THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AviChina Industry & Technology Company Limited**, you should at once hand this circular and the enclosed proxy form and reply slip to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

The circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

中國航空科技工業股份有限公司
AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

MAJOR AND CONNECTED TRANSACTIONS: PROPOSED ACQUISITION OF THE TARGET EQUITY AND PROPOSED ISSUANCE OF CONSIDERATION SHARES UNDER THE SPECIFIC MANDATE

Financial Adviser to the Company

CICC
中金公司

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 25 of this circular. A letter from the Independent Board Committee is set out on page 26 of this circular. A letter from Somerley to the Independent Board Committee and the Independent Shareholders is set out on pages 27 to 53 of this circular.

A notice convening the EGM of AviChina Industry & Technology Company Limited to be held at 9:00 a.m. on Thursday, 13 February 2020 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People's Republic of China is set out on pages EGM-1 to EGM-3 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed and are also published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon on or before Thursday, 23 January 2020. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM or any adjournment thereof (as the case may be) and voting in person if you so wish.

6 January 2020

* *For identification purpose only*

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Articles of Association"	the articles of association of the Company
"associate"	has the same meaning as defined in the Listing Rules
"AVIC"	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), the controlling Shareholder of the Company holding 56.04% equity interest in the Company directly and indirectly as at the Latest Practicable Date
"AVIC Helicopter"	AVIC Helicopter Co., Ltd.* (中航直升機有限責任公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the Latest Practicable Date
"AVICOPTER"	AVICOPTER PLC.*(中航直升機股份有限公司), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange, being held as to 34.77% by the Company directly and indirectly as at the Latest Practicable Date
"Board"	the board of directors of the Company
"Changhe Aircraft"	Changhe Aircraft Industries (Group) Co., Ltd.* (昌河飛機工業(集團)有限責任公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the Latest Practicable Date
"Company"	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange
"Completion Date"	the date on which all the conditions precedent of completion under the Equity Acquisition and Share Issuance Agreement are satisfied or waived (if applicable), or other date as agreed by the parties in writing
"connected person(s)"	has the same meaning as defined in the Listing Rules
"Consideration Shares"	the Domestic Shares to be issued by the Company to the Transferors under the Equity Acquisition and Share Issuance Agreement as the consideration of the Proposed Acquisition, which have been confirmed by relevant regulatory authorities in the PRC and each party to the Equity Acquisition and Share Issuance Agreement

"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	the domestic share(s) to be issued by the Company and subscribed for in RMB, with a nominal value of RMB1.00 each
"EGM"	the extraordinary general meeting of the Company to be held at 9:00 a.m. on Thursday, 13 February 2020 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC for the purpose of considering and, if thought fit, approving, among other things, the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate)
"Enlarged Group"	the Group as enlarged by the Target Group upon completion of the Proposed Acquisition under the Equity Acquisition and Share Issuance Agreement
"Equity Acquisition and Share Issuance Agreement"	the equity acquisition and share issuance agreement dated 28 November 2019 entered into between the Company, AVIC and Tianjin Free Trade Zone Investment in relation to the Proposed Acquisition and Proposed Issuance
"Group"	the Company and its subsidiaries
"H Share(s)"	the overseas-listed foreign invested share(s) in the Company's share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in HK$
"Harbin Aircraft"	Harbin Aircraft Industry Group Co., Ltd.* (哈爾濱飛機工業集團有限責任公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the Latest Practicable Date
"HK$"	Hong Kong dollars
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IFRS"	International Financial Reporting Standards
"Independent Board Committee"	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin, to advise the Independent Shareholders in respect of the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate)

"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, to advise the Independent Board Committee and Independent Shareholders in respect of the connected transactions contemplated under the Equity Acquisition and Share Issuance Agreement
"Independent Shareholders"	Shareholders (other than AVIC and its associates) who are not required to abstain from voting on the resolution to be proposed at the EGM to approve the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate)
"Issue Price"	the issue price of the Consideration Shares
"Latest Practicable Date"	30 December 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"PRC"	the People's Republic of China
"Proposed Acquisition"	the proposed acquisition of the Target Equity by the Company from the Transferors pursuant to the Equity Acquisition and Share Issuance Agreement, the consideration for which is to be settled by the issuance of the Consideration Shares to the Transferors
"Proposed Issuance"	the issuance of Consideration Shares by the Company to the Transferors as the consideration for the Proposed Acquisition pursuant to the Equity Acquisition and Share Issuance Agreement
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
"Share(s)"	the share(s) of the Company
"Shareholders"	the shareholders of the Company
"Specific Mandate"	the specific mandate in relation to the Proposed Issuance to be sought at the EGM
"subsidiary(ies)"	has the same meaning ascribed thereto under the Listing Rules

"Target Group"	AVIC Helicopter and its subsidiaries (including Harbin Aircraft and Changhe Aircraft)
"Target Equity"	68.75% and 31.25% equity interests in AVIC Helicopter held by AVIC and Tianjin Free Trade Zone Investment, respectively, 10.21% equity interests in Harbin Aircraft held by AVIC and 47.96% equity interests in Changhe Aircraft held by AVIC
"Tianjin Free Trade Zone Investment"	Tianjin Free Trade Zone Investment Company Limited* (天津保税區投資有限公司), a limited liability company incorporated in the PRC
"Transferor(s)"	AVIC and/or Tianjin Free Trade Zone Investment
"USD"	United States dollars, the lawful currency of the United States
"Valuation Benchmark Date"	being 30 September 2018
"%"	per cent

* *For identification purpose only.*

For the purpose of this circular, unless otherwise indicated, the exchange rate at RMB1 = HK$1.107 has been used, where applicable, for the purpose of illustration only and not constitute a representation that any amount have been, could have been or may be exchanged.

中國航空科技工業股份有限公司
AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

Executive Directors:
Mr. Chen Yuanxian
Mr. Wang Xuejun

Non-executive Directors:
Mr. Yan Lingxi
Mr. Lian Dawei
Mr. Xu Gang

Independent non-executive Directors:
Mr. Liu Renhuai
Mr. Liu Weiwu
Mr. Wang Jianxin

Registered Office:
2nd floor, Building 27
No. 26 Xihuan South Street
Beijing Economic Technological
Development Area
Beijing, PRC

Place of business in Hong Kong:
Unit 2202A, 22th Floor
Fairmont House
8 Cotton Tree Drive
Central
Hong Kong

6 January 2020

To the Shareholders:

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS: PROPOSED ACQUISITION OF THE TARGET EQUITY AND PROPOSED ISSUANCE OF CONSIDERATION SHARES UNDER THE SPECIFIC MANDATE

A. INTRODUCTION

References are made to the announcements of the Company dated 12 October 2018, 13 October 2019, 28 November 2019 and 27 December 2019 in relation to, among other things, the proposed acquisition of 100% equity interests of AVIC Helicopter, delay in despatch of circular and closure of register of members.

The purpose of this circular is to provide you with, among other things, information relating to the following resolution to be considered and, if appropriate, approved at the EGM:

(1) details relating to the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate);

(2) a letter of recommendation from the Independent Board Committee on the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate);

(3) a letter of advice from Somerley on the connected transactions contemplated under the Equity Acquisition and Share Issuance Agreement to the Independent Shareholders and the Independent Board Committee; and

(4) notice of the EGM.

B. EQUITY ACQUISITION AND SHARE ISSUANCE AGREEMENT

B.1 Introduction

On 12 October 2018, the Company, AVIC and Tianjin Free Trade Zone Investment entered into a share transfer framework agreement. On 28 November 2019, the Company entered into the Equity Acquisition and Share Issuance Agreement with AVIC and Tianjin Free Trade Zone Investment, pursuant to which, the Company conditionally agreed to acquire (i) 68.75% and 31.25% equity interests in AVIC Helicopter held by AVIC and Tianjin Free Trade Zone Investment, respectively; (ii) 10.21% equity interests in Harbin Aircraft held by AVIC; and (iii) 47.96% equity interests in Changhe Aircraft held by AVIC, at a total consideration of approximately RMB5,687,537,050.94 (equivalent to approximately HK$6,296,103,515.39). Upon completion of the Proposed Acquisition, each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft will become a wholly-owned subsidiary of the Company.

B.2 Equity Acquisition and Share Issuance Agreement

The major terms of the Equity Acquisition and Share Issuance Agreement are summarized as follows:

Date 28 November 2019 (after trading hours)

Parties

(1) the Company, as the purchaser of the Target Equity and the issuer of the Consideration Shares;

(2) AVIC and Tianjin Free Trade Zone Investment, each as the seller of the Target Equity and the subscriber for the Consideration Shares.

Target Equity

(1) 68.75% and 31.25% equity interests in AVIC Helicopter held by AVIC and Tianjin Free Trade Zone Investment, respectively;

(2) 10.21% equity interests in Harbin Aircraft held by AVIC; and

(3) 47.96% equity interests in Changhe Aircraft held by AVIC.

Consideration

The total consideration for the Target Equity is approximately RMB5,687,537,050.94 (equivalent to approximately HK$6,296,103,515.39), among which:

(1) in respect of acquisition of 100% equity interests in AVIC Helicopter, the total consideration is approximately RMB4,951,877,168.61 (equivalent to approximately HK$5,481,728,025.65) comprising the consideration to be paid by the Company to AVIC and Tianjin Free Trade Zone Investment of RMB4,005,250,762.69 (equivalent to approximately HK$4,433,812,594.30) and RMB946,626,405.92 (equivalent to approximately HK$1,047,915,431.35), respectively;

(2) in respect of acquisition of 10.21% equity interests in Harbin Aircraft, the consideration to be paid by the Company to AVIC is approximately RMB147,654,910.06 (equivalent to approximately HK$163,453,985.44); and

(3) in respect of acquisition of 47.96% equity interests in Changhe Aircraft, the consideration to be paid by the Company to AVIC is approximately RMB588,004,972.27 (equivalent to approximately HK$650,921,504.30).

The above consideration is determined upon arm's length negotiations between the parties with reference to various factors, namely (a) the financial position of the Target Group, such as its net assets value, operating revenue and net profit, details of which please refer to the accountants' report of the Target Group as set out in Appendix II, (b) the historical performance of the Target Group during the past three years, including its research and development progress in relation to its core products, its business operation and financial performance in the recent three years, details of which please refer to the management discussion and analysis on the Target Group as set out in Appendix III, (c) the future business outlook and potential of the Target Group after taking into account the current situation, development stage and future trend of defense equipment industry, (d) the economic and industrial situation, including the external macro economy, the future growth in China's economy and the development in the defense equipment industry, and (e) the valuation results of the Target Equity as set out in the valuation reports prepared by a qualified and independent PRC valuer using asset-based approach as at the Valuation Benchmark Date, a summary of which is set out in section B.8 below. Having considered the above factors (including the review of the accountants' report and valuation reports of the Target Group) and the benefits of the Proposed Acquisition as elaborated in Section B.5 below, upon commercial negotiation with the Transferors, the Company agreed on the total consideration for the Target Equity.

Consideration Shares

The above consideration will be settled by the Company through issuance of the Consideration Shares.

In light of the absolute amount of the consideration is very large (i.e. over RMB5 billion), the Company explored the most appropriate way to finance the Proposed Acquisition. The payment in cash from the Group's own funds may place pressure on the Group's cash flow, and debt financing from external institutions would bring additional finance costs and the Group's gearing ratio would be increased accordingly. Meanwhile, the issuance of the Consideration Shares can save finance costs and has no negative impact on the Group's cash flow. Therefore, the Directors are of the view that the issuance of Consideration Shares to the Transferors as consideration to the Proposed Acquisition is fair and reasonable.

Pursuant to the Specific Provisions on Overseas Issuance and Listing of Shares by Joint Stock Limited Liability Companies issued by the State Council* (國務院關於股份有限公司境外募集股份及上市的特別規定) ("**Specific Provisions**"), overseas listed foreign invested shares refer to shares which are issued by joint stock limited liability companies to overseas investors and are listed overseas. As each of AVIC and Tianjin Free Trade Zone Investment are domestic entities, the shares to be issued by the Company to AVIC and Tianjin Free Trade Zone Investment does not fall under the definition of overseas listed foreign invested shares (i.e. H shares). Therefore, as confirmed by the PRC regulatory authorities and each party to the Equity Acquisition and Share Issuance Agreement, the Company determined to settle the consideration for the Proposed Acquisition through issuance of Domestic Shares. The Company considers that the Proposed Issuance of Domestic Shares for the Proposed Acquisition will not incur higher acquisition costs as compared to the issuance of H Shares since both of them are ordinary shares whose rights and obligations are substantially the same unless those specified in the Articles of Association.

