708 | 614,236 |
| – Unlisted | 580,920 | 595,065 |
| Total | 888,628 | 1,209,301 |
| Analysed for reporting purposes as: | | |
| Non-current assets | 888,628 | 1,209,301 |

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

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

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

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

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

## 22. DEFERRED TAX

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

**Deferred tax assets**

| | Impairment RMB'000 | Accruals and other temporary differences RMB'000 | Fair value change of financial assets at fair value through other comprehensive income RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2017 | 185,951 | 52,930 | – | 238,881 |
| Deferred tax credited to profit or loss during the year | 25,713 | 28,270 | – | 53,983 |
| Deferred tax charged to the other comprehensive income during the year | – | (4,643) | – | (4,643) |
| At 31 December 2017 | 211,664 | 76,557 | – | 288,221 |
| Impact on change in accounting policy | (5,593) | – | 5,593 | – |
| At 1 January 2018 | 206,071 | 76,557 | 5,593 | 288,221 |
| Disposal of subsidiaries | (3,275) | – | – | (3,275) |
| Deferred tax credited to profit or loss during the year | 18,516 | 20,438 | – | 38,954 |
| Deferred tax credited to the other comprehensive income during the year | – | – | 283 | 283 |
| At 31 December 2018 | **221,312** | **96,995** | **5,876** | **324,183** |

## 22. DEFERRED TAX (Continued)

**Deferred tax assets** (Continued)

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Deductible temporary differences | 280,354 | 176,543 |
| Tax losses not recognised | 626,778 | 369,844 |

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| 2018 | – | 44,340 |
| 2019 | 126,115 | 75,508 |
| 2020 | 58,920 | 64,841 |
| 2021 | 147,490 | 127,889 |
| 2022 | 108,162 | 57,266 |
| 2023 | 186,091 | – |
| | 626,778 | 369,844 |

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

## 22. DEFERRED TAX (Continued)

### Deferred tax liabilities

| | Fair value change of available-for- sale investments RMB'000 | Fair value change of financial assets at fair value through other comprehensive income RMB'000 | Investment profit to be amortised RMB'000 | Other temporary differences RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2017 | 94,115 | – | 13,285 | 10,195 | 117,595 |
| Deferred tax charged (credited) to profit or loss during the year | 350 | – | (4,428) | 18,597 | 14,519 |
| Deferred tax credited to the other comprehensive income during the year | (49,673) | – | – | – | (49,673) |
| At 31 December 2017 | 44,792 | – | 8,857 | 28,792 | 82,441 |
| Impact on change in accounting policy | (44,792) | 44,792 | – | – | – |
| At 1 January 2018 | – | 44,792 | 8,857 | 28,792 | 82,441 |
| Deferred tax (credited) charged to profit or loss during the year | – | – | (4,040) | 2,177 | (1,863) |
| Deferred tax credited to the other comprehensive income during the year | – | (43,938) | – | – | (43,938) |
| At 31 December 2018 | – | 854 | 4,817 | 30,969 | 36,640 |

## 22. DEFERRED TAX (Continued)

**Offsetting of deferred tax assets and deferred tax liabilities**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Offsetting amount RMB'000 | Net amount after offsetting RMB'000 | Offsetting Amount RMB'000 | Net amount after offsetting RMB'000 |
| Deferred tax assets | – | 324,183 | – | 288,221 |
| Deferred tax liabilities | – | 36,640 | – | 82,441 |

## 23. INVENTORIES

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Raw materials | 5,825,810 | 6,059,978 |
| Work in progress | 13,983,661 | 14,386,462 |
| Finished goods | 3,340,803 | 2,774,009 |
| | 23,150,274 | 23,220,449 |

## 24. ACCOUNTS AND NOTES RECEIVABLES

| | 2018<br>RMB'000 | 2017<br>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.

## 24. ACCOUNTS AND NOTES RECEIVABLES (Continued)

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

| | 2018<br>RMB'000 | 2017<br>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 |

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| At beginning of year | 825,306 | 681,119 |
| Impairment losses recognised | 115,055 | 153,684 |
| Amount written off as uncollectible | (15,583) | (9,497) |
| | 924,778 | 825,306 |

As at 31 December 2017, included in the above provision for impairment of accounts receivables was a provision for individually impaired accounts receivables of approximately RMB74,702,000 with a carrying amount before provision of approximately RMB1,166,412,000 and a provision for collectively impaired accounts receivables of approximately RMB750,604,000 with a carrying amount before provision of approximately RMB6,597,658,000.

## 24. ACCOUNTS AND NOTES RECEIVABLES (Continued)

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

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

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9. As at 31 December 2018, a provision of approximately RMB115,055,000 (2017: RMB153,684,000) was made against the gross amounts of accounts receivables.

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

At 31 December 2017 and 2018, accounts receivables were mainly denominated in RMB.

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

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Advances to suppliers | | |
| – Ultimate holding company | – | 3 |
| – Fellow subsidiaries | 264,707 | 339,175 |
| – A joint venture | 103 | – |
| – Associates | 22,095 | 10 |
| – Others | 616,664 | 584,693 |
| Amounts due from customers for contract work | – | 969,316 |
| Dividends receivable | | |
| – Associates | 17,525 | 25 |
| – Others | 548 | – |
| Prepayments and deposits | | |
| – Ultimate holding company | 24,000 | – |
| – Fellow subsidiaries | 22,078 | – |
| – Others | 575,008 | 923,682 |
| Other advances to | | |
| – Ultimate holding company | 3,198 | 777 |
| – Fellow subsidiaries | 89,116 | 94,584 |
| – Others | 1,852 | – |
| Other current assets | | |
| – Fellow subsidiaries | 78,758 | – |
| – Others | 793,178 | 887,578 |
| Other receivables | | |
| – Fellow subsidiaries | 91,702 | – |
| – A joint venture | 5 | – |
| – Associates | 870 | 53 |
| – Others (Note (a)) | 1,614,577 | 658,314 |
| | 4,215,984 | 4,458,210 |
| Less: Non-current portion | (1,424,001) | (810,567) |
| | 2,791,983 | 3,647,643 |

Notes:

(a) As of 31 December 2018, others in other receivables included prepayment of research & development of approximately RMB1,065,560,000 (2017: RMB421,000,000).

(b) As of 31 December 2017, other receivables of approximately RMB110,423,000 were impaired. The individually impaired receivables mainly relate to those small debtors which are in financial difficulties.

(c) As at 31 December 2018, a provision of loss allowance of approximately RMB40,227,000 was made against the gross amounts of prepayments, deposits and other receivables.

## 26. CONTRACT ASSETS AND CONTRACT LIABILITIES

### (a) Contract assets

| | 31/12/2018<br>RMB'000 | 1/1/2018<br>RMB'000 |
|---|---|---|
| Aviation entire aircraft | 183,883 | 1,000,336 |
| Aviation engineering services | 2,747,287 | 2,713,709 |
| Total contract assets | 2,931,170 | 3,714,045 |
| Current | 2,074,429 | 2,768,385 |
| Non-current | 856,741 | 945,660 |
| | 2,931,170 | 3,714,045 |
| Ultimate holding company | 453 | – |
| Fellow subsidiaries | 1,259,198 | 1,527,382 |
| Others | 1,671,519 | 2,186,663 |
| | 2,931,170 | 3,714,045 |

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

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

## 26. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

### (b) Contract Liabilities

| | 31/12/2018<br>RMB'000 | 1/1/2018<br>RMB'000 |
|---|---|---|
| Aviation entire aircraft | 5,913,416 | 4,410,628 |
| Aviation engineering services | 942,033 | 515,916 |
| Others | 140,445 | 145,323 |
| Total contract liabilities | 6,995,894 | 5,071,867 |
| Current | 6,995,894 | 5,063,549 |
| Non-current | – | 8,318 |
| | 6,995,894 | 5,071,867 |
| Ultimate holding company | 36,385 | 20 |
| Fellow subsidiaries | 6,142,213 | 4,855,138 |
| Others | 817,296 | 216,709 |
| | 6,995,894 | 5,071,867 |

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

## 27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/HELD FOR TRADING

**Financial assets at FVTPL include:**

| | 31/12/2018<br>RMB'000 | 1/1/2018<br>RMB'000 | 31/12/2017<br>RMB'000 |
|---|---|---|---|
| Financial assets mandatorily measured at FVTPL | | | |
| Listed securities held for trading listed in PRC | 74,637 | – | – |
| Bonds listed in PRC | 150,024 | – | – |
| Financial assets designated at FVTPL | 55,968 | 104,785 | 23,660 |
| | 280,629 | 104,785 | 23,660 |

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Cash and bank balances | 14,931,443 | 13,873,574 |
| Less: 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 |

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

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

As at 31 December 2018, approximately RMB7,777,995,000 (31 December 2017: RMB6,213,600,000) was deposited in AVIC Finance Co, Ltd., a fellow subsidiary of the Company.