Based on the prior consultation with the PRC regulatory authorities and the PRC legal advisers of the Company, taking the above into account, the Board considers that the Proposed Issuance of the Domestic Shares to the Transferors for consideration of the Proposed Acquisition is in compliance with the Articles of Association and the relevant PRC laws and regulations (including the Specific Provisions).

Given that H Shares are tradeable on the Hong Kong Stock Exchange, taking into account the benefits of H share full circulation of the Company, the Company and the Transferors wish to convert the Consideration Shares (i.e. the Domestic Shares) into H Shares in the future. Such conversion is subject to approval by the PRC regulatory authorities and application by the Transferors and no concrete conversion plan has been formulated for the time being.

Issue Price

The parties to the Equity Acquisition and Share Issuance Agreement agreed that the Issue Price of the Consideration Shares is HK$4.19 per Consideration Share (when the Consideration Shares are H Shares) or RMB3.79 (equivalent to approximately HK$4.19) per Consideration Share (when the Consideration Shares are Domestic Shares).

As confirmed by relevant regulatory authorities in the PRC and each party to the Equity Acquisition and Share Issuance Agreement, the consideration for the Proposed Acquisition is proposed to be settled by issuance of the Domestic Shares to AVIC and Tianjin Free Trade Zone Investment.

The Issue Price is determined by the parties after arm's length negotiations and with reference to the recent average closing prices of H Share on the Hong Kong Stock Exchange prior to signing the Equity Acquisition and Share Issuance Agreement.

The Issue Price per Consideration Share represents:

(1) a premium of approximately 19.71% over the closing price of HK$3.50 per H Share on the Hong Kong Stock Exchange on the date of the Equity Acquisition and Share Issuance Agreement (the "**Agreement Date**");

(2) a premium of approximately 18.83% over the average closing price of HK$3.53 per H Share on the Hong Kong Stock Exchange for five (5) trading days prior to and including the Agreement Date;

(3) a premium of approximately 16.36% over the average closing price of HK$3.60 per H Share on the Hong Kong Stock Exchange for twenty (20) trading days prior to and including the Agreement Date; and

(4) a premium of approximately 19.03% over the closing price of HK$3.52 per H Share on the Hong Kong Stock Exchange on the Latest Practicable Date.

Note: The comparison of value above is provided for investors' convenience and for reference only. The Company's Domestic Shares, to be issued and allotted as the Consideration Shares, are non-listed Shares.

Number of Consideration Shares

Based on the consideration of the Target Equity and the Issue Price as elaborated above, the total number of the Consideration Shares is 1,500,669,406, representing 24.03% of the total issued share capital of the Company as at the Latest Practicable Date and 19.37% of the total issued share capital of the Company as enlarged by the Proposed Issuance (assuming there is no other change in the share capital of the Company).

The respective number of the Consideration Shares to be issued and allotted to AVIC and Tianjin Free Trade Zone Investment is as follows:

(1) for AVIC: 1,250,899,906, representing 20.03% of the total issued share capital of the Company as at the Latest Practicable Date and 16.15% of the total issued share capital of the Company as enlarged by the Proposed Issuance (assuming there is no other change in the share capital of the Company); and

(2) for Tianjin Free Trade Zone Investment: 249,769,500, representing 4.00% of the total issued share capital of the Company as at the Latest Practicable Date and 3.22% of the total issued share capital of the Company as enlarged by the Proposed Issuance (assuming there is no other change in the share capital of the Company).

Ranking of the Consideration Shares to be issued

The Consideration Shares shall rank *pari passu* in all respect among themselves and with the existing Shares of the same class (if any) pursuant to the Articles of Association.

Effectiveness of the Agreement

The Equity Acquisition and Share Issuance Agreement shall become effective upon satisfaction of all the following conditions:

(1) the Equity Acquisition and Share Issuance Agreement has been duly executed by each party;

(2) all the pre-approvals in relation to the transactions under the Equity Acquisition and Share Issuance Agreement have been obtained from the relevant governmental authorities by each party according to laws;

(3) the Equity Acquisition and Share Issuance Agreement has been approved by the internal decision authorities (including the board (or executive director(s)) and the shareholders (shareholders' meeting)) of each Transferor; and

(4) the Equity Acquisition and Share Issuance Agreement and the transactions thereunder (including the Proposed Acquisition and the Proposed Issuance) have been approved by the Board and the Independent Shareholders of the Company.

As at the Latest Practicable Date, all conditions precedent have been satisfied other than the Independent Shareholders' approval as mentioned in condition (4).

Completion

The completion of the Proposed Acquisition and the Proposed Issuance shall take place on the Completion Date upon satisfaction (or waiver, if applicable) of the following conditions precedent:

(1) the transfer of 100% equity interests in AVIC Helicopter has been approved by the shareholders' meeting of AVIC Helicopter;

(2) the transfer of 10.21% equity interests in Harbin Aircraft has been approved by the shareholders' meeting of Harbin Aircraft;

(3) the transfer of 47.96% equity interests in Changhe Aircraft has been approved by the shareholders' meeting of Changhe Aircraft;

(4) the consent, authorization and approval (if required) of any third party (including but not limited to financial creditors) in relation to the transfer of the Target Equity have been obtained, and there is no pledge, freeze or any third party rights over the Target Equity that may restrict or impede the implementation of the Equity Acquisition and Share Issuance Agreement;

(5) each party's warranties given on the date of the Equity Acquisition and Share Issuance Agreement shall remain true and accurate, and shall not be misleading in all material respects on the Completion Date with reference to the facts and circumstances of the Target Equity/the Consideration Shares (as the case may be);

(6) all relevant legal documents for the transactions under the Equity Acquisition and Share Issuance Agreement have been completed to the satisfaction of all parties;

(7) the Target Group has completed the divestment of relevant business involved in Special Management Measures for Admittance of Foreign Investment (Negative List), including but not limited to the exclusion in the business scope involving such business;

(8) certain subsidiaries and/or branches of the Target Group have improved procedures in relation to the change of industrial and commercial registration or cancellation of registration to the satisfaction of the Company;

(9) subject to compliance with the relevant laws and regulations and the rules of the stock exchanges by AVIC Helicopter, the registration procedures for the transfer of 6% equity interests in AVICOPTER held by AVIC Helicopter to Tianjin Binjiang Helicopter Co., Ltd.* (天津濱江直升機有限責任公司) have been completed;

(10) the ownership of the assets (including land and real estate) of the Target Group has been further improved as required to the satisfaction of the Company; and

(11) there is no occurrence of any matters in accordance with the Equity Acquisition and Share Issuance Agreement which will trigger the termination of the Equity Acquisition and Share Issuance Agreement.

Except for conditions precedent (8) and (10) (which can be waived by the Company), the above conditions precedent cannot be waived.

Transitional Period Arrangement

The Company shall be entitled to the accumulated undistributed profit of the Target Group as of the Valuation Benchmark Date and during the period from the Valuation Benchmark Date to the Completion Date. The existing shareholders of the Target Group shall be entitled to the profit of the Target Group (paid or unpaid) generated before the Valuation Benchmark Date and declared during the period from the Valuation Benchmark Date to the Agreement Date in proportion to respective equity interest in the Target Group, on the assumption that the Target Group and the Transferors have fully disclosed such distribution to the Company timely in good faith and such distribution is reflected in the accountants' report and valuation report of the Target Group accordingly.

B.3 Specific Mandate

The Consideration Shares will be issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

The Company has not engaged in any other fund raising activities involving issuance of the Company's equity securities in the past 12 months immediately prior to the Latest Practicable Date.

B.4 Effects on shareholding structure upon completion of the Proposed Acquisition and Proposed Issuance

As at the Latest Practicable Date, the Company had a registered share capital of RMB6,245,121,836 divided into 6,245,121,836 H Shares with a nominal value of RMB1.00 each, which is fully paid up.

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposed Issuance (assuming that there is no other change in the issued share capital and shareholding structure of the Company from the Latest Practicable Date to the Completion Date):

	As at the Latest Practicable Date			Immediately upon completion of the Proposed Issuance		
Shareholder	**Class of Shares**	**Number of Shares**	**Approximate % to the total issued share capital of the Company**	**Class of Shares**	**Number of Shares**	**Approximate % to the total issued share capital of the Company**
AVIC Note 1	H Shares	3,499,531,569	56.04	H Shares	3,499,531,569	45.18
				Domestic Shares	1,250,899,906	16.15
Airbus Group	H Shares	312,255,827	5.00	H Shares	312,255,827	4.03
Tianjin Free Trade Zone Investment Note 2	–	0	0.00	Domestic Shares	249,769,500	3.22
Other Shareholders	H Shares	2,433,334,440	38.96	H Shares	2,433,334,440	31.41
				Subtotal-H Shares	6,245,121,836	80.63
				Subtotal-Domestic Shares	1,500,669,406	19.37
Total issued Shares Note 3	**H Shares**	**6,245,121,836**	**100**	**Total**	**7,745,791,242**	**100**

Note:

1. As at the Latest Practicable Date, among the 3,499,531,569 H Shares currently held by AVIC, 3,297,780,902 H Shares were directly held by it as a beneficial owner, 183,404,667 H Shares were held through AVIC Airborne Systems Company Limited, and 18,346,000 H Shares were held through China

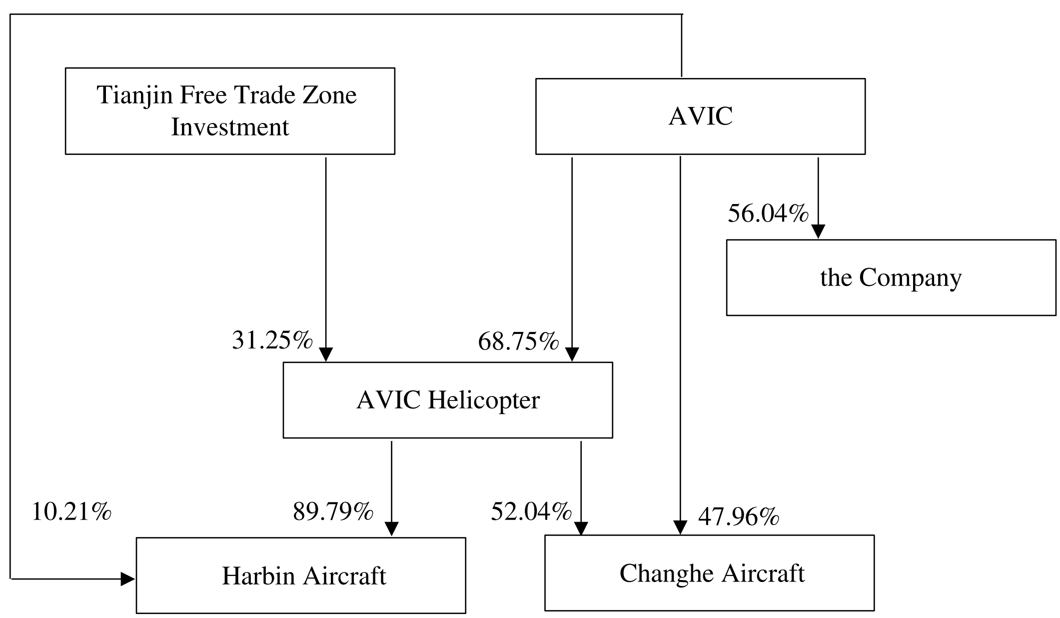
Aviation Industry (Hong Kong) Company Limited, each being its wholly-owned subsidiary. Immediately upon completion of the Proposed Issuance, except for the above 3,499,531,569 H Shares, AVIC will also hold 1,250,899,906 Domestic Shares.

2. Immediately upon completion of the Proposed Issuance, Tianjin Free Trade Zone Investment will hold 249,769,500 Domestic Shares.

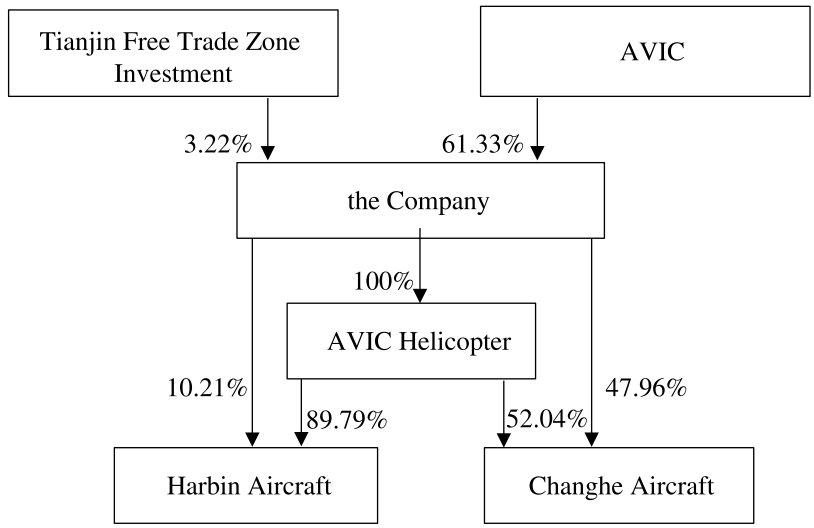
3. As at the Latest Practicable Date, the total issued Shares refer to 6,245,121,836 H Shares of the Company in issue. Immediately upon completion of the Proposed Issuance, the total issued Shares include 6,245,121,836 H Shares and 1,500,669,406 Domestic Shares of the Company in issue.

The diagram below sets out the simplified shareholding structure of the Target Group and the parties as at the Latest Practicable Date and the Completion Date:

As at the Latest Practicable Date:



As at the Completion Date:



Completion of the Proposed Acquisition will not result in a change of control of the Company. In addition, the Company is expected to satisfy the public float requirement upon completion of the Proposed Acquisition.

B.5 Reasons for and benefits of the Proposed Acquisition and Proposed Issuance

According to the overall development strategy of the Company, the Company will enhance its capability in aviation products development and system protection in an all-round way, 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. With an aim to build an aviation power in the new era in all respects, the Company was dedicated to becoming a flagship company to provide high-tech aviation products and services universally applied for military and civil purposes, continued to promote the development of aviation industry, and realized growth in both revenue and profit.

The acquisition of AVIC Helicopter will make the helicopter products industry chain of the Company more complete and help the Company to further expand its defense equipment product line, which is in line with the development strategy plan of the Company. On one hand, the Proposed Acquisition will optimize the industrial layout of the Company's aviation manufacturing business and make the aviation business industrial chain of the Company more complete, thus improving its operation stability. On the other hand, the Proposed Acquisition is conducive to the sharing of the infrastructure between the Target Group and the Group, optimizing resource allocation, and enhancing market competitiveness. Therefore, the Proposed Acquisition will continuously create effective supplemental and synergistic effects to the Company.

Moreover, the Proposed Acquisition will reduce the connected transactions between the Company and the Target Group and enhance operational independence of the Group. The Proposed Acquisition can enhance the overall financial performance of the Company. With the synergy and economics of scale continuously taking effect, the income level and profitability of the Company will be promoted, thus enhancing the market position and competitiveness of the Group in the aviation industry.

The terms of the Equity Acquisition and Share Issuance Agreement are agreed by the parties after arm's length negotiations and made upon normal commercial terms. The Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Acquisition and Share Issuance Agreement are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, although it is not conducted in the ordinary or usual course of business of the Group due to its nature.

Each of Mr. Chen Yuanxian and Mr. Yan Lingxi, the Directors, who are the vice general manager and a department chief of AVIC, respectively, had abstained from voting on the relevant Board resolution approving the Equity Acquisition and Share Issuance Agreement in accordance with the Company Law of the PRC and the Listing Rules. Save for disclosed above, none of the other Directors has or is deemed to have a material interest in the transactions under the Equity Acquisition and Share Issuance Agreement.

B.6 Financial effects of the Proposed Acquisition

Upon completion of the Proposed Acquisition, each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft will become a wholly-owned subsidiary of the Company.

Assets and Liabilities

As of 30 June 2019, the Group's unaudited consolidated total assets and total liabilities amounted to approximately RMB86,414 million and approximately RMB50,523 million, respectively. As set out in Appendix IV to this circular, assuming the Proposed Acquisition had taken place on 30 June 2019, the unaudited pro forma combined total assets of the Enlarged Group would increase to approximately RMB107,093 million and the unaudited pro forma combined total liabilities of the Enlarged Group would increase to approximately RMB69,551 million.

Further details of the financial effects of the Proposed Acquisition on the Group's assets and liabilities and the basis of preparation of the unaudited pro forma financial information are set out in Appendix IV to this circular.

Earnings

Upon completion of the Proposed Acquisition, the financial results of the Target Group will be consolidated into the Enlarged Group's consolidated accounts. Based on the accountants' report of the Target Group as set out in Appendix II, the profit before taxation of the Target Group for the year 2018 was approximately RMB384.82 million. For the avoidance of doubt, the actual effect on earnings will depend on the future financial performance of the Target Group.

B.7 Information on Target Group

AVIC Helicopter is a limited liability company incorporated in the PRC and is a subsidiary of AVIC as at the Latest Practicable Date. It is mainly engaged in research and development, production, sales and maintenance of helicopters, other aircrafts and aviation components.

Harbin Aircraft is a limited liability company incorporated in the PRC and is a subsidiary of AVIC as at the Latest Practicable Date. It is owned as to 89.79% by AVIC Helicopter and 10.21% by AVIC. It is mainly engaged in research and development, manufacture and sales of multiple helicopters and general aircraft.

Changhe Aircraft is a limited liability company incorporated in the PRC and is a subsidiary of AVIC as at the Latest Practicable Date. It is owned as to 52.04% by AVIC Helicopter and 47.96% by AVIC. It is mainly engaged in research and development, manufacture and sales of helicopters and aviation parts.

Each of Harbin Aircraft and Changhe Aircraft is a subsidiary of AVIC Helicopter. According to IFRS, the audited consolidated net profits (before and after taxation and extraordinary items) of the Target Equity for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 and nine months ended 30 September 2019 are set out below:

	For the year ended 31 December 2016 *(RMB) (million)*	**For the year ended 31 December 2017** *(RMB) (million)*	**For the year ended 31 December 2018** *(RMB) (million)*	**For the nine months ended 30 September 2019** *(RMB) (million)*
Net profit before taxation and extraordinary items	282.00	431.17	391.18	695.33
Net profit after taxation and extraordinary items	239.42	364.14	318.16	603.25

The audited book value of the net assets of the Target Equity as at 30 September 2019 prepared in accordance with IFRS was approximately RMB2,962.71 million. The appraised value of the Target Equity as at the Valuation Benchmark Date was approximately RMB5,687.54 million as set out in the valuation report using asset-based approach.

The original costs for the Target Equity represent the amount invested by AVIC and Tianjin Free Trade Zone Investment in the Target Equity over the years. The Directors are of the view that the original costs invested by AVIC and Tianjin Free Trade Zone Investment in AVIC Helicopter, Harbin Aircraft and Changhe Aircraft are not directly related to the determination of the consideration for the Proposed Acquisition.

Further details of the financial information of the Target Group are set out in Appendix II to this circular.

B.8 Summary of valuation reports

The valuation reports were prepared in accordance with the valuation standards published by the China Appraisal Society (中國資產評估協會) and comply with the Administrative Rules on the Valuation of State-owned Assets (國有資產評估管理辦法) issued by the State Council of PRC (中國國務院). The asset-based approach was adopted by the valuer with reference to the operation situation and assets composition of the Target Group in accordance with the aforementioned valuation standards.

Set out below is a summary of certain information contained in the valuation reports of the Target Equity.

1. General assumptions

(a) The entity subject to the valuation continues operation after the Valuation Benchmark Date;

(b) There is no material change in the political, economic and social environment of the country and region where the entity subject to the valuation is located after the Valuation Benchmark Date;

(c) There is no material change in national macroeconomic policies, industrial policies and regional development policies after the Valuation Benchmark Date;

(d) There is no material change in the interest rates, exchange rates, tax bases and tax rates, and policy-based levies related to the entity subject to the valuation after the Valuation Benchmark Date;

(e) The management of the entity subject to the valuation is responsible, stable and capable of performing its duties after the Valuation Benchmark Date;

(f) The entity subject to the valuation fully complies with all relevant laws and regulations; and

(g) There is no force majeure that will have a significant adverse impact on the entity subject to the valuation after the Valuation Benchmark Date.

2. Special assumptions

(a) The accounting policies adopted by the entity subject to the valuation after the Valuation Benchmark Date are consistent with the accounting policies adopted in the preparation of the valuation report in all the material aspects;

(b) The management method and management level of the entity subject to the valuation after the Valuation Benchmark Date is consistent with the current situation;

(c) The entity subject to the valuation will obtain its cash flow at the end of the year;

(d) The products or services of the entity subject to the valuation maintain the current market competitiveness after the Valuation Benchmark Date; and

(e) The research and development capability and technological advancement of the entity subject to the valuation remain at the current level after the Valuation Benchmark Date.

3. Breakdown of valuation results

(a) AVIC Helicopter

Unit: RMB

Item	
Current assets	357,434,399
Non-current assets	
Long-term equity investment	4,847,777,692
Fixed assets	621,360
Construction in progress	
Intangible assets	12,066,627
Less: Total liabilities	266,022,909
	4,951,877,169

(b) *Harbin Aircraft*

Item	*Unit: RMB*
Current assets	3,170,944,472
Non-current assets	
Available-for-sale financial assets	1,415,487,364
Long-term equity investment	7,945,120
Fixed assets (including investment properties of RMB85,242,381)	1,183,938,013
Construction in progress	257,483,614
Intangible assets (including investment properties of RMB37,807,000 and land use rights of RMB673,722,900)	817,393,285
Other assets	505,172,433
Less: Total liabilities	5,911,532,575
	1,446,831,726

(c) *Changhe Aircraft*

Item	*Unit: RMB*
Current assets	16,544,064,936
Non-current assets	
Long-term equity investment	23,418,460
Fixed assets	2,104,717,098
Construction in progress	194,012,983
Intangible assets (including land use rights of RMB247,601,900)	333,923,075
Other assets	728,052,808
Less: Total liabilities	18,702,185,471
	1,226,003,889

4. Basis of adopting asset-based approach in the valuation reports

There are three basic approaches for valuation, namely market approach, income approach and asset-based approach.

The market approach is not applicable for the valuation of the Target Equity due to the lack of similar market transaction comparable.

The income approach is not appropriate for the valuation of the Target Equity since the income approach is based on assessing the value of the target of evaluation by capitalising or discounting the anticipated income and, in this connection, the valuer considered that the projection on expected discounted future revenue and/or cash inflows from the Target Group require numerous assumptions and there may be a difference between the actual operation situation of the Target Group in the future and the projection.

Since (i) full financial information and asset management information of the Target Group is available, and the sources of data and information related to asset reacquisition costs are sufficient; (ii) the asset reacquisition costs of the Target Group, which is the basis of the asset-based approach, are inherently related to its current market price, the valuer is of the view that the valuation results of the Target Group under the asset-based approach are reliable and determined to adopt such approach.