## 29. ACCOUNTS AND NOTES PAYABLES

| | 2018<br>RMB'000 | 2017<br>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<br>RMB'000 | 2017<br>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: RMB3,942,943,000) were secured by pledged deposits to the extent of approximately RMB1,297,896,000 (31 December 2017: RMB1,394,524,000).

## 30. OTHER PAYABLES AND ACCRUALS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Advances from customers | | |
| – Ultimate holding company | – | 32,419 |
| – Fellow subsidiaries | – | 4,612,188 |
| – Associates | – | 8,681 |
| – Others | 10,979 | 433,648 |
| Wages, salaries, bonuses and other employee benefits | 2,068,231 | 1,729,027 |
| Accrued expenses | | |
| – Ultimate holding company | 5 | – |
| – Fellow subsidiaries | 18,612 | – |
| – Associates | 13 | – |
| – Others | 210,309 | 250,291 |
| Payable for property, plant and equipment | | |
| – Fellow subsidiaries | 16,668 | 67,831 |
| – Others | 161,258 | 53,393 |
| Payable for acquisition of equity interests in subsidiaries | | |
| – Fellow subsidiaries (Note (b)) | – | 206,744 |
| Deferred income from government grants (Note 32) | 24,508 | 39,639 |
| Amounts payable to the ultimate holding company | 216,558 | 268,827 |
| Other advances from | | |
| – Fellow subsidiaries | – | 413,871 |
| – Others | 16,422 | 124,585 |
| Dividend payable to non-controlling shareholders of subsidiaries | | |
| – Fellow subsidiaries | 190,931 | 182,199 |
| – Others | 827 | – |
| Consumption tax, business tax and other taxes payable | 113,061 | 223,383 |
| Provision (Note (a)) | 373,489 | 278,430 |
| Other payables | | |
| – Associates | – | 17,665 |
| – Fellow subsidiaries | 105,885 | – |
| – Others | 1,086,817 | 1,243,933 |
| | 4,614,573 | 10,186,754 |
| Less: Non-current portion | (895,630) | (812,554) |
| | 3,718,943 | 9,374,200 |

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

## 30. OTHER PAYABLES AND ACCRUALS (Continued)

Notes

(a) The balances as at 31 December 2018 and 2017 represent the provision of products. Protection insurance is based on the management's estimation by reference to the historical experience. During the year ended 31 December 2018, the provision charge to profit or loss was RMB175,707,000 (2017: RMB109,398,000) and utilisation of provision was RMB80,649,000 (2017: RMB67,155,000).

(b) The balance as at 31 December 2017 represents the remaining amount payables for the acquisition of AVIC Renewable Energy.

## 31. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank borrowings – unsecured | 3-5 | 2019 | 1,780,500 | 3-5 | 2018 | 1,573,110 |
| Bank borrowings – secured | 5-6 | 2019 | 3,200 | – | – | – |
| Other borrowings – unsecured | 4-5 | 2019 | 3,187,000 | 4-5 | 2018 | 2,614,000 |
| Other borrowings – secured | 4-5 | 2019 | 251,537 | 4-7 | 2018 | 443,800 |
| Current portion of long-term | | | | | | |
| Bank borrowings – unsecured | 1-5 | 2019 | 387,500 | 3-5 | 2018 | 163,800 |
| Bank borrowings – secured | 1-6 | 2019 | 364,310 | 4-5 | 2018 | 37,915 |
| Other borrowings – unsecured | 2-5 | 2019 | 3,041,888 | – | – | – |
| Other borrowings – secured | 5 | 2019 | 6,500 | 4-5 | 2018 | 513,000 |
| | | | 9,022,435 | | | 5,345,625 |
| **Non-current** | | | | | | |
| Bank borrowings – unsecured | 3-5 | 2020-2031 | 19,213 | 1-5 | 2019-2031 | 257,358 |
| Bank borrowings – secured | 1-6 | 2020-2031 | 1,098,001 | 1-5 | 2019-2031 | 1,337,567 |
| Other borrowings – unsecured | 3-5 | 2020-2021 | 160,976 | 3-5 | 2019-2021 | 3,443,510 |
| Other borrowings – secured | 5 | 2021 | 16,000 | 5 | 2019-2021 | 4,092 |
| | | | 1,294,190 | | | 5,042,527 |
| | | | 10,316,625 | | | 10,388,152 |

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank borrowings repayable: | | |
| – Within one year | 2,535,510 | 1,774,825 |
| – In the second year | 299,593 | 563,706 |
| – In the third to fifth year, inclusive | 232,900 | 87,098 |
| – Beyond five years | 584,721 | 944,121 |
| | 3,652,724 | 3,369,750 |
| Other borrowings repayable: | | |
| – Within one year | 6,486,925 | 3,570,800 |
| – In the second year | 118,476 | 3,267,602 |
| – In the third to fifth year, inclusive | 58,500 | 140,000 |
| – Beyond five years | – | 40,000 |
| | 6,663,901 | 7,018,402 |
| | 10,316,625 | 10,388,152 |

Notes:

(a) As at 31 December 2018, other borrowings represented:

- corporate bonds issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB1,000,000,000 (31 December 2017: RMB1,000,000,000) bearing interest at 3.52% (2017: 3.52%) per annum.
- corporate bonds issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB900,000,000 (31 December 2017: RMB900,000,000 bearing interest at 3.20% (2017: 3.20%) per annum.
- borrowings granted by a fellow subsidiary of AVIC amounting to RMB4,761,801,000 (31 December 2017: RMB4,493,677,000) bearing interest at 1% to 5% per annum (2017: 3% to 7%).
- borrowings granted by an independent financial institution, Xi'an Hi-tech Emerging Industry Investment Fund Partnership, amounting to RMB3,000,000 (2017: Nil) bearing interest at 2.38% per annum.

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

Notes: (Continued)

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Bank borrowings | | |
| – Fixed rates (1%–6%) | 1,623,913 | 1,461,268 |
| – Floating rates (3%–6%) | 2,028,811 | 1,908,482 |
| | 3,652,724 | 3,369,750 |
| Other borrowings | | |
| – Fixed rates (2%–6%) | 5,628,401 | 6,597,310 |
| – Floating rates (4%–7%) | 1,035,500 | 421,092 |
| | 6,663,901 | 7,018,402 |
| | 10,316,625 | 10,388,152 |

The new borrowings were borrowed for business daily operation.

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

| | 2018 | 2017 |
|---|---|---|
| Weighted average effective interest rates | | |
| – Bank borrowings | 4% | 4% |
| – Other borrowings | 3% | 4% |

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

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Securities over the Group's assets, at carrying value | | |
| – Notes receivable | 61,537 | 73,800 |
| – Accounts receivable | 5,250 | 278,098 |
| | 66,787 | 351,898 |
| Guarantees provided by | | |
| – Fellow subsidiaries | 241,020 | 375,115 |
| – Entities within the Group | 1,093,591 | 1,276,859 |
| – Others | 3,000 | – |
| | 1,337,611 | 1,651,974 |
| | 1,404,398 | 2,003,872 |

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

Notes: (Continued)

(e) As at 31 December 2018, the Group had the following undrawn committed borrowings facilities:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| At floating rates | | |
| – Expiring within one year | 5,532,637 | 8,382,451 |
| – Expiring over one year | 1,376,673 | – |
| | 6,909,310 | 8,382,451 |

## 32. DEFERRED INCOME FROM GOVERNMENT GRANTS

Movements of deferred income from government grants for each of the years ended 31 December 2018 and 2017 are as follows:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| At 1 January | 816,095 | 869,321 |
| Additions | 49,294 | 209,178 |
| Amortisation | (63,383) | (222,765) |
| At 31 December | 802,006 | 855,734 |
| Less: Current portion | (24,508) | (39,639) |
| | 777,498 | 816,095 |

## 33. CONVERTIBLE BONDS

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

A subsidiary AVIC Jonhon Optronic Technology Co., Ltd., of the Company issued convertible bonds with a coupon rate of 0.2% in year 1, 0.5% in year 2, 1% in year 3, 1.5% in year 4, 1.8% in year 5 and 2% in year 6 at a total principal value of RMB1,300,000,000 on 5 November 2018 ("CB 2018"). Among the total principal amount, RMB300,000,000 was held by the Company at the issue date (i.e. 5 November 2018), and principal amount of RMB128,000,000 was disposed of at a consideration of approximately RMB141,015,000 during the year ended 31 December 2018. The remaining principal amount of RMB172,000,000 was held by the Company as at 31 December 2018. The convertible bonds entitle the holders to convert them into ordinary shares of the subsidiary at any time before their settlement date on 5 November 2024 at a conversion price of RMB40.26 per convertible bond. If the bonds have not been converted, they will be redeemed on 5 November 2024 at par. Interest will be paid annually up until the settlement date.