5. Valuation Benchmark Date

The Directors are of the view that it is fair and reasonable to determine the consideration with reference to, among other things, the valuation results of the Target Equity as set out in the valuation reports prepared by a qualified and independent PRC valuer using asset-based approach as at the Valuation Benchmark Date, on the basis set out below:

(1) The scope of valuation subject (including the assets and businesses) in the valuation reports as at the Valuation Benchmark Date is substantial the same as the current scope of the underlying assets of the Target Group. There has been no material change in the underlying assets of the Target Group since the Valuation Benchmark Date and therefore, the value of the Target Equity could be objectively reflected in the valuation reports;

(2) Based on the accountants' report of the Target Group as set out in Appendix II, since the Valuation Benchmark Date, the Target Group has been operating as normal and continuously making profits. No adverse events incurring a decrease in net assets of the Target Group have occurred. On the contrary, the net assets of the Target Group have increased after the Valuation Benchmark Date;

(3) The value of the 19.03% equity interest in AVICOPTER jointly held by AVIC Helicopter and Harbin Aircraft is the key factor affecting the value of the Target Equity. AVICOPTER is a listed company on the Shanghai Stock Exchange and the value held by AVIC Helicopter and Harbin Aircraft in AVICOPTER is linked to the share price of AVICOPTER. As at the Agreement Date, the closing price of the A shares of AVICOPTER represents an increase compared to that as at the Valuation Benchmark Date.

In summary, the consideration determined with reference to, among other things, the valuation results of the Target Equity as set out in the valuation reports prepared by a qualified and independent PRC valuer using asset-based approach as at the Valuation Benchmark Date as agreed by the parties of the Equity Acquisition and Share Issuance Agreement does not incur higher acquisition costs to the Company and thus the Directors consider it is fair and reasonable to the Company.

B.9 Implications under the Listing Rules

As the highest of the applicable size test percentage ratios in relation to the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder exceeds 25% but is less than 75%, the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder constitute major transactions under Chapter 14 of the Listing Rules, and are subject to the reporting, announcement and Shareholders' approval requirements.

As at the Latest Practicable Date, AVIC is the controlling Shareholder of the Company, and thus it is a connected person of the Company. The Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder are connected transactions of the Company under the Listing Rules. Therefore, the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder also are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

B.10 Information on the parties

Information on the Company

The Company is a joint stock limited liability company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange. The Company is mainly engaged in the research, development, manufacture and sales of aviation products, and relevant engineering services.

Information on AVIC

AVIC is held and controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products. AVIC is the controlling Shareholder of the Company, holding 56.04% equity interest in the Company directly and indirectly as at the Latest Practicable Date.

Information on Tianjin Free Trade Zone Investment

Tianjin Free Trade Zone Investment is a limited liability company incorporated in the PRC. It is an important investment and financing platform for Tianjin Free Trade Zone, and is mainly engaged in investment and financing activities to promote regional development and construction and economic restructuring. Tianjin Free Trade Zone Investment is wholly owned by Tianjin Free Trade Zone Investment Holding Group Co., Ltd* (天津保稅區投資控股集團有限公司), a state-owned enterprise incorporated in the PRC.

C. EGM

The EGM will be held at 9:00 a.m. on Thursday, 13 February 2020 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC. The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular.

A reply slip and a form of proxy for use at the EGM are also enclosed. Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon on or before Thursday, 23 January 2020. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event no later than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be).

As at the Latest Practicable Date, AVIC is a controlling Shareholder of the Company, holding directly and indirectly 3,499,531,569 H Shares in the Company, representing 56.04% equity interest in the Company. AVIC and its associate(s), if any, will abstain from voting at the EGM in respect of the special resolution to be proposed in relation to the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

To the best knowledge of the Directors after having made all reasonable enquiries, apart from AVIC and its associates, holding 3,499,531,569 H Shares in the Company, no other Shareholder has a material interest in the transactions contemplated under the Equity Acquisition and Share Issuance Agreement and therefore no other Shareholder will be required to abstain from voting at the EGM in respect of the special resolution to be proposed in relation to the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the EGM will be taken by poll. The Company will announce the results of the poll in accordance with the Listing Rules following the EGM.

D. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 26 of this circular which contains the recommendation of the Independent Board Committee containing its opinion and recommendations on the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate); (ii) the letter from Somerley, the Independent Financial Adviser, set out on pages 27 to 53 of this circular which contains its advice on the connected transactions contemplated under the Equity Acquisition and Share Issuance Agreement to the Independent Board Committee and the Independent Shareholders; and (iii) additional information set out in the appendices to this circular.

The Directors and the Independent Board Committee, having taken into account the advice of Somerley, consider that the special resolution as set out in the notice of the EGM, in relation to the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) is fair and reasonable and in the interests of the Company and the Shareholders as a whole, although it is not conducted in the ordinary or usual course of business of the Group due to its nature. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the special resolution to be proposed at the EGM.

As the completion of the Proposed Acquisition and the Proposed Issuance is subject to the fulfilment of conditions precedent of the Equity Acquisition and Share Issuance Agreement, and may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the H Shares of the Company.

Yours faithfully,
By Order of the Board
AviChina Industry & Technology Company Limited*
Chen Yuanxian
Chairman

* *For identification purpose only*

中國航空科技工業股份有限公司
AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

6 January 2020

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the "**Circular**") of the Company dated 6 January 2020 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, capitalised terms and expressions used in this letter shall have the same meanings as those defined in the Circular.

We have been appointed to advise the Independent Shareholders on whether the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Somerley has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the abovementioned matters.

We wish to draw your attention to the letter from the Board set out on pages 5 to 25 of the Circular and the letter from Somerley set out on pages 27 to 53 of the Circular.

Having considered the advice given by Somerley, we are of the opinion that the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are on normal commercial terms, are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned, although it is not conducted in the ordinary or usual course of business of the Group due to its nature. Accordingly, we recommend the Independent Shareholders to vote in favour of the special resolution to be proposed at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee
AviChina Industry & Technology Company Limited*
Liu Renhuai,
Liu Weiwu,
Wang Jianxin
Independent Non-executive Directors

* *For identification purpose only*

The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

6 January 2020

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS: PROPOSED ACQUISITION OF THE TARGET EQUITY AND PROPOSED ISSUANCE OF CONSIDERATION SHARES UNDER THE SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder. Details of the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder are set out in the circular of the Company dated 6 January 2020 (the "**Circular**"), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 28 November 2019, the Company entered into the Equity Acquisition and Share Issuance Agreement with AVIC and Tianjin Free Trade Zone Investment, pursuant to which the Company has conditionally agreed to acquire the Target Equity at a total consideration of RMB5,687,537,050.94 (equivalent to approximately HK$6,296,103,515.39, which will be settled by the Company through issuance of the Consideration Shares. As confirmed by relevant regulatory authorities in the PRC and each party to the Equity Acquisition and Share Issuance Agreement, the consideration for the Proposed Acquisition is proposed to be settled by issuance of the Domestic Shares to AVIC and Tianjin Free Trade Zone Investment. The Consideration Shares will be issued pursuant to the Specific Mandate to be sought from the Independent Shareholders at the EGM.

As the highest of the applicable size test percentage ratios in relation to the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder exceeds 25% but is less than 100%, the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder constitute major transactions of the Company. In addition, AVIC is the controlling Shareholder, and thus a connected person, of the Company. The Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder with AVIC are also connected transactions of the Company under Chapter 14A of the Listing Rules. Accordingly, the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and the Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin, has been formed to advise the Independent Shareholders in relation to the connected transactions contemplated under the Equity Acquisition and Share Issuance Agreement. We, Somerley Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company that could reasonably be regarded as a hindrance to the independence of Somerley Capital Limited as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Equity Acquisition and Share Issuance Agreement. In the past two years, except for the independent financial adviser engagement in relation to the continuing connected transactions, details of which were set out in the circular of the Company dated 16 November 2017, there has been no other engagement between the Company and Somerley Capital Limited. We do not consider that the past engagement as independent financial adviser gives rise to any conflict for Somerley Capital Limited to act as the independent financial adviser in respect of the Equity Acquisition and Share Issuance Agreement. Apart from normal professional fees paid in respect of the past engagement or payable to us in connection with this appointment as the independent financial adviser in respect of the Equity Acquisition and Share Issuance Agreement, no arrangement exists whereby we will receive any fees or benefits from the Company.

In formulating our advice, we have reviewed, among other things, the Equity Acquisition and Share Issuance Agreement, the annual reports of the Company for each of the two years ended 31 December 2017 and 2018 (the "**Annual Reports**"), the interim report of the Company for the six months ended 30 June 2019, the valuation reports (the "**Valuation Reports**") of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft prepared by a qualified and independent PRC valuer (the "**PRC Valuer**"), and the information as set out in the Circular (including, among other things, the financial information of the Group and the Target Group as contained in Appendix I to Appendix IV to the Circular). We have also discussed the businesses and future prospects of the Group with the management of the Group (the "**Management**"). We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the Management, and have assumed that they are true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted or withheld from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group, AVIC, Tianjin Free Trade Zone Investment and their respective associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on the terms of the Equity Acquisition and Share Issuance Agreement, we have taken into account the following principal factors and reasons:

1. Reasons for and benefits of the Proposed Acquisition and the Proposed Issuance

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 product manufacturers. Major business sectors of the Group include helicopter business, trainer business, general aviation business, aviation parts and components business and aviation engineering service business.

According to the overall development strategy of the Company, the Company aims to enhance its capability in aviation products development and system protection in an all-round way, 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. With an aim to build an aviation power in the new era in all respects, the Company is dedicated to becoming a flagship company to provide high-tech aviation products and services universally applied for military and civil purposes, promoting the development of aviation industry, and realising growth in both revenue and profit.

The proposed acquisition of AVIC Helicopter was first announced in October 2018. The aviation aircraft business of the Group continued to grow in 2018 with an increase in revenue of approximately 5.8% as compared to 2017, which included the revenue from helicopter business with an annual growth of approximately 14.5% in 2018. Such business segment continued to expand and the acquisition of AVIC Helicopter is consistent with the Group's strategy to further expand its helicopter business. As set out in the 2019 interim report of the Company, the helicopter business of the Group has achieved steady development and satisfactory results with further extension of application scope of certain aircraft models and completion of certain tests required by Civil Aviation Administration of China for certain aircraft models, laying foundations for obtaining production certificate and delivery to customers. The positive development is also demonstrated by the 2019 interim results of the Group, showing that the revenue of the aviation entire aircraft segment has increased by approximately 40.6% as compared to the same period in 2018, which was mainly attributable to the sales volume increase in helicopters and trainers. The performance of helicopter business in the first half of 2019 further strengthens the needs of acquisition of AVIC Helicopter for expansion in the industry.

Upon completion of the Proposed Acquisition, each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft will become a wholly-owned subsidiary of the Company. As set out in the 2019 interim report of the Company, the Company will continue to carry out integration of aviation industrial chain. The acquisition of AVIC Helicopter will make the helicopter products industry chain of the Group more complete and help the Group to further expand its defense equipment product line, which is in line with the development strategy plan of the Group's helicopter industry. On one hand, the Proposed Acquisition will optimise the industrial layout of the Group's aviation manufacturing business and make the aviation business industrial chain of the Group more complete, thus improving its operation stability. On the other hand, the Proposed Acquisition is conducive to the sharing of the infrastructure between the Target Group and the

Group, optimising resource allocation, and enhancing market competitiveness. Therefore, the Proposed Acquisition will continuously create effective supplemental and synergistic effects to the Group and also reduce the connected transactions between the Company and the Target Group, enhancing operational independence of the Group. Based on the accountants' report of the Target Group as set out in Appendix II to the Circular, the Target Group has a profit-making track record in 2016 to 2018 and for the nine months ended 30 September 2019. The profits of the Group are likely to be enhanced after the Proposed Acquisition given the positive financial performance of the Target Group. As such, the Directors are of the view that the Proposed Acquisition can improve the income level and profitability of the Group by promoting industrial synergy and operational efficiency, enhancing the market position and competitiveness of the Group in the aviation industry.

According to the 2019 interim report of the Company, the Group generated net cash outflow for the six months ended 30 June 2019. The level of cash and cash equivalents has decreased from approximately RMB12.1 billion as at 31 December 2018 to approximately RMB8.2 billion as at 30 June 2019. Given the recent change in cash position of the Group and the amount of consideration for the Proposed Acquisition, it is reasonable for the Group to reserve sufficient cash for daily operation uses and consider other ways of settlement of the consideration such as debt financing and equity financing. In relation to debt financing, bank borrowings would create additional interest burden for the Group and increase the gearing ratio significantly. As set out in the 2019 interim report of the Company, substantial amount of bank and other borrowings are repayable in 2019 or 2020. Given the latest financial position of the Group and potential finance costs, the Proposed Issuance may be more appropriate for the Group to settle a substantial amount of consideration under the Proposed Acquisition.

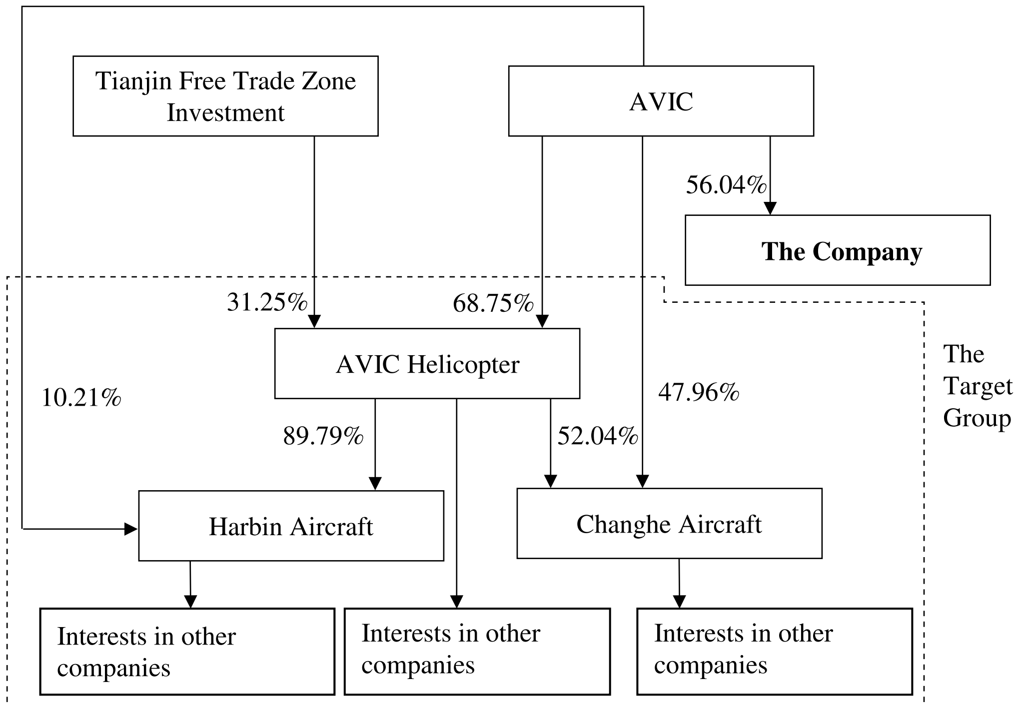
The terms of the Equity Acquisition and Share Issuance Agreement are agreed by the parties after arm's length negotiations and made upon normal commercial terms. In view of the above, the Directors are of the view that the terms of the Equity Acquisition and Share Issuance Agreement are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole, although it is not conducted in the ordinary or usual course of business of the Group due to its nature.

Given that (i) the Group's helicopter business has been expanding in 2018 and first half of 2019, the Proposed Acquisition can further expand its existing business in the industry and is in line with the Group's development strategy within the industry; (ii) the potential synergistic effects on the Group by optimising the resource allocation with the Target Group and enhancing operational independence after the Proposed Acquisition; (iii) the Target Group has been profit-making in recent years and therefore the Proposed Acquisition can enhance the income level and profitability of the Group; and (iv) the Proposed Issuance is a better alternative in settling the consideration, we concur with the Directors' view that the transactions contemplated under the Equity Acquisition and Share Issuance Agreement, while not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole.

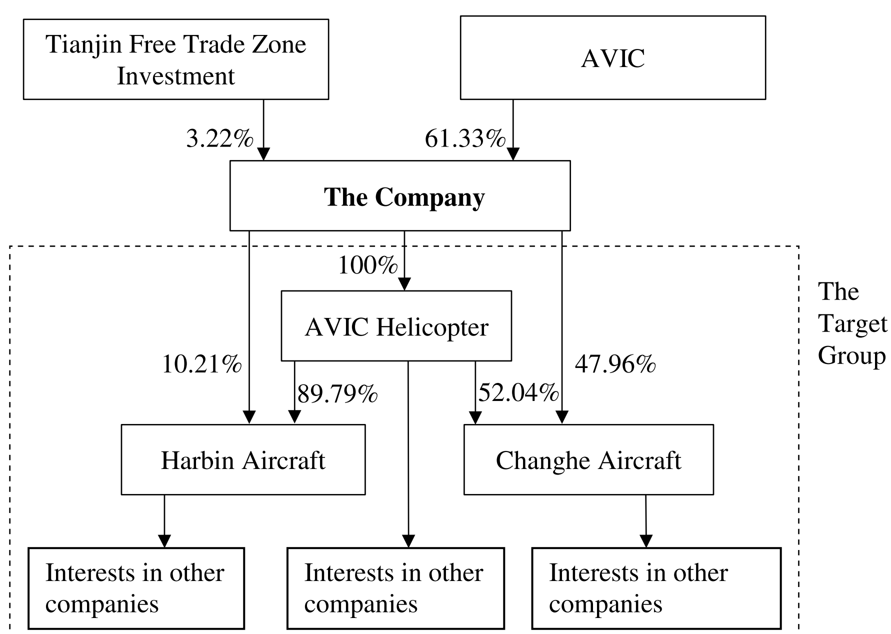
2. Background and financial information of the Target Group

The diagram below sets out the simplified shareholding structure of the Target Group as at the Latest Practicable Date and the Completion Date:

As at the Latest Practicable Date:



As at the Completion Date:



AVIC Helicopter, through its subsidiaries, is mainly engaged in research and development, production, sales and maintenance of helicopters, other aircrafts and aviation components. Harbin Aircraft is mainly engaged in research and development, manufacture and sales of multiple helicopters and general aircraft. Changhe Aircraft is mainly engaged in research and manufacture of helicopters and aviation parts. Each of Harbin Aircraft and Changhe Aircraft is a subsidiary of AVIC Helicopter.

Upon completion of the Equity Acquisition and Share Issuance Agreement, among others, AVIC Helicopter, Harbin Aircraft and Changhe Aircraft will become wholly-owned subsidiaries of the Company.

Financial information of the Target Group

We have reviewed and discussed with the Management the financial information of the Target Group. The accountants' report and the management discussion and analysis on the Target Group are set out in Appendix II and Appendix III to the Circular respectively. Set out below is a summary of the consolidated statements of profit or loss of the Target Group for each of the three years ended 31 December 2016, 2017 and 2018, and for the nine months ended 30 September 2018 and 2019 respectively.

	Nine months ended 30 September		**Year ended 31 December**		
	2019	**2018**	**2018**	**2017**	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Revenue	8,166,026	8,789,969	14,159,069	10,659,979	12,894,329
Cost of sales	(7,789,879)	(8,396,263)	(13,571,666)	(10,159,898)	(11,992,752)
Gross profit	**376,147**	**393,706**	**587,403**	**500,081**	**901,577**
Other income and gains, net	469,228	168,576	206,133	305,187	57,482
Selling and distribution expenses	(2,127)	(4,346)	(5,668)	(1,567)	(3,975)
Administrative expenses	(335,285)	(361,295)	(610,121)	(495,287)	(744,736)
Impairment loss (recognised)/ reversed	(2,071)	46,304	51,349	1,777	(55,257)
Operating profit	**505,892**	**242,945**	**229,096**	**310,191**	**155,091**
Finance income, net	109,350	5,967	51,908	20,207	34,316
Share of profits of associates	78,403	61,712	103,814	96,287	93,165
Profit before tax	**693,645**	**310,624**	**384,818**	**426,685**	**282,572**
Income tax expenses	(92,083)	(58,117)	(73,025)	(67,034)	(42,579)
Profit for the period/year	**601,562**	**252,507**	**311,793**	**359,651**	**239,993**
Profit attributable to equity holders of AVIC Helicopter	**475,901**	**253,773**	**324,452**	**359,122**	**236,436**

Revenue

The Target Group generates revenue from two main segments, namely (i) sale of aviation entire aircraft and parts, and (ii) provision of aviation maintenance service, primarily including daily maintenance services and specific re-modelling services of aircraft. In general, revenue of the Target Group dropped in 2017 and recovered with a higher level in 2018, while the revenue level decreased for the nine months ended 30 September 2019 as compared to the corresponding period in 2018. For each of the three years ended 31 December 2016, 2017 and 2018, the Target Group recorded revenue of approximately RMB12,894.3 million, RMB10,660.0 million and RMB14,159.1 million, respectively. For the nine months ended 30 September 2019, the Target Group recorded revenue of approximately RMB8,166.0 million.

Revenue decreased by approximately 17.3% for the year ended 31 December 2017 as compared with the year ended 31 December 2016, and increased by approximately 32.8% for the year ended 31 December 2018 as compared to 2017, at a level higher than that in 2016. For the nine months ended 30 September 2019, revenue decreased by approximately 7.1% as compared to the same period in 2018, mainly due to the decrease in revenue from trading of aviation entire aircraft and parts. The movement in revenue during the periods is mainly due to the fluctuation in the number of orders received from the specific clients of the Target Group over the respective periods.

Profit attributable to equity holders of AVIC Helicopter

For the nine months ended 30 September 2019, the Target Group recorded net profit of approximately RMB601.6 million, representing an increase of approximately 138.2% as compared to the same period in 2018, primarily due to the gain on disposal of certain interests in an associate of approximately RMB362.4 million, while no such gain was recorded during the nine months ended 30 September 2018. As advised by the Management, the Target Group redeemed 17,684,300 shares in AVICOPTER through exchange-traded funds in 2019, representing approximately 3% equity interests in AVICOPTER, resulting in a gain of approximately RMB362.4 million recorded during the nine months ended 30 September 2019. The increase in profit was also due to the increase in finance income during the period. As advised by the Management, there was an increased bank balance resulting from higher level of operating cash in 2019, together with the maturity of certain deposits in 2019, leading to higher finance income recorded during the period.

The Target Group recorded net profit of approximately RMB240.0 million, RMB359.7 million and RMB311.8 million for each of the three years ended 31 December 2016, 2017 and 2018, respectively. The significant increase of the profit after tax for the year ended 31 December 2017 was mainly attributable to the significant increase in other income and gains resulting from the disposal of certain interests in an associate, i.e. AVICOPTER, during the year to further support the Target Group's daily operation and management, and the decrease in administrative expenses incurred during the year, mainly due to the decrease in the research and development expenses. In 2018, the profit went down by approximately 13.3% as compared to 2017 with a significant decrease in level of gain on disposal of associates recognised, such decline in profit was partially offset by the reversal of provision made in prior year for the financial guarantee to a fellow subsidiary of the Target Company due to the completion of liquidation progress with recovery of bank loan guarantee by proceeds on sales of assets during 2018.

As advised by the Management, the profit attributable to equity holders of AVIC Helicopter demonstrated a smaller proportion of profit for the nine months ended 30 September 2019, mainly represented by the 47.96% and 10.21% equity interests in Changhe Aircraft and Harbin Aircraft respectively owned by AVIC. We have discussed with the Management and noted from the accountants' report of the Target Group set out in Appendix II to the Circular that there was an increase in equity interest held by non-controlling interests as at 31 December 2018, which was resulted from the capital increase by AVIC in Harbin Aircraft and Changhe Aircraft. As such, the non-controlling interests in Harbin Aircraft and Changhe Aircraft increased, thus a larger proportion of the profits from Harbin Aircraft and Changhe Aircraft were accounted as profit attributable to non-controlling interests. As the Proposed Acquisition involves acquisition of the remaining interests in Harbin Aircraft and Changhe Aircraft held by AVIC as well, after the completion of the Proposed Acquisition, profits from Harbin Aircraft and Changhe Aircraft will be fully attributable to owners of the Company.

Set out below is a summary of the consolidated statements of financial position of the Target Group as at 31 December 2016, 2017, 2018 and 30 September 2019.