During the year, the principal amount of RMB271,300 of CB 2017 was converted into 19,068 shares of China Avionics Systems Co. Ltd. at conversion price of RMB14.23 each respectively.

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

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Carrying amount at beginning of the financial year | 1,531,945 | – |
| Deemed issuance for disposal by the Company | 403,143 | – |
| Issued during the year | 887,616 | 1,531,945 |
| Conversion to ordinary shares | (221) | – |
| Imputed interests charge | 107,524 | – |
| Carrying amount at end of the financial year | 2,930,007 | 1,531,945 |

## 34. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease its plant and equipment under finance leases. The average lease term is 8 to 15 years (2017: 8 to 15 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 4.7% to 6.9% per annum (2017: 4.9% to 6.9% per annum). The Group has options to purchase the plant and equipment for a nominal amount at the end of the lease term. No arrangements have been entered for contingent rental payments.

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| *Amounts payable under finance leases* | | | | |
| Within one year | 69,065 | 54,077 | 59,803 | 45,305 |
| After one year but within two years | 69,254 | 61,880 | 60,908 | 52,743 |
| After two years but within five years | 217,873 | 183,833 | 189,037 | 158,188 |
| Over five years | 274,025 | 235,728 | 224,470 | 162,871 |
| | 630,217 | 535,518 | 534,218 | 419,107 |
| Less: future finance charges | (95,999) | (116,411) | N/A | N/A |
| Present value of obligations under finance leases | 534,218 | 419,107 | 534,218 | 419,107 |
| Less: amount due for settlement with 12 months (shown under current liabilities) | | | (59,803) | (45,305) |
| Amount due for settlement after 12 months | | | 474,415 | 373,802 |

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

## 35. SHARE CAPITAL

| | Share capital | |
|---|---|---|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Registered, issued and fully paid: | | |
| Domestic shares of RMB1 each | – | 3,609,688 |
| H shares of RMB1 each | 6,245,122 | 2,356,434 |
| Total | 6,245,122 | 5,966,122 |

| | Number of shares | |
|---|---|---|
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| At beginning of the financial year | 5,966,122 | 5,966,122 |
| Issue of shares | 279,000 | – |
| At the end of the financial year | 6,245,122 | 5,966,122 |

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

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

(c) On 14 December 2018, the Company entered into the placing agreement with placing agent in relation to the placing, on a fully underwritten basis, of an aggregate of 279,000,000 H shares of RMB1 each at the placing price of HK$4.90 (equivalent to RMB4.31) per placing share.

## 36. RESERVES

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

### (a) Capital reserve

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

### (b) Currency translation reserve

Currency translation reserve arises from currency translations of subsidiaries that have functional currencies different from RMB, which is the Group's presentation currency.

### (c) Other reserves

#### *(i) Statutory surplus reserve*

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

#### *(ii) Safety reserve*

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside an amount to a safety reserve at the rate ranging from 0.1% to 2% on the total revenue of aviation products recognised for the year. The reserve can be utilised for improvements of safety on the manufacturing work of aviation products, and the amounts utilised are charged to the consolidated statement of profit or loss, as incurred. In 2018, approximately RMB68,374,000 (2017: RMB65,501,000) was appropriated to the special reserve, and approximately RMB48,308,000 (2017: RMB36,774,000) was utilised.

## 37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

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

**Percentage of equity interest held by non-controlling interests**

| | 2018 | 2017 |
|---|---|---|
| AVIC Jonhon Optronic Technology Co., Ltd. | 58.61% | 58.83% |
| China Avionics Systems Co., Ltd. | 56.78% | 56.78% |
| AVICOPTER PLC | 65.23% | 65.23% |
| Jiangxi Hongdu Aviation Industry Co., Ltd. | 56.23% | 56.23% |

**Profit for the year allocated to non-controlling interests**

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| AVIC Jonhon Optronic Technology Co., Ltd. | 615,625 | 527,894 |
| China Avionics Systems Co., Ltd. | 294,501 | 340,823 |
| AVICOPTER PLC | 338,652 | 268,042 |
| Jiangxi Hongdu Aviation Industry Co., Ltd. | (3,638) | 32,111 |

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

**Dividends paid to non-controlling interests**

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| AVIC Jonhon Optronic Technology Co., Ltd. | 71,814 | 59,446 |
| China Avionics Systems Co., Ltd. | 80,190 | 51,576 |
| AVICOPTER PLC | 89,592 | 88,439 |
| Jiangxi Hongdu Aviation Industry Co., Ltd. | 5,882 | 4,066 |

**Accumulated balances of non-controlling interests at the reporting date**

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| AVIC Jonhon Optronic Technology Co., Ltd. | 4,108,512 | 3,455,795 |
| China Avionics Systems Co., Ltd. | 4,621,922 | 4,340,692 |
| AVICOPTER PLC | 5,348,623 | 5,049,322 |
| Jiangxi Hongdu Aviation Industry Co., Ltd. | 2,754,216 | 2,778,533 |

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

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

| 2018 | AVIC Jonhon Optronic Technology Co., Ltd. RMB'000 | China Avionics Systems Co., Ltd. RMB'000 | AVICOPTER PLC RMB'000 | Jiangxi Hongdu Aviation Industry Co., Ltd. RMB'000 |
|---|---|---|---|---|
| Revenue | 7,496,378 | 7,474,440 | 12,883,137 | 1,938,178 |
| Total expenses | 1,555,525 | 1,991,544 | 1,282,257 | 252,208 |
| Profit for the year | 1,011,744 | 515,076 | 519,158 | (7,164) |
| Total comprehensive income for the year | 1,009,083 | 442,016 | 536,191 | (231,154) |
| Current assets | 10,913,622 | 15,866,685 | 20,734,103 | 5,196,422 |
| Non-current assets | 2,441,431 | 5,790,406 | 3,300,018 | 4,430,169 |
| Current liabilities | 5,553,769 | 10,963,966 | 15,289,401 | 4,622,142 |
| Non-current liabilities | 1,161,460 | 2,822,549 | 727,945 | 119,659 |
| Net cash flows from operating activities | 22,640 | 34,904 | 954,662 | 41,762 |
| Net cash flows used in investing activities | (259,518) | (982,559) | (102,969) | (86,981) |
| Net cash flows from (used in) financing activities | 1,242,519 | (781,596) | (143,461) | 440,800 |
| Effect of foreign exchange rate changes, net | 40,642 | 509 | – | 411 |
| Net increase (decrease) in cash and cash equivalents | 1,046,283 | (1,728,742) | 708,232 | 395,992 |

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

| 2017 | AVIC Jonhon Optronic Technology Co., Ltd. RMB'000 | China Avionics Systems Co., Ltd. RMB'000 | AVICOPTER PLC RMB'000 | Jiangxi Hongdu Aviation Industry Co., Ltd. RMB'000 |
|---|---|---|---|---|
| Revenue | 6,336,524 | 7,007,867 | 12,044,622 | 3,173,008 |
| Total expenses | 1,262,717 | 1,820,911 | 1,338,627 | 245,534 |
| Profit for the year | 869,986 | 587,098 | 469,935 | 56,573 |
| Total comprehensive income for the year | 969,922 | 600,092 | 469,935 | (128,121) |
| | | | | |
| Current assets | 7,907,103 | 15,809,528 | 15,548,059 | 5,036,920 |
| Non-current assets | 2,192,146 | 5,386,735 | 3,514,036 | 4,490,681 |
| Current liabilities | 4,280,099 | 9,627,847 | 11,189,493 | 2,538,506 |
| Non-current liabilities | 321,883 | 4,183,175 | 691,304 | 2,060,866 |
| | | | | |
| Net cash flows from operating activities | 414,763 | (338,332) | 572,110 | 118,526 |
| Net cash flows used in investing activities | (278,608) | (464,222) | (121,108) | (191,168) |
| Net cash flows from (used in) financing activities | 118,752 | 2,973,871 | (74,390) | (204,802) |
| Effect of foreign exchange rate changes, net | (26,757) | (210) | (3) | (154) |
| | | | | |
| Net increase (decrease) in cash and cash equivalents | 228,150 | 2,171,107 | 376,609 | (277,598) |

## 38. OPERATING LEASE ARRANGEMENTS

### As lessee

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

As at 31 December 2018 and 2017, the Group had total commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Land and buildings | | |
| Within one year | 30,293 | 36,038 |
| In the second to fifth year, inclusive | 65,235 | 92,439 |
| After five years | 38,191 | 12,394 |
| | 133,719 | 140,871 |

## 39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital commitments at the end of the reporting period:

Contracted for but not provided in the consolidated financial statements

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Plant and equipment | 6,547 | 48,786 |
| Construction in progress | 392,357 | 197,850 |
| | 398,904 | 246,636 |

## 40. RELATED PARTY DISCLOSURES

The Group is directly and indirectly controlled by AVIC, which owned 56.04% in total of the Company's shares as at 31 December 2018. The remaining 43.96% of the shares are widely held.

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

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

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

## 40. RELATED PARTY DISCLOSURES (Continued)

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

| | Notes | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| Ultimate holding company: | | | |
| Rendering of service | (2) | 2,284 | 13,669 |
| Guarantee | (2) | 2,400,000 | 2,400,000 |
| Associates: | | | |
| Sales of products | (2) | 5,490 | 98,360 |
| Purchases of products | (2) | 6,063 | 45,048 |
| Rental expense | (2) | – | 23,992 |
| Service fee payable | (2) | – | 90 |
| Joint ventures: | | | |
| Sales of products | (2) | 1,775 | 1,225 |
| Purchases of products | (2) | 143,485 | 87,021 |
| Fellow subsidiaries: | (1) | | |
| Sales of products | (2) | 18,893,028 | 17,925,933 |
| Purchases of products | (2) | 6,264,029 | 5,833,717 |
| Rendering of service | (2) | 2,708,130 | 2,951,609 |
| Service fee payable | (2) | 202,341 | 346,104 |
| Rental expense | (2) | 47,464 | 44,444 |
| Rental income | (2) | 8,267 | 3,757 |
| Guarantee | (2) | 241,020 | 375,115 |
| Other financial services | (2) | 1,353,400 | 877,040 |

## 40. RELATED PARTY DISCLOSURES (Continued)

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

Notes:

(1) Fellow subsidiaries are companies whose are controlled by the same ultimate holding company, AVIC.

(2) In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of the Group's business and were determined based on mutually agreed terms as follows:

- Sales/purchases of goods and materials, and rendering/receiving services

  The products and ancillary services are provided: (i) according to the Government-prescribed price; (ii) if there is no Government-prescribed price, then according to the Government-guidance price; (iii) if there is no Government-guidance price, then according to the market price; and (iv) if none of the above is applicable, then according to the contractual price.

- Rental income/expenses

  The annual rental is reviewed and adjusted regularly and not be higher than the prevailing market annual rental as determined by an independent valuer with reference to the market rent of land or properties with similar conditions and locations.

- Guarantees

  Guarantees are provided by related parties for the subsidiaries of the Company to obtain borrowings.

## 40. RELATED PARTY DISCLOSURES (Continued)

### (b) Outstanding balances with related parties:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Assets: | | |
| Accounts receivable | | |
| – Ultimate holding company | 954 | 4,013 |
| – Fellow subsidiaries | 7,736,204 | 5,708,610 |
| – A joint venture | 336 | 74 |
| – Associates | 2,050 | 95,780 |
| Notes receivable | | |
| – Fellow subsidiaries | 2,722,378 | 1,706,446 |
| – A joint venture | 228 | 1,051 |
| Advance to suppliers | | |
| – Ultimate holding company | – | 3 |
| – Fellow subsidiaries | 264,707 | 339,175 |
| – A joint venture | 103 | – |
| – Associates | 22,095 | 10 |
| Other receivables and prepayments | | |
| – Ultimate holding company | 27,198 | 777 |
| – Fellow subsidiaries | 281,654 | 94,584 |
| – A joint venture | 5 | – |
| – Associates | 18,395 | 78 |
| Deposits | | |
| – A fellow subsidiary | 7,777,995 | 6,213,600 |
| Liabilities: | | |
| Accounts payable | | |
| – 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 |
| Notes payable | | |
| – Fellow subsidiaries | 2,037,518 | 2,011,324 |
| – Joint ventures | 45,259 | 34,263 |
| – Associates | 162 | 15,349 |
| Advances from customers | | |
| – Ultimate holding company | – | 32,419 |
| – Fellow subsidiaries | – | 4,612,188 |
| – Associates | – | 8,681 |

## 40. RELATED PARTY DISCLOSURES (Continued)

### (b) Outstanding balances with related parties: (Continued)

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Other payables and accruals | | |
| – Ultimate holding company | 216,563 | 268,827 |
| – Fellow subsidiaries | 332,096 | 688,446 |
| – Associates | 13 | 17,665 |
| Obligations under finance leases | | |
| – Fellow subsidiaries | 283,625 | – |
| Borrowings | | |
| -Fellow subsidiaries | 4,761,801 | 4,493,677 |

Except for borrowings from fellow subsidiary as stated in Note 31, other balances with related parties above are unsecured, non-interest-bearing, and are repayable or settled in accordance with the relevant trading terms.

### (c) Compensation of key management personnel of the Company

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Short-term employee benefits and total compensation paid to key management personnel | 3,576 | 2,916 |

Key management includes directors (executive and non-executive), supervisors and senior management of the Company.

Further details of directors' and supervisors' emoluments are included in Note 8.

### (d) Acquisition of a subsidiary

On 25 December 2017, a subsidiary of the Company entered into an Equity Transfer Agreement with a subsidiary of its ultimate holding company, AVIC, to acquire 69.3% equity interest of AVIC Renewable Energy, a subsidiary of AVIC, at the consideration of RMB413,571,300 by cash. The acquisition had been completed on 29 December 2017.

Given that AVIC Renewable Energy is under common control of AVIC before and after the business combination, and that control is not temporary, the acquisition of AVIC Renewable Energy is considered as business combination involving entities under common control. Accordingly, the Company applied the principles of merger accounting to account for the acquisition of AVIC Renewable Energy.

## 41. TRANSFERS OF FINANCIAL ASSETS

### (1) Transferred financial assets that are not derecognised in their entirety

(a) At 31 December 2018, the Group endorsed certain notes receivables accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of approximately RMB463,920,000 (2017: RMB309,546,000) to certain of its suppliers in order to settle the accounts payable due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated accounts payable settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the accounts payable settled by the Endorsed Bills during the year to which the suppliers have recourse was approximately RMB463,920,000 (2017: RMB309,546,000) as at 31 December 2018.

(b) As part of its normal business, the Group entered into accounts receivable factoring arrangements (the "Arrangements I") and transferred certain accounts receivable to banks. Under the Arrangements I, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment. The Group is exposed to default risks of the accounts debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the accounts receivable, including the sale, transfer or pledge of the accounts receivable to any other third parties. The original carrying value of the accounts receivable transferred under the Arrangements I that have not been settled as at 31 December 2017 was approximately RMB242,875,000 (2018: Nil). The carrying amount of the assets that the Group continued to recognise as at 31 December 2017 was approximately RMB242,875,000 (2018: Nil) and that of the associated liabilities as at 31 December 2017 was approximately RMB220,000,000 (2018: Nil).

## 41. TRANSFERS OF FINANCIAL ASSETS (Continued)

### (2) Transferred financial assets that are derecognised in their entirety

(a) At 31 December 2018, the Group endorsed certain notes receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the accounts payable due to such suppliers with a carrying amount in aggregate of approximately RMB1,235,793,000 (2017: RMB1,990,698,000). The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated accounts payable. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2018, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

(b) Other than described in (1)(b) above, the Group also entered into accounts receivable factoring arrangements (the "Arrangements II") and transferred certain accounts receivable to a bank and AVIC Finance. Under the Arrangements II, the Group was not required to reimburse the banks or AVIC Finance for loss of interest if any trade debtors have late or default payment. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to those accounts receivable. Accordingly, it has derecognised the full carrying amounts of those accounts receivable. The original carrying value of the accounts receivable transferred under the Arrangements II as at 31 December 2018 was approximately RMB366,122,000 (2017: RMB574,026,000).

During the year ended 31 December 2018, the Group has recognised loss of approximately RMB10,278,000 (2017: RMB17,986,000) on the date of transfer of those accounts receivable.