	As at 30 September 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
NON-CURRENT ASSETS				
Property, plant and equipment	3,156,180	3,183,558	3,325,486	3,019,912
Investment properties	58,885	61,157	70,395	75,700
Land use rights	335,879	340,706	345,826	352,900
Other intangible assets	9,846	12,058	14,926	17,450
Investments in associates	2,076,150	2,383,978	2,308,796	2,459,506
Deferred tax assets	4,617	4,068	4,172	4,218
Prepayments, deposits and other receivables	868,446	735,925	679,616	415,903
Total non-current assets	6,510,003	6,721,450	6,749,217	6,345,589
CURRENT ASSETS				
Inventories	7,593,892	3,453,053	2,103,186	1,612,835
Accounts and notes receivables	378,398	1,070,357	363,090	1,185,818
Prepayments, deposits and other receivables	7,862,345	10,443,132	11,811,883	9,604,147
Financial assets at fair value through profit or loss/held for trading	734,331	–	–	–
Pledged deposits	230,750	188,691	258,522	330,007
Cash and cash equivalents	7,217,186	6,557,561	2,665,490	6,038,762
Total current assets	24,016,902	21,712,794	17,202,171	18,771,569

	As at 30 September 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
CURRENT LIABILITIES				
Accounts and notes payables	2,584,869	2,613,755	1,983,912	2,705,520
Other payables and accruals	1,630,261	2,043,155	2,390,619	2,394,509
Interest-bearing bank and other borrowings	369,500	524,800	702,800	233,800
Contract liabilities	20,824,487	19,107,366	15,521,407	16,304,984
Tax payable	37,841	13,377	55,482	32,030
Total current liabilities	25,446,958	24,302,453	20,654,220	21,670,843
Net current liabilities	(1,430,056)	(2,589,659)	(3,452,049)	(2,899,274)
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	525,000	505,000	345,000	1,028,000
Deferred income from government grants	58,545	62,832	63,511	62,894
Deferred tax liabilities	2,265	–	–	–
Other payables and accruals	771,750	779,900	747,880	878,220
Total non-current liabilities	1,357,560	1,347,732	1,156,391	1,969,114
Net assets	3,722,387	2,784,059	2,140,777	1,477,201
EQUITY				
Equity attributable to equity holders of AVIC Helicopter	2,567,633	2,091,800	1,384,892	933,287
Non-controlling interests	1,154,754	692,259	755,885	543,914
TOTAL EQUITY	3,722,387	2,784,059	2,140,777	1,477,201

As shown in the table above, the non-current assets of the Target Group mainly consist of property, plant and equipment and investments in associates. The current assets of the Target Group mainly consist of inventories, prepayments, deposits and other receivables and cash and cash equivalents. The liabilities of the Target Group mainly consist of contract liabilities, accounts and notes payables, and other payables and accruals.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, (i) the total assets of the Target Group amounted to approximately RMB25,117.2 million, RMB23,951.4 million, RMB28,434.2 million and RMB30,526.9 million respectively; and (ii) the total liabilities of the Target Group amounted to approximately RMB23,640.0 million, RMB21,810.6 million, RMB25,650.2 million and RMB26,804.5 million respectively. The overall increase in total assets over the years was mainly due to the increase in inventories with the growth in revenue, and higher level of cash and cash equivalents, while the increased level of liabilities is mainly due to higher level of contract liabilities which are related to consideration received from customers for goods or services that are yet to be transferred to customers, due to an increased number of orders received. The Target Group has net current liabilities of approximately RMB1,430.1 million as at 30 September 2019, primarily due to a significant amount of balance of contract liabilities arising from prepayments received from specific customers over the review periods.

As at 31 December 2016, 2017, 2018 and 30 September 2019, the Target Group had pledged deposits and cash and cash equivalents of approximately RMB6,368.8 million, RMB2,924.0 million, RMB6,746.3 million and RMB7,447.9 million, respectively, and has generated healthy net cash from operations in 2018 and for the nine months ended 30 September 2019. Interest-bearing bank and other borrowings have reduced over the period from approximately RMB1,261.8 million as at 31 December 2016 to approximately RMB894.5 million as at 30 September 2019.

As at 31 December 2016, 2017 and 2018, and 30 September 2019, the equity attributable to equity holders of AVIC Helicopter was approximately RMB933.3 million, RMB1,384.9 million, RMB2,091.8 million and RMB2,567.6 million, respectively. Such increase is mainly due to the profits generated by the Target Group during the above periods.

3. Principal terms of the Equity Acquisition and Share Issuance Agreement

On 28 November 2019 (after trading hours), the Company (as the purchaser of the Target Equity) and AVIC and Tianjin Free Trade Zone Investment (each as the seller of the Target Equity) entered into the Equity Acquisition and Share Issuance Agreement. Set out below are the principal terms of the Equity Acquisition and Share Issuance Agreement. Further details of the Equity Acquisition and Share Issuance Agreement are set out in the "Letter from the Board" contained in the Circular.

(i) Subject matter

Pursuant to the Equity Acquisition and Share Issuance Agreement, (a) the Company conditionally agreed to acquire and AVIC and Tianjin Free Trade Zone Investment conditionally agreed to sell 68.75% and 31.25% equity interests in AVIC Helicopter, respectively; (b) the Company conditionally agreed to acquire and AVIC conditionally agreed to sell 10.21% equity interests in Harbin Aircraft; and (c) the Company conditionally agreed to acquire and AVIC conditionally agreed to sell 47.96% equity interests in Changhe Aircraft.

(ii) Consideration

The total consideration for the Target Equity is RMB5,687,537,050.94 (equivalent to approximately HK$6,296,103,515.39), among which:

a) in respect of acquisition of 100% equity interests in AVIC Helicopter, the total consideration is RMB4,951,877,168.61 (equivalent to approximately HK$5,481,728,025.65) comprising the consideration to be paid by the Company to AVIC and Tianjin Free Trade Zone Investment of RMB4,005,250,762.69 (equivalent to approximately HK$4,433,812,594.30) and RMB946,626,405.92 (equivalent to approximately HK$1,047,915,431.35), respectively;

b) in respect of acquisition of 10.21% equity interests in Harbin Aircraft, the consideration to be paid by the Company to AVIC is RMB147,654,910.06 (equivalent to approximately HK$163,453,985.44); and

c) in respect of acquisition of 47.96% equity interests in Changhe Aircraft, the consideration to be paid by the Company to AVIC is RMB588,004,972.27 (equivalent to approximately HK$650,921,504.30).

As set out in the "Letter from the Board" contained in the Circular, the above consideration is determined upon arm's length negotiations between the parties with reference to various factors including but not limited to (i) the financial position of the Group and historical financial performance of the Target Group during the past three years; (ii) the future business outlook and potential of the Target Group after taking into account the current situation, development stage and future trend of defense equipment industry; (iii) the economic and industrial situation including the external macro economy, the future growth in China's economy and the development in the defense equipment industry; and (iv) valuation results of the Target Equity as set out in the Valuation Reports prepared by the PRC Valuer using asset-based approach as at the Valuation Benchmark Date. Further analysis on the consideration for the Target Equity is set out in the section headed "4. Evaluation of the consideration" of this letter below.

(iii) Consideration Shares

The consideration for the Target Equity will be settled by the Company through issuance of the Consideration Shares with an issue price of HK$4.19 per Consideration Share (when the Consideration Shares are H Shares) or RMB3.79 (equivalent to approximately HK$4.19) per Consideration Share (when the Consideration Shares are Domestic Shares). The total number of the Consideration Shares is 1,500,669,406, representing approximately 24.03% of the total issued share capital of the Company as at the Latest Practicable Date and approximately 19.37% of the total issued share capital of the Company as enlarged by the Proposed Issuance (assuming there is no other change in the share capital of the Company).

Prior to the completion of the Proposed Issuance, should there be any ex-rights or ex-dividends event of the Company including distribution of dividends, bonus issue and conversion of capital reserve into share capital, etc., the Issue Price shall be adjusted in accordance with relevant laws and regulations, and the number of Consideration Shares will be adjusted accordingly. The Consideration Shares shall rank *pari passu* in all respect among themselves and with the existing Shares of the same class (if any) pursuant to the Articles of Association. Further analysis on the Issue Price is set out in the section headed "5. Issue Price of the Consideration Shares" of this letter below.

(iv) Conditions precedent and completion

The Equity Acquisition and Share Issuance Agreement shall become effective upon, among other things, the Equity Acquisition and Share Issuance Agreement and the transactions thereunder (including the Proposed Acquisition and the Proposed Issuance) being approved by the Board and the Independent Shareholders of the Company.

The completion of the Proposed Acquisition and the Proposed Issuance shall take place on the Completion Date upon satisfaction (or waiver, if applicable) of a number of conditions precedent as set out in the "Letter from the Board" contained in the Circular, including, among other things, the following:

(1) the transfer of the relevant Target Equity has been approved at the shareholders' meeting of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft;

(2) all relevant legal documents for the transactions under the Equity Acquisition and Share Issuance Agreement have been completed to the satisfaction of all parties; and

(3) subject to compliance with the relevant laws and regulations and the rules of the stock exchanges by AVIC Helicopter, the registration procedures for the transfer of 6% equity interests in AVICOPTER held by AVIC Helicopter to Tianjin Binjiang Helicopter Co., Ltd. (天津濱江直升機有限責任公司) have been completed.

As at the Latest Practicable Date, condition 1 has been fulfilled, other conditions for completion remain to be fulfilled or waived (as applicable).

(v) Transitional period arrangement

The Company shall be entitled to the accumulated undistributed profit of the Target Group as of the Valuation Benchmark Date (i.e. 30 September 2018) and during the period from the Valuation Benchmark Date to the Completion Date. The existing shareholders of the Target Group shall be entitled to the profit of the Target Group (paid or unpaid) generated before the Valuation Benchmark Date and declared during the period from the Valuation Benchmark Date to the Agreement Date in proportion to respective equity interest in the Target Group, on the assumption that the Target Group and the Transferors have fully disclosed such distribution to the Company timely in good faith and such distribution is reflected in the accountants' report and valuation report of the Target Group accordingly.

We understand from the Management and noted from the accountants' report as set out in Appendix II to the Circular that no dividend has been declared for the three years ended 31 December 2016, 2017 and 2018, and for the nine months ended 30 September 2019, and the Target Group has been profit-making during the three years ended 31 December 2018 and nine months ended 30 September 2019. It is considered that the transitional period arrangement is appropriate in safeguarding the interests of the Company and the Shareholders as a whole.

4. Evaluation of the consideration

The total consideration for the Target Equity is RMB5,687,537,050.94 (equivalent to approximately HK$6,296,103,515.39), which will be settled by the Company through issuance of the Consideration Shares. As set out in the "Letter from the Board" contained in the Circular, the consideration was arrived after arm's length negotiation between relevant parties by reference to (among others) the valuations of the Target Equity prepared by the PRC Valuer using asset-based approach. Details are set out below:

RMB	**AVIC Helicopter** *Approximate*	**Harbin Aircraft** *Approximate*	**Changhe Aircraft** *Approximate*
Appraised value of 100% equity interest as at the Valuation Benchmark Date	4,951,877,169	1,446,831,726	1,226,003,889
Percentage of equity interest acquired	100%	10.21%	47.96%
Appraised value of portion of equity interest acquired	4,951,877,169	147,721,519	587,991,465
Consideration	4,951,877,169	147,654,910	588,004,972
Variance	–	66,609	13,507
%	–	*0.05%*	*0.002%*

The Valuation Reports were prepared in accordance with the valuation standards published by the China Appraisal Society and comply with the Administrative Rules on the Valuation of State-owned Assets issued by the State Council of the PRC. We have reviewed the Valuation Reports, a summary of which is set out in the section headed "B.8 Summary of valuation reports" in the "Letter from the Board" contained in the Circular, and have discussed with the PRC Valuer regarding the valuations of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft (the "**Target Companies**") with details set out below.

Scope of work and qualifications of the PRC Valuer

The PRC Valuer was engaged to prepare the Valuation Reports which set out independent valuations on the market value of 100% equity interest in each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft as at the Valuation Benchmark Date as reference for the Proposed Acquisition. We have discussed the expertise of the PRC Valuer with its relevant staff members. We understand that the PRC Valuer is certified with the relevant PRC qualifications required to perform this valuation exercise and the signing persons of the Valuation Reports have over seven years' industry experience in conducting valuation exercises. We have also reviewed the summary of terms of the

PRC Valuer's engagement letter and noted that the purpose of the PRC valuation is to provide an opinion of value of the Target Companies. The summary also contains standard valuation scopes that are typical of company valuations carried out by independent valuers.

In the course of our review, we have discussed with the PRC Valuer the methodologies, bases and assumptions adopted in the Valuation Reports.

Valuation methodologies

Based on our discussion with the PRC Valuer and review of the Valuation Reports, it is noted that the final valuation of equity of each of AVIC Helicopter, Harbin Aviation and Changhe Aircraft was based on the asset-based approach. We understand that the PRC Valuer has considered the three commonly used valuation approaches for valuation of a company, namely the asset-based approach, the market approach and the income approach. The PRC Valuer considers that the market approach is not applicable in valuing the Target Companies as it is difficult to identify closely comparable companies/transactions with sufficient details needed for valuation purpose. We understand from the PRC Valuer that income approach is not considered appropriate for determining the final valuation of AVIC Helicopter, mainly due to the fact that it is an investment holding company and its income is mainly generated from investment from Harbin Aircraft and Changhe Aircraft, where income approach is not considered appropriate as explained below. As for Harbin Aircraft and Changhe Aircraft, the PRC Valuer considered the income approach is not appropriate for determining the final valuation mainly due to their industrial and operating environment, which is sensitive to the aviation industry strategic development. Such development plans are usually highly confidential and therefore it is rather difficult to predict the future operating cash flows of the Target Companies accurately.

The asset-based approach is essentially a combination of valuation methodologies used to derive the value of a target entity by appraising the value of the various assets and liabilities based on the balance sheet of the target entity at the Valuation Benchmark Date. The asset-based approach is based on a judgment of the amount of investment needed to re-build an enterprise identical to the target entity on the Valuation Benchmark Date. In particular, the value is arrived at by summing up the appraised values of each asset component forming the enterprise and then deducting the appraised values of its liabilities. We understand from the PRC Valuer that the asset-based approach is considered appropriate for determining the final valuation of the Target Companies as there were reliable records of the assets and liabilities of the Target Companies and sufficient information could be obtained for the purpose of performing the valuation based on asset-based approach. Valuation methodologies of different assets and liabilities of the Target Companies under the asset-based approach are discussed below. Based on our review of the financial information and our discussion with the PRC Valuer, we are not aware of any unusual asset or liability items which cannot be valued using the assets-based approach. Based on the above, and taking into account our discussions with the PRC Valuer regarding their selection of valuation approach as set out above, we consider that the use of assets-based approach in valuing the Target Companies to be reasonable.

Valuation assumptions

We have reviewed the Valuation Reports and discussed with the PRC Valuer in respect of the key assumptions adopted for performing the valuations under asset-based approach. The key assumptions of the valuations, in general, are set out as follows:

- there will be consistent management, operation and accounting policies being adopted by the subject company;
- there will be no significant change to existing relevant laws, regulations and policies, the country's macroeconomic conditions, political, economic and social environment in the regions where the subject company operates;
- the interest rates, exchange rates, tax rates and regulatory charges have no significant change;
- the subject company is an ongoing business and operates continuously;
- the management of the subject company is conscientious and capable to maintain normal business operation of the subject company;
- the subject company is fully complying with all relevant laws and regulations; and
- no other force majeure or unforeseen factors occur which would have significant adverse impact on the business of the subject company.

We understand from the PRC Valuer that these assumptions are commonly adopted in other valuations of similar assets and there is no unusual assumption which has been adopted when valuing the Target Companies. We also consider the assumptions adopted in the Valuation Reports are general in nature and are not aware of any material facts which lead us to doubt the assumptions adopted by the PRC Valuer.

Details of valuation

We have discussed with the PRC Valuer their valuation methodologies to value different assets and liabilities of the Target Companies under the asset-based approach. We note that the PRC Valuer has applied consistent methodologies when valuing similar assets and liabilities of the Target Companies. Further details are set out below.

Assets

For cash and bank deposits, they are valued based on the carrying value after verification procedures including (a) physical count of cash; (b) checking to underlying books and records against bank statements; and (c) obtaining bank confirmations. For bills receivables, they are valued based on the carrying value after checking to the underlying books and records. For trade and other receivables, they are valued taking into account their recoverability which was assessed by investigating the underlying repayment records, arranging confirmations in respect of certain amounts, and ageing analysis. Inventories are mainly valued with reference to their market prices and other reasonable costs after verification procedures including (a) checking to underlying books and records; and (b) inventory count. For work-in-progress inventories, due to confidentiality issue involved, no inventory count was performed and hence the inventories are valued at book values after checking to underlying books and records. For available-for-sale financial assets or investments which are listed on any stock exchange, they are valued based on the higher of the average share prices on the relevant stock exchange or the net asset value per share. The long-term investments represent investments in equity interests of other companies, which are either valued based on asset-based approach or based on the net asset value on the books of the underlying companies.

For buildings, machinery and equipment and motor vehicles, they are valued based on replacement costs, and adjusted for the newness rate. Replacement costs of buildings are assessed by considering construction cost, preparation costs and other expenses, cost of capital after value-added taxes. Replacement costs of machinery and equipment include purchase prices, transportation costs, installation and testing fees, foundation costs, preparation costs, other expenses and cost of capital. Replacement costs of motor vehicles include purchase prices, the vehicle purchase tax and other expenses (such as testing and licensing fees). Purchase prices of the machinery and equipment and motor vehicles were obtained after procedures such as obtaining quotations and checking to latest market transactions of similar products. Newness rates were determined based on the physical conditions, years of usage and estimated remaining life of the subject assets after physical inspection. Construction in progress is also valued based on replacement cost method and taking into account the degree of obsolescence if there are any indications of material obsolescence and wear and tear. For land use rights held by the target companies as at the Valuation Benchmark Date, they are valued with reference to transaction prices of other similar land, replacement costs and benchmark land prices (adjusted by various factors including but not limited to number of years of land use rights, land development status and plot ratio). Intangible assets such as patents and technology know-how, they are valued using income approach by capitalising the future economic benefits to be generated by the products manufactured based on such patents and technology know-how. Other intangible assets, including self-developed and purchased software, are valued based on either the replacement costs or market approach after checking to the latest market transactions. Other non-current assets mainly include long-term prepayments which are valued at book value after assessing the recoverability of such payments.

Liabilities

For liabilities, they are valued based on the carrying values of the actual liabilities payable by the subject company as at the Valuation Benchmark Date. Valuation procedures include checking to the underlying records and documents and verifying the existence of the amount of liabilities.

We understand from the PRC Valuer that the above valuation methodologies used in valuing the Target Companies under the asset-based approach are commonly used in the industry and are based on commonly adopted valuation basis. The PRC Valuer has also made reference to their internal database and market data when performing the valuations. Physical inspection was carried out by the PRC Valuer and no abnormalities were noted. Based on our discussions with the PRC Valuer and our understanding of its work conducted, we consider that the above methodologies are reasonable approaches in establishing the appraised value of each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft.

Based on our discussion with the PRC Valuer, we understand that the increase in values of the Target Companies (as compared to their respective net book values) is mainly due to the increased valuation from the investments in AVICOPTER by AVIC Helicopter. The valuation of land use rights and properties held by Harbin Aircraft also leads to a higher valuation as those assets have been recorded at costs long time ago and replacement costs of these assets represent a higher valuation.

It is noted that the Valuation Benchmark Date, i.e. 30 September 2018, is over one year ago. We understand from the Management that the Valuation Reports were prepared for the purpose of the Proposed Acquisition, the preparation of which has been started back in October 2018 according to the announcement of the Company dated 12 October 2018. As stated in the "Letter from the Board" contained in the Circular, the scope of valuation as at the Valuation Benchmark Date is substantially the same as the current scope of the underlying assets of the Target Group and there has been no material change in the underlying assets of the Target Group since the Valuation Benchmark Date. The Management is not aware of any adverse events incurring a decrease in net assets of the Target Group having occurred.

We have discussed with the Management and reviewed the accountants' report on the Target Group as set out in Appendix II to the Circular, and understand that there has been no material adverse change in the financial performance and financial position of the Target Group after the Valuation Benchmark Date up to 30 September 2019, in particular, the Target Group recognised a net profit of approximately RMB601.6 million for the nine months ended 30 September 2019 and recorded an increase in net assets as at 30 September 2019 as compared to 31 December 2018. It is also disclosed in the "Letter from the Board" contained in the Circular that the value of equity interest in AVICOPTER is the key factor affecting the value of the Target Equity. As the valuation of the equity interest in AVICOPTER held by AVIC Helicopter and Harbin Aircraft is principally based on the market price of the A shares of AVICOPTER on the Shanghai Stock Exchange and a general increase in the closing price of the A shares of AVICOPTER is noted since the Valuation Benchmark Date, the valuation of equity interest in AVICOPTER as at the Valuation Benchmark Date is not likely to be over-valued. Given the above, we consider that the reference to the Valuation Reports in determining the consideration remains reasonable.

Conclusion

Having discussed with the PRC Valuer and reviewed with them the reasons for adopting the various valuation methodologies, the bases and assumptions used for valuing the Target Equity and the valuation results, we are of the opinion that the chosen valuation methodologies, bases and assumptions in establishing the appraised value as at the Valuation Benchmark Date are in line with the industry practice. In assessing the fairness of the consideration, we consider it is appropriate to refer to the independent valuations conducted by the PRC Valuer in respect of the appraised value of the Target Equity.

Since the consideration for each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft is approximately the same as the value of the relevant proportion of the equity interests being acquired, with variance less than 0.1%. On this basis, we are of the view that the consideration for the Target Equity is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

5. Issue Price of the Consideration Shares

(i) Comparison of the Issue Price to market price

1,500,669,406 Consideration Shares will be issued at the Issue Price of HK$4.19 per Consideration Share (when the Consideration Shares are H shares) or RMB3.79 (equivalent to approximately HK$4.19) per Consideration Share (when the Consideration Shares are Domestic Shares). As disclosed in the "Letter from the Board" contained in the Circular, as confirmed by relevant regulatory authorities in the PRC and each party to the Equity Acquisition and Share Issuance Agreement, the consideration for the Proposed Acquisition is proposed to be settled by issuance of the Domestic Shares. The Issue Price represents:

(i) a premium of approximately 19.71% over the closing price of HK$3.50 per H Share on the Hong Kong Stock Exchange on the date of the Equity Acquisition and Share Issuance Agreement (the "**Agreement Date**");

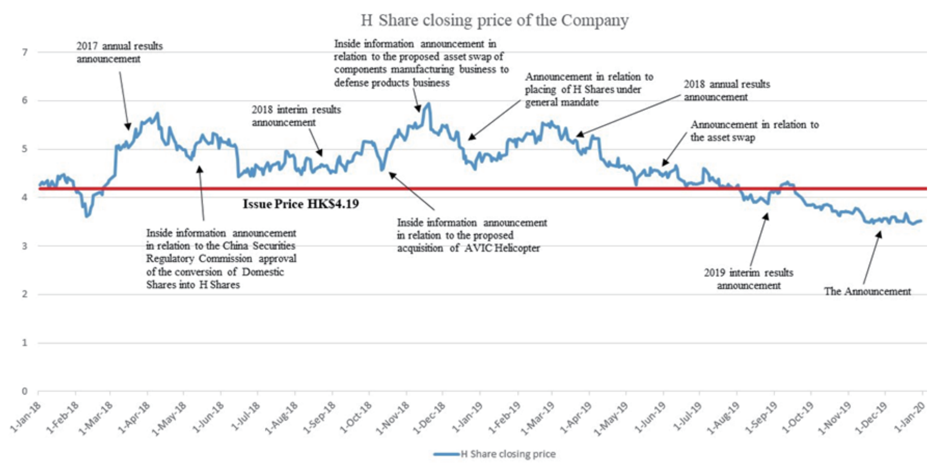
(ii) a premium of approximately 18.83% over the average closing price of approximately HK$3.53 per H Share on the Hong Kong Stock Exchange for 5 trading days prior to and including the Agreement Date;

(iii) a premium of approximately 16.36% over the average closing price of approximately HK$3.60 per H Share on the Hong Kong Stock Exchange for 20 trading days prior to and including the Agreement Date;

(iv) a premium of approximately 19.03% over the closing price of HK$3.52 per H Share on the Hong Kong Stock Exchange on the Latest Practicable Date; and

(v) a premium of approximately 36.58% over the unaudited net asset value ("**NAV**") attributable to the Shareholders of approximately RMB2.77 per H Share (equivalent to approximately HK$3.07 per H Share) as at 30 June 2019, calculated based on the NAV attributable to equity holders of the Company of approximately RMB17,306.3 million (equivalent to approximately HK$19,158.1 million based on the exchange rate of HK$1: RMB0.9033 for illustrative purposes) and 6,245,121,836 Shares in issue as at 30 June 2019.