## 42. FINANCIAL INSTRUMENTS BY CATEGORY

**Financial assets**

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Available-for-sale investments | – | 1,290,426 |
| Accounts and notes receivables | 21,272,651 | 17,541,036 |
| Financial assets included in prepayments, deposits and other receivables | 1,531,153 | 2,405,180 |
| Financial assets held for trading | – | 23,660 |
| Pledged deposits | 1,414,308 | 1,502,878 |
| Cash and cash equivalents | 12,122,364 | 11,063,187 |
| Term deposits with initial terms of over three months | 1,394,771 | 1,307,509 |
| Contract assets | 2,931,170 | – |
| Financial assets at fair value through other comprehensive income | 888,628 | – |
| Financial assets at fair value through profit or loss | 280,629 | – |
| | 41,835,674 | 35,133,876 |

**Financial liabilities**

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Accounts and notes payable | 25,324,860 | 24,084,796 |
| Financial liabilities included in other payables and accruals | 2,007,883 | 2,290,883 |
| Obligations under finance leases | 534,218 | 419,107 |
| Convertible bonds | 2,930,007 | 1,531,945 |
| Interest-bearing bank and other borrowings | 10,316,625 | 10,388,152 |
| | 41,113,593 | 38,714,883 |

## 43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, financial assets held for trading and certain listed equity investments are based on quoted market prices. The fair value of certain unlisted equity investment has been estimated using the Monte Carlo Simulation model based on assumptions that are supported by observable market prices or rates.

### Fair value hierarchy

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

***Assets measured at fair value:***

As at 31 December 2018

| | Fair value measurement using | | |
|---|---|---|---|
| | Quoted prices in active market (Level 1) RMB'000 | Significant Observable inputs (Level 2) RMB'000 | Total RMB'000 |
| Financial assets at fair value through other comprehensive income: | | | |
| – Listed | 307,708 | – | 307,708 |
| – Unlisted | – | 580,920 | 580,920 |
| Financial assets at fair value through profit or loss | | | |
| – Equity securities listed in PRC | 74,637 | – | 74,637 |
| – Bonds listed in PRC | 150,024 | – | 150,024 |
| – Financial assets designated at FVTPL | – | 55,968 | 55,968 |
| | 532,369 | 636,888 | 1,169,257 |

## 43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

**Fair value hierarchy** (Continued)

***Assets measured at fair value:*** (Continued)

As at 31 December 2017

| | Fair value measurement using | | |
|---|---|---|---|
| | Quoted prices in active market (Level 1) RMB'000 | Significant Observable inputs (Level 2) RMB'000 | Total RMB'000 |
| Available-for-sale investments: | | | |
| – listed equity investments | 427,425 | 186,811 | 614,236 |
| Financial assets held for trading | 23,660 | – | 23,660 |
| | 451,085 | 186,811 | 637,896 |

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise accounts and notes receivables, deposits and other receivables, pledged deposits, term deposits, contract assets, financial assets at fair value through other comprehensive income, financial assets at fair value through profit and loss/held for trading, accounts and notes payable, other payables and accruals, obligations under finance leases, convertible bonds, Interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and notes receivable and accounts and notes payable, which arise directly from its operations.

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

### Currency risk

The Group's major operating subsidiaries have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group's exposure to foreign currency risk relates principally to its trade and other receivables, bank balances, trade and other payables denominated in foreign currencies other than the functional currency of relevant group entity.

The carrying amounts of the Group's material foreign currency denominated monetary assets and monetary liabilities at the end of 2018 and 2017 are as follows:

| | Assets At 31 December | | Liabilities At 31 December | |
|---|---|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 | 2018 RMB'000 | 2017 RMB'000 |
| USD | 802,217 | 616,797 | 10,306 | 11,352 |
| EUR | 152,412 | 58,579 | 365 | 217 |
| HKD | 1,228,969 | – | 589 | – |

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Sensitivity analysis

The following table details the Group's sensitivity to a 10% (2017: 10%) increase and decrease in RMB against the relevant foreign currencies for the years ended 31 December 2018. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rate.

A positive number below indicates an increase in post-tax profit where RMB weakening 10% (2017: 10%) against the relevant currency for the years ended 31 December 2018. For a 10% strengthen of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

| | USD | | EUR | | HKD | |
|---|---|---|---|---|---|---|
| | At 31 December | | At 31 December | | At 31 December | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Profit or loss | 67,312 | 51,463 | 12,924 | 4,961 | 104,412 | – |

### Interest-rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and bank balances, details of which have been disclosed in Note 28. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 31. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. As of 31 December 2018, 71% (2017: 78%) of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest-rate risk.

At 31 December 2018, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by the People's Bank of China, with all other variables held constant, post tax profit for the year would have been approximately RMB44,652,000 (2017: RMB43,290,000) higher/lower.

### Price risk

The Group is principally exposed to equity securities price risk in respect of investments held by the Group which are classified as financial assets at fair value through profit or loss/held for trading and financial assets at fair value through other comprehensive income. Some of these financial assets are publicly traded in recognised stock exchanges. At 31 December 2018, if the quoted market price of these financial assets at fair value through profit or loss/held for trading and financial assets at fair value through other comprehensive income held by the Group had increased/decreased by 10% (2017: 10%), with all other variables held constant, post tax profit for the year and fair value reserve would have been approximately RMB23,853,000 (2017: RMB2,011,000) and RMB50,009,000 (2017: RMB54,221,000) higher/lower respectively as a result of the changes in fair value of these financial assets.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit risk

38% (2017: 14%) of the Group's pledged deposits, term deposits and cash and cash equivalents are held in state-owned financial institutions, which management believes are of high credit quality. Most of the Group's financial assets held for trading and available-for-sale financial assets are also publicly traded in recognised stock exchanges. Management does not expect any losses from non-performance by these counterparties.

The Group has significant related party balances (Note 40 (b)) with low credit risk, and for the balances with third parties, the Group has no significant concentrations of credit risk. As at 31 December 2017, the Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally, the Group does not require collateral from trade debtors. Management makes periodic collective assessment as well as individual assessment on the recoverability of accounts and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of accounts and notes receivable, deposits and other receivables falls within the recorded allowances and the directors of the Company are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

Starting from 1 January 2018, for accounts and notes receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on a grouped basis for customers with significant balances and/or collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Credit risk** (Continued)

The Group's current credit risk grading framework comprises the following categories:

| Category | Description | Basis for recognising ECL |
|---|---|---|
| Performing | For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1) | 12-month ECL |
| Doubtful | For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2) | Lifetime ECL – not credit impaired |
| Default | Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3) | Lifetime ECL – credit impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off |

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

**Credit risk** (Continued)

The tables below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades

| 31/12/2018 | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount RMB'000 | Loss allowance RMB'000 | Net carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| Accounts and notes receivables | N/A | Default | Lifetime ECL (simplified approach) | 22,197,429 | (924,778) | 21,272,651 |
| Financial assets included in prepayments, deposits and other receivables | N/A | Performing | 12-month ECL | 2,946,121 | (154,138) | 2,791,983 |
| Contract assets | N/A | Default | Lifetime ECL (simplified approach) | 856,741 | – | 856,741 |
| | | | | | (1,078,916) | |

The carrying amount of the Group's financial assets at financial assets at fair value through profit or loss as disclosed in note 27 best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (31 December 2017: 100%) of the total accounts and notes receivables as at 31 December 2018.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk

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

As at 31 December 2018, the net current assets of the Group amounted to approximately RMB19,691,349,000 (31 December 2017: RMB19,192,358,000). Management monitors regularly the Group's current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amounts of committed banking facilities to meet its working capital requirements. The amount of undrawn credit facilities at the end of each reporting period is disclosed in Note 31(e) to the financial statements. The directors believe that the Group's current operating cash flows and credit facilities are sufficient for financing its capital commitments in the near future and for working capital purposes.

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

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year RMB'000 | 1 to 2 years RMB'000 | 2 to 5 years RMB'000 | Over 5 years RMB'000 | Total undiscounted cash flow RMB'000 | Carrying amount RMB'000 |
| Interest-bearing bank and other borrowings | 9,356,927 | 440,701 | 406,982 | 622,826 | 10,827,436 | 10,316,625 |
| Accounts and notes payables | 25,324,860 | – | – | – | 25,324,860 | 25,324,860 |
| Convertible bonds | 14,600 | 30,500 | 2,631,700 | 1,326,000 | 4,002,800 | 2,930,007 |
| Obligations under finance leases | 69,065 | 69,254 | 217,873 | 274,025 | 630,217 | 534,218 |
| Other payables and accruals | 2,007,883 | – | – | – | 2,007,883 | 2,007,883 |

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year RMB'000 | 1 to 2 years RMB'000 | 2 to 5 years RMB'000 | Over 5 years RMB'000 | Total undiscounted cash flow RMB'000 | Carrying amount RMB'000 |
| Interest-bearing bank and other borrowings | 5,650,003 | 3,954,567 | 353,083 | 1,274,179 | 11,231,832 | 10,388,152 |
| Accounts and notes payables | 24,084,796 | – | – | – | 24,084,796 | 24,084,796 |
| Convertible bonds | 4,800 | 12,000 | 103,200 | 2,520,000 | 2,640,000 | 1,531,945 |
| Obligations under finance leases | 54,077 | 61,880 | 183,833 | 235,728 | 535,518 | 419,107 |
| Other payables and accruals | 2,290,883 | – | – | – | 2,290,883 | 2,290,883 |

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Capital management

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

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

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

The gearing ratios at 31 December 2018 and at 31 December 2017 were as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Total borrowings (Note 31) | 10,316,625 | 10,388,152 |
| Convertible bonds (Note 33) | 2,930,007 | 1,531,945 |
| | 13,246,632 | 11,920,097 |
| Total assets | 86,720,289 | 78,933,102 |
| Gearing ratio | 15.28% | 15.10% |

## 45. ACQUISITION OFADDITIONAL INTERESTS IN A SUBSIDIARY

In 2018, the Group acquired additional 0.22% issued shares of the subsidiary AVIC Jonhon Optronic Technology Co., Ltd. on the A-share market for a total cash consideration of RMB59,529,763, increasing its ownership interest to 41.39%.

The following table summarises the acquisitions.

| | 2018<br>RMB'000 |
|---|---|
| Total carrying amounts of non-controlling interests acquired | 13,232 |
| Total consideration paid | (59,530) |
| Total difference recognised within equity | (46,298) |

## 46. DISPOSAL OF SUBSIDIARIES

(i) On 1 January 2018, the Group disposed 100% shares of China Zhongxin Investment Development Co., Ltd. (中國中新投資發展有限公司), a subsidiary of the Group, to an independent third party at cash consideration of approximately RMB16,988,000. The subsidiary is engaged in property management. The net assets of China Zhongxin Investment Development Co., Ltd. at the date of disposal were as follows:

**Consideration received:**

| | RMB'000 |
|---|---|
| Total cash consideration received | 16,988 |

**Analysis of assets and liabilities over which control was lost:**

| | RMB'000 |
|---|---|
| Cash and cash equivalents | 7,412 |
| Other receivables | 2,733 |
| Accounts payables | (20) |
| Accrued expenses | (26) |
| Net assets disposed of | 10,099 |

Gain on disposal of a subsidiary:

| | |
|---|---|
| Consideration received | 16,988 |
| Net assets disposed of | (10,099) |
| Gain on disposal | 6,889 |

Net cash inflow arising on disposal:

| | |
|---|---|
| Cash consideration | 16,988 |
| Less: bank balances and cash disposed of | (7,412) |
| | 9,576 |

## 46. DISPOSAL OF SUBSIDIARIES (Continued)

(ii) On 3 May 2018, one of subsidiaries which was not wholly owned by the Group and disposed entire 70% shares of Beijing Hongwei Licheng Technology Co., Ltd. (北京弘威力成科技有限責任公司), a subsidiary of the Group, to an independent third party at cash consideration of approximately RMB415,000. The subsidiary is engaged in technical development and sales of electronic products. The net assets of Beijing Hongwei Licheng Technology Co., Ltd. at the date of disposal were as follows:

**Consideration received:**

| | RMB'000 |
|---|---|
| Cash consideration received | 50 |
| Non-cash settle | 365 |
| Total cash consideration received | 415 |

**Analysis of assets and liabilities over which control was lost:**

| | RMB'000 |
|---|---|
| Cash and cash equivalents | 15 |
| Accounts receivables | 1,461 |
| Other receivables | 349 |
| Inventories | 2,464 |
| Property, plant and equipment | 207 |
| Accounts payables | (628) |
| Other payables | (3,278) |
| Accrued expenses | (550) |
| Net assets | 40 |
| Net assets disposed of | 28 |

**Gain on disposal of a subsidiary:**

| | |
|---|---|
| Consideration received | 415 |
| Net assets disposed of | (28) |
| Gain on disposal | 387 |

**Net cash inflow arising on disposal:**

| | |
|---|---|
| Cash consideration | 50 |
| Less: bank balances and cash disposed of | (15) |
| | 35 |

## 46. DISPOSAL OF SUBSIDIARIES (Continued)

(iii) On 21 August 2018, the Group disposed entire 53.635% shares of China Aviation Publishing & Media Co., Ltd. (中航出版傳媒有限責任公司), a subsidiary of the Group, to AVIC at cash consideration of approximately RMB44,570,000. The subsidiary is engaged in article publishing. The net assets of China Aviation Publishing & Media Co., Ltd at the date of disposal were as follows:

**Consideration received:**

| | RMB'000 |
|---|---|
| Total cash consideration received | 44,570 |

**Analysis of assets and liabilities over which control was lost:**

| | RMB'000 |
|---|---|
| Cash and cash equivalents | 16,546 |
| Accounts receivables | 45,782 |
| Other receivables | 2,509 |
| Prepayments | 4,274 |
| Inventories | 57,169 |
| Property, plant and equipment | 13,658 |
| Deferred tax assets | 3,275 |
| Other payables | (48,479) |
| Net assets | 94,734 |
| Non-controlling interests | (1,910) |
| Equity attributable to equity holders of the Company | 92,824 |
| Net assets disposed of | 49,786 |

**Gain on disposal of a subsidiary:**

| | |
|---|---|
| Consideration received | 44,570 |
| Net assets disposed of | (49,786) |
| Loss on disposal | (5,216) |

**Net cash inflow arising on disposal:**

| | |
|---|---|
| Cash consideration | 44,570 |
| Less: bank balances and cash disposed of | (16,546) |
| | 28,024 |

## 46. DISPOSAL OF SUBSIDIARIES (Continued)

(iv) On 5 June and 23 November 2017, the Group disposed 33% and 32% shares of AVIC Yuehai Wind Power Generation Company Limited (中航粵海風力發電有限公司), a wholly-owned subsidiary of the Group, to an independent third party at cash consideration of approximately RMB33,660,000 and RMB33,280,000 respectively. The subsidiary is engaged in electricity generation. The net assets of AVIC Yuehai Wind Power Generation Company Limited at the date of disposal were as follows:

**Consideration received:**

| | RMB'000 |
|---|---|
| Total cash consideration received | 66,940 |

**Analysis of assets and liabilities over which control was lost:**

| | RMB'000 |
|---|---|
| Cash and cash equivalents | 4,998 |
| Note receivables | 400 |
| Other receivables | 45,515 |
| Prepayment | 75,261 |
| Plant and equipment | 118,609 |
| Accounts payables | (120,400) |
| Other payables | (33,172) |
| Net assets | 91,211 |
| Net assets disposed of | 59,287 |

**Gain on disposal of a subsidiary:**

| | |
|---|---|
| Consideration received | 66,940 |
| Net assets disposed of | (59,287) |
| Gain on disposal | 7,653 |

**Net cash inflow arising on disposal:**

| | |
|---|---|
| Cash consideration | 66,940 |
| Less: bank balances and cash disposed of | (4,998) |
| | 61,942 |

## 46. DISPOSAL OF SUBSIDIARIES (Continued)

(v) On 3 November 2017, the Group disposed 16% shares of AVIC Chaofeng New Energy Electricity Power Company Limited (中航朝風新能源電力有限公司), a subsidiary of the Group, to an independent third party at cash consideration of approximately RMB6,130,000. The subsidiary is engaged in electricity generation. The net assets of AVIC Chaofeng New Energy Electricity Power Company Limited at the date of disposal were as follows:

**Consideration received:**

| | RMB'000 |
|---|---|
| Total cash consideration received | 6,130 |

**Analysis of assets and liabilities over which control was lost:**

| | RMB'000 |
|---|---|
| Bank balance and cash | 424 |
| Other receivables | 12,089 |
| Plant and equipment | 1,728 |
| Other payables | (4,437) |
| Net assets | 9,804 |
| Net assets disposed of | 1,569 |

**Gain on disposal of a subsidiary:**

| | |
|---|---|
| Consideration received | 6,130 |
| Net assets disposed of | (1,569) |
| Gain on disposal | 4,561 |

**Net cash inflow arising on disposal:**

| | |
|---|---|
| Cash consideration | 6,130 |
| Less: bank balances and cash disposed of | (424) |
| | 5,706 |

## 47. SHARE-BASED PAYMENT

AVIC Jonhon Optronic Technology Co., Ltd.("AVIC Jonhon") passed a resolution regarding to the "Proposal on Restricted Share Intensive Scheme of the company's A-Share Stock Plan (Phase I)" ("the Scheme") (關於向公司A股限制性股票激勵計劃(第一期)激勵對象授予限制性股票的議案) to the staffs in the directors' meeting on 18 January 2017 according to the approval in the first EGM of 2017.The boards agreed to grant 6,001,000 A-share restricted shares to 266 staffs in phase I of the Scheme and the grant date was on 18 January 2017 in share price of RMB28.19.