(ii) H Share closing price



Source: Bloomberg

We have reviewed the H Share closing price movement from 1 January 2018 up to the Latest Practicable Date (the "**Review Period**"). As shown in the chart above, the H Shares closed between HK$3.45 and HK$5.94 per H Share during the Review Period, with an average closing price of approximately HK$4.62 per H Share.

The H Share closing price showed an increasing trend in the first quarter of 2018. The H Share closing price then fluctuated between HK$4.43 and HK$5.75 per H share from April 2018 up to 12 October 2018. The Company published an inside information announcement on 12 October 2018 in relation to the potential acquisition of AVIC Helicopter from AVIC and Tianjin Free Trade Zone Investment by the Company, and the H Share closing price increased by approximately 7.6% on the next trading day after the release of such announcement. On 14 November 2018, an inside information announcement regarding the potential asset swap where the Group proposes to swap some of its components manufacturing business and assets for the relevant defense products business and assets of a subsidiary of AVIC. The H Share closing price increased further afterwards and reached a high of HK$5.94 per H Share on 19 November 2018. After that, the H Share closing price showed a declining trend in the remaining period of 2018 and closed at HK$4.92 per H Share on 31 December 2018.

In 2019, after a general upward trend for the H Share closing prices in January and February, the H Share closing prices demonstrated a general downward trend since March 2019. The Company released its 2018 annual results on 20 March 2019. Despite an increase in profit for 2019, the H Share closing price did not bounce back and continued the downward trend. On 23 August 2019, the Company published its 2019 interim results announcement showing an improvement in performance, the H Share closing price went up for a short period of time subsequently until mid-September 2019. The H Share closing price showed a further decline from mid-September 2019 onwards and closed at HK$3.50 on the Agreement Date. The H Share price remained below the Issue Price since 17 September 2019.

The announcement of the Proposed Acquisition and the Proposed Issuance (the "**Announcement**") was published on 28 November 2019. After the publication of the Announcement, the closing price of H Shares increased from HK$3.50 per H Share on 28 November 2019 (the Agreement Date) to HK$3.57 per H Share on 29 November 2019 (the first trading day after the publication of the Announcement), representing an increase of 2%. From the date immediately after publication of the Announcement to the Latest Practicable Date, the closing price of the H Shares was within a range of HK$3.45 to HK$3.68 per H Share. The H Shares closed at HK$3.52 per H Share as at the Latest Practicable Date.

(iii) Comparable issues

To further assess the fairness and reasonableness of the Issue Price, we have performed a comparable analysis by searching the website of the Hong Kong Stock Exchange on a best effort basis, identifying companies listed on the Main Board of the Hong Kong Stock Exchange which announced issues of consideration shares to vendors for acquisition(s) during the period from 1 June 2019 up to and including the Agreement Date (the "**Comparable Issues**"), excluding transactions where whitewash waiver application is involved, or where the consideration shares involve shares of subsidiaries of issuers. We consider such list an exhaustive list of relevant comparable issues of consideration shares based on the said criteria above.

Despite the subject companies constituting the Comparable Issues may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, different reasons for their respective acquisitions and issuing consideration shares, and the type or class of consideration shares involved may be different, we would still consider, in light of our selection criteria, capturing recent issues of consideration shares by listed companies to vendor(s) for acquiring assets/companies under similar market conditions and sentiments can provide us with a general reference on the recent market trend of the premium/discount of issue prices of consideration shares (being shares of the listed companies) over/to the market prices of the relevant shares for this type of transaction on the equity capital market in Hong Kong. Based on the aforesaid, despite the large range of discount/premium represented by the respective issue price under the Comparable Issues, we regard the Comparable Issues meaningful and representative samples for assessing the fairness and reasonableness of the Issue Price.

Date of announcement	Company name and stock code	Premium/(discount) of issue price over/(to) closing share price as at the date of the relevant agreement % (approximate)	average closing share price for the last 5 trading days prior to and including the date of the relevant agreement % (approximate)	average closing share price for the last 20 trading days prior to and including the date of the relevant agreement % (approximate)
10 June 2019	Affluent Partners Holdings Limited (stock code: 1466)	(8.1)	(7.7)	1.3
11 June 2019	Mayer Holdings Limited (stock code: 1116)	(21.6)	(19.2)	(18.3)
8 July 2019	Hao Tian Development Group Limited (stock code: 474)	11.6	11.2	12.1
10 July 2019	Pan Asia Environmental Protection Group Limited (stock code: 556)	9.9	13.2	6.3
12 July 2019	Hao Tian International Construction Investment Group Limited (stock code: 1341)	(9.4)	(9.4)	(11.8)
15 July 2019	China Xinhua Education Group Limited (stock code: 2779)	50.4	48.6	48.3
19 July 2019	China Agroforestry Low-Carbon Holdings Limited (stock code: 1069)	(10.0)	12.5	(39.3)
8 August 2019	Major Holdings Limited (stock code: 1389)	5.9	4.0	(1.9)
15 August 2019	We Solutions Limited (stock code: 860)	38.7	29.4	35.5
10 September 2019	Manfield Chemical Holdings Limited (stock code: 1561)	(25.6)	(25.5)	(26.3)
18 September 2019	United Strength Power Holdings Limited (stock code: 2337)	(23.1)	(12.9)	(8.5)
27 September 2019	Zhaojin Mining Industry Company Limited (stock code: 1818) *(Note 1)*	(1.2)	(5.2)	(6.0)
31 October 2019	We Solutions Limited (stock code: 860) *(Note 2)*	9.5	7.4	9.7
	Mean (simple average)	2.1	3.6	(0.1)
	Median	(1.2)	4.0	(1.9)
	Minimum	(25.6)	(25.5)	(39.3)
	Maximum	50.4	48.6	48.3
	The Consideration Shares	**19.7**	**18.8**	**16.4**

Source: Bloomberg, relevant announcements and information published on the Hong Kong Stock Exchange's website

Notes:

1. As disclosed in the relevant announcement, domestic shares would be issued as consideration shares for the acquisition with an issue price of RMB8.09 per share, which is equivalent to HK$8.96 per share. Comparison between the issue price and the market prices was based on the equivalent value of HK$8.96 per share and market prices of H shares of Zhaojin Mining Industry Company Limited.

2. As disclosed in the relevant announcement, issue price of the consideration shares will be the higher of the then average market prices by the time of issuance or HK$0.52 per share. The above analysis has been based on the issue price of HK$0.52 per share for illustrative purpose.

As set out in the table above, the Issue Price represents (a) a premium of approximately 19.71% over the closing price of the H Shares on the Agreement Date; (b) a premium of approximately 18.83% over the average closing price of the H Shares for 5 trading days prior to and including the Agreement Date; and (c) a premium of approximately 16.36% over the average closing price of the H Shares for 20 trading days prior to and including the Agreement Date. These premia are (i) higher than the average and median of premium/discount of those under the Comparable Issues for all of the periods as illustrated above; and (ii) within the respective range of the premium/discount of the Comparable Issues for all of the periods as illustrated above.

Having taken into account that (i) the Issue Price represents a premium of approximately 36.58% of the latest NAV per H Share; and (ii) the premium represented by the Issue Price ranging from approximately 16.4% to 19.7% over closing prices of the H Shares in different periods prior to and including the Agreement Date are more favourable as compared with those of the Comparable Issues, we are of the view that the Issue Price is reasonable and is in line with the market practice.

Overall assessment

Taking into account the terms of the Equity Acquisition and Share Issuance Agreement, the evaluation of the consideration and the Issue Price analysis as set out in the sections headed "3. Principal terms of the Equity Acquisition and Share Issuance Agreement", "4. Evaluation of the consideration" and "5. Issue Price of the Consideration Shares" of this letter above respectively, we consider the terms of the Equity Acquisition and Share Issuance Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned.

6. Financial effects of the Proposed Acquisition and the Proposed Issuance

Set out below are the financial effects of the Proposed Acquisition and the Proposed Issuance to the Group. The unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular illustrates the effects of the Proposed Acquisition and the Proposed Issuance on the Group's financial position.

(i) Equity attributable to the Shareholders

As of 30 June 2019, the net assets attributable to owners of the Company was approximately RMB17,306 million. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, the unaudited pro forma net assets of the Enlarged

Group attributable to equity holders of the Company would increase to approximately RMB21,010 million assuming completion of the Proposed Acquisition and Proposed Issuance had taken place. The NAV per Share would decrease slightly from approximately RMB2.77 per Share as at 30 June 2019 to approximately RMB2.71 per Share assuming the Proposed Acquisition and the Proposed Issuance had taken place on 30 June 2019.

(ii) Gearing and liquidity

As of 30 June 2019, the gearing ratio (defined as total borrowings and convertible bonds divided by total assets) of the Group was approximately 15.28% as disclosed in the 2019 interim report. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, the gearing ratio of the Enlarged Group as if the Proposed Acquisition had taken place on 30 June 2019 would have decreased to approximately 13.17%, mainly as a result of the asset enhancement as mentioned in the sub-section headed "(i) Equity attributable to the Shareholders" above.

The Group had pledged deposits, term deposits and cash and cash equivalents of approximately RMB10,613 million as at 30 June 2019. According to the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to the Circular, the pledged deposits, term deposits and cash and cash equivalents would have increased to approximately RMB18,042 million as if the Proposed Acquisition had taken place on 30 June 2019. We consider the decrease in gearing ratio is in the interests of the Company and the Shareholders.

(iii) Earnings

Upon completion of the Proposed Acquisition, the Target Companies will become wholly owned subsidiaries of the Company and the results of the Target Group will be consolidated into that of the Group. As the Target Group has been profit-making for the three years ended 31 December 2018 and nine months ended 30 September 2019 as set out in Appendix II to the Circular, it is expected that the earnings of the Enlarged Group will be enhanced after the completion of the Proposed Acquisition and the Proposed Issuance.

(iv) Dilution

The Consideration Shares represent approximately 24.03% of the total issued share capital of the Company as at the Latest Practicable Date and approximately 19.37% of the total issued share capital of the Company as enlarged by the Proposed Issuance (assuming there is no other change in the share capital of the Company).

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon completion of the Proposed Issuance (assuming there is no other change in the share capital and shareholding structure of the Company from the Latest Practicable Date to the Completion Date).

	As at the Latest Practicable Date		Immediately upon completion of the Proposed Issuance	
	Number of Shares	*%* *(Note)*	*Number of Shares*	*%* *(Note)*
AVIC				
– H Shares	3,499,531,569	56.04	3,499,531,569	45.18
– Domestic Shares	–	–	1,250,899,906	16.15
Airbus Group				
– H Shares	312,255,827	5.00	312,255,827	4.03
Tianjin Free Trade Zone Investment				
– Domestic Shares	–	–	249,769,500	3.22
Other Shareholders				
– H Shares	2,433,334,440	38.96	2,433,334,440	31.41
Total	6,245,121,836	100	7,745,791,242	100

Note: The percentages may not add up to 100% due to rounding.

As demonstrated from the table above, the existing public Shareholders' shareholdings (including Airbus Group) will be diluted from approximately 43.96% as at the Latest Practicable Date to approximately 35.44% immediately upon completion of the Proposed Issuance. Given (i) the aforementioned potential benefits of the Proposed Acquisition to the Group as set out in the section headed "1. Reasons for and benefits of the Proposed Acquisition and the Proposed Issuance" of this letter; (ii) the financial