The Scheme is valid from the first date of grant to the date that all the shares are unlocked or repurchased. The Scheme is available for five years (60 months), included vesting period of two years and unlock period of three years.

The Schemes targeted the management and core technology and business staffs of AVIC Jonhon. It also aimed to the management and backbone staffs of AVIC Jonhon which was 266 staffs in total.

## 48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | Other payables and accruals RMB'000 | Interest-bearing bank and other borrowings RMB'000 | Convertible Bonds RMB'000 | Obligations under finance leases RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Balance at 1 January 2017 | 7,347,477 | 9,741,719 | – | 175,160 | 17,264,356 |
| New finance lease arrangements | – | – | – | 270,275 | 270,275 |
| Financing cash flows | (70,055) | 646,433 | 1,884,555 | (26,328) | 2,434,605 |
| Cash flows | 2,730,348 | – | – | – | 2,730,348 |
| Equity | – | – | (352,610) | – | (352,610) |
| Dividend declare (Note 11) | 178,984 | – | – | – | 178,984 |
| Balance at 31 December 2017 and 1 January 2018 | 10,186,754 | 10,388,152 | 1,531,945 | 419,107 | 22,525,958 |
| Finance cost incurred | – | 69,878 | 107,571 | 8,893 | 186,342 |
| Financing cash flows | (390,530) | (141,405) | 1,613,682 | 106,218 | 1,187,965 |
| Cash flows | (5,369,005) | – | – | – | (5,369,005) |
| Equity | – | – | (323,191) | – | (323,191) |
| Dividend declare (Note 11) | 187,354 | – | – | – | 187,354 |
| Balance at 31 December 2018 | **4,614,573** | **10,316,625** | **2,930,007** | **534,218** | **18,395,423** |

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

| | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | 16,635 | 17,307 |
| Investment properties | 19,689 | 20,384 |
| Other intangible assets | 2,089 | 2,974 |
| Investments in subsidiaries | 8,332,504 | 7,979,873 |
| Investments in associates | 281,694 | 189,275 |
| Available-for-sale investments | – | 526,106 |
| Financial assets at fair value through other comprehensive income | 443,256 | – |
| Deferred tax assets | 4,653 | 4,653 |
| Prepayments, deposits and other receivables | 511,016 | 10,000 |
| Total non-current assets | 9,611,536 | 8,750,572 |
| **CURRENT ASSETS** | | |
| Accounts and notes receivables | 1,537 | 1,452 |
| Prepayments, deposits and other receivables | 104,928 | 121,126 |
| Financial assets at fair value through profit or loss/held for trading | 347,881 | 500,000 |
| Term deposits with initial terms of over three months | 555 | – |
| Cash and cash equivalents | 1,688,537 | 1,115,477 |
| Total current assets | 2,143,438 | 1,738,055 |
| **TOTAL ASSETS** | 11,754,974 | 10,488,627 |

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

| | 31 December 2018 RMB'000 | 31 December 2017 RMB'000 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Other payables and accruals | 225,794 | 228,699 |
| Tax payable | 8,462 | 5,926 |
| Total current liabilities | 234,256 | 234,625 |
| **NON-CURRENT LIABILITY** | | |
| Deferred tax liabilities | 8,791 | 12,848 |
| Total non-current liability | 8,791 | 12,848 |
| **TOTAL LIABILITIES** | 243,047 | 247,473 |
| Net assets | 11,511,927 | 10,241,154 |
| **EQUITY** | | |
| Share capital | 6,245,122 | 5,966,122 |
| Reserves (Note) | 5,266,805 | 4,275,032 |
| Total equity | 11,511,927 | 10,241,154 |

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

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

| | Capital reserve RMB'000 | Fair value reserve RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | 3,629,034 | 72,807 | 151,532 | 421,659 | 4,275,032 |
| Change in accounting policy | – | (26,369) | – | 26,369 | – |
| As at 1 January 2018 (as restated) | 3,629,034 | 46,438 | 151,532 | 448,028 | 4,275,032 |
| Profit for the year | – | – | – | 301,487 | 301,487 |
| Other comprehensive loss for the year, net of tax. | – | (35,951) | – | – | (35,951) |
| Total comprehensive income for the year | – | (35,951) | – | 301,487 | 265,536 |
| Issue of shares | 905,221 | – | – | – | 905,221 |
| 2017 final dividend | – | – | – | (178,984) | (178,984) |
| Transfer to statutory surplus reserve | – | – | 29,763 | (29,763) | – |
| At 31 December 2018 | 4,534,255 | 10,487 | 181,295 | 540,768 | 5,266,805 |

| | Capital reserve RMB'000 | Fair value reserve RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2017 | 3,629,034 | 129,509 | 126,288 | 313,787 | 4,198,618 |
| Profit for the year | – | – | – | 252,438 | 252,438 |
| Other comprehensive loss for the year, net of tax. | – | (56,702) | – | – | (56,702) |
| Total comprehensive income for the year | – | (56,702) | – | 252,438 | 195,736 |
| 2016 final dividend | – | – | – | (119,322) | (119,322) |
| Transfer to statutory surplus reserve | – | – | 25,244 | (25,244) | – |
| At 31 December 2017 | 3,629,034 | 72,807 | 151,532 | 421,659 | 4,275,032 |

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

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

## 50. CONTINGENT LIABILITIES

A subsidiary had been named as a defendant in a Court action of Xi'an Middle Court in respect of an alleged breach of contractual undertakings for an amount of approximately USD77,000,000 which was respect to a sale commission. Although the US court adjudicated the subsidiary was liable to the fine, based on the legal opinion, the directors of the Company were in the opinion that there would not be any potential liability and no provision had been made in these consolidated financial statements. Details were disclosed in the announcement of the Company dated 29 March 2017. During the year, the Xi'an Middle Court had judged the sale commission stated above was invalid, the judgement had been effective and no compensation should be incurred. Details of the judgement were disclosed in the announcement of the Company dated 10 July 2018.

## 51. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 20 March 2019.

## 52. COMPARATIVE FIGURES

As a result of the changes in the Group's accounting policies, prior year consolidated statement of change in equity had to be restated. To conform to current year's change in accounting policy, the amount of RMB57,752,000 for the year ended 31 December 2017 have been restated from fair value reserve to retained earnings in the consolidated statement of change in equity to facilitate a better presentation.

Financial assets were previously presented separately with financial assets at fair value through profit or loss or held for trading, loans and receivables and available-for-sales financial assets respectively in financial instruments by category. Financial liabilities were previously presented with financial liabilities at amortised cost in financial instruments by category. To conform to current year's presentation, the above separation of presentation in financial assets and financial liabilities have been restated by total amount in the financial instruments by category to facilitate a better presentation.

As a result of the changes in the Group's accounting policies, prior year statement of financial position of the company had to be restated. To conform to current year's change in accounting policy, the amount of RMB26,369,000 for the year ended 31 December 2017 have been restated from fair value reserve to retained earnings in the statement of financial position of the company to facilitate a better presentation.

# Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings indicated. In addition, shareholding percentage referred to in the definitions below is the percentage as at 31 December 2018.

| | |
|---|---|
| "Airbus Helicopters" | Airbus Helicopters, a subsidiary of Airbus Group and formerly known as Eurocopter |
| "Anji Casting" | AVIC Guizhou Anji Aviation Investment Casting Co., Ltd. (貴州安吉航空精密鑄造有限責任公司), a limited liability company established in the PRC |
| "Articles of Association" | Articles of Association of the Company (as amended from time to time) |
| "AVIC" | Aviation Industry Corporation of China, Ltd. (中國航空工業集團有限公司), a controlling shareholder of the Company holding directly and indirectly 56.04% equity interest of the Company |
| "AVIC Airborne Systems" | AVIC Airborne Systems Company Limited (中航機載系統有限公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC |
| "AVICOPTER" | AVICOPTER PLC (中航直升機股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 28.21% of its interests being held by the Company through Harbin Aviation Group and 6.56% of its interests being directly held by the Company |
| "AVIC Avionics" | China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange with 43.22% of its equity interest being held by the Company |
| "AVIC Capital" | AVIC Capital Co., Ltd. (中航資本控股股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange and a subsidiary of AVIC |
| "AVIC Finance" | AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司), a subsidiary of AVIC |
| "AVIC Forstar" | AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司), a subsidiary of JONHON Optronic |
| "AVIC Group" | AVIC and its subsidiaries |

| | |
|---|---|
| "AVIC Helicopter" | AVIC Helicopter Co., Ltd. (中航直升機有限責任公司), a non-wholly owned subsidiary of AVIC |
| "AVIC I" | China Aviation Industry Corporation I (中國航空工業第一集團公司), the predecessor of AVIC |
| "AVIC II" | China Aviation Industry Corporation II (中國航空工業第二集團公司), a former controlling shareholder of the Company and the predecessor of AVIC |
| "AVIC Kaitian" | Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), which is held as to 86.74% by AVIC Avionics and is a subsidiary of AVIC Avionics, and is held as to 1.56% by the Company directly |
| "AVIC Lanfei" | Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司), a wholly-owned subsidiary of AVIC Avionics |
| "AVIC CAPDI" | China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究總院有限公司), a wholly-owned subsidiary of the Company |
| "AVIC Renewable Energy" | AVIC Renewable Energy Investment Co., Ltd. (中國航空工業新能源投資有限公司), a limited liability company established in the PRC |
| "AVIC Rongfu" | AVIC Rongfu Fund Management Company Limited (中航融富基金管理有限公司), which is held as to 50% by the Company and is a subsidiary of the Company |
| "AVIC Trust" | AVIC Trust Co., Ltd (中航信託股份有限公司), a joint stock limited liability company incorporated in the PRC and a subsidiary of AVIC |
| "AviChina", "the Company" | AviChina Industry & Technology Company Limited (中國航空科技工業股份有限公司), a joint stock limited company established in the PRC with limited liability on 30 April 2003 |

| | |
|---|---|
| "AviChina Capital" | AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司), a wholly-owned subsidiary of the Company |
| "AviChina Hong Kong" | AviChina Hong Kong Limited (中航科工香港有限公司), a wholly-owned subsidiary of the Company |
| "AviChina Intelligent Surveying & Mapping" | AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司), a subsidiary of the Company |
| "Board" or "Board of Directors" | the board of directors of the Company |
| "Changfeng Avionics" | Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司), a wholly-owned subsidiary of AVIC Avionics |
| "Changhe Aviation" | Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司), a wholly-owned subsidiary of AVICOPTER |
| "CSRC" | China Securities Regulatory Commission |
| "Director(s)" | the director(s) of the Company |
| "Domestic Shares" | ordinary shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi by PRC nationals and/or PRC corporate entities |
| "Former AVIC" | Aviation Industry Corporation of China (中國航空工業總公司), the predecessor of AVIC I and AVIC II |
| "Group" | the Company and its subsidiaries |
| "H Shares" | overseas listed foreign invested shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange |
| "Hafei Aviation" | Harbin Hafei Aviation Industry Co., Ltd. (哈爾濱哈飛航空工業有限責任公司), a wholly-owned subsidiary of AVICOPTER |
| "Harbin Aviation Group" | Harbin Aviation Industry (Group) Co., Ltd. (哈爾濱航空工業(集團)有限公司), a wholly-owned subsidiary of the Company |
| "Helicopter Tianjin" | Tianjin Helicopter Company Limited (天津直升機有限責任公司), a wholly-owned subsidiary of AVICOPTER |

| | |
|---|---|
| "Hongdu Aviation" | Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 43.77% of its interests being held by the Company |
| "Hongdu Group" | Jiangxi Hongdu Aviaiton Industry Group Co., Ltd. (江西洪都航空工業集團有限責任公司), a wholly-owned subsidiary of AVIC |
| "Hong Kong Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Huiyang Company" | Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司), a wholly-owned subsidiary of AVICOPTER |
| "Jingdezhen Helicopter R&D Branch" | AVIChina Industry and Technology Company Limited Jingdezhen Helicopter Research and Development Branch (中國航空科技工業股份有限公司景德鎮直升機研發分公司) |
| "JONHON Optronic" | AVIC JONHON Optronic Technology Co., Ltd. (中航光電科技股份有限公司), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, with 41.39% of its equity interest held by the Company |
| "Keeven Instrument" | Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics |
| "Lanzhou Aviation Electrical" | Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司), a wholly-owned subsidiary of AVIC Avionics |
| "Oriental Instrument" | Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司), a wholly-owned subsidiary of AVIC Avionics |
| "Qianshan Avionics" | AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司), a wholly-owned subsidiary of AVIC Avionics |
| "PRC" | the People's Republic of China |
| "Shaanxi Baocheng" | Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀錶有限責任公司), a wholly-owned subsidiary of AVIC Avionics |
| "Shaanxi Huayan" | AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司), a subsidiary of AVIC Avionics |

| | |
|---|---|
| "Shanghai Aviation Electric" | Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司), a wholly-owned subsidiary of AVIC Avionics |
| "Shares" | the ordinary shares of the Company |
| "Shenyang Xinghua" | AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限責任公司), a subsidiary of JONHON Optronic |
| "Supervisor(s)" | the supervisor(s) of the Company |
| "Supervisory Committee" | the supervisory committee of the Company |
| "Taiyuan Instrument" | AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics |
| "Tianjin Aviation" | Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司), a wholly-owned subsidiary of the Company |
| "Trainer" | aeroplanes designed and used for pilot training purposes |
| "Xiangtong Photoeletric" | Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司), a subsidiary of TONHON Optronic |

The English names of the entities of mainland China referred to in the definitions above are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

# Corporate Information

## BOARD OF DIRECTORS

| | |
|---|---|
| Executive Director | Tan Ruisong |
| Chairman, Executive Director | Chen Yuanxian |
| Executive Director | Wang Xuejun |
| Non-Executive Director | Li Yao |
| Non-Executive Director | He Zhiping |
| Non-Executive Director | Patrick de Castelbajac |
| Independent Non-Executive Director | Liu Renhuai |
| Independent Non-Executive Director | Liu Weiwu |
| Independent Non-Executive Director | Wang Jianxin |

## SUPERVISORS

| | |
|---|---|
| Chairman of the Supervisory Committee | Zheng Qiang |
| Supervisor | Guo Guangxin |
| Supervisor | Shi Shiming |

## SENIOR MANAGEMENT

| | |
|---|---|
| General Manager | Wang Xuejun |
| Deputy General Manager & CFO | Tao Guofei |
| Board Secretary | Gan Liwei |

## COMPANY SECRETARY

Xu Bin

## THE LEGAL NAME OF THE COMPANY

中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited

| | |
|---|---|
| Abbreviation name in Chinese: | 中航科工 |
| Abbreviation name in English: | AVICHINA |
| Legal representative: | Chen Yuanxian |

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## AUTHORISED REPRESENTATIVES

Wang Xuejun
Xu Bin

## PRINCIPAL BANKERS

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

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

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

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

## PLACE OF LISTING, STOCK NAME AND STOCK CODE

Main Board of The Stock Exchange of Hong Kong Limited
(H Shares)
Stock Name: AVICHINA
Stock Code: 2357

## REGISTERED ADDRESS

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

## WEBSITE

www.avichina.com

## CORRESPONDENCE ADDRESS

Postal Code: 100029
Tower A, No. 14 Xiaoguandongli,
Chaoyang District, Beijing, the PRC

Telephone: 86-10-58354335
Facsimile: 86-10-58354300/10
E-mail Box: avichina@avichina.com

## SHARE REGISTRAR

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

## ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2018 will be held at 9:00 a.m. on Friday, 17 May 2019 at AVIC Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC.

## AUDITORS

### International Auditors

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

### Auditors in the PRC

ShineWing Certified Public Accountant LLP
9/F, Block A, Fu Hua Mansion,
No.8, Chaoyangmen Beidajie,
Dongcheng District,
Beijing, the PRC

## LEGAL ADVISERS

### As to Hong Kong law

Baker & McKenzie
14th Floor, One Taikoo Place,
979 King's Road, Quarry Bay,
Hong Kong

### As to PRC law

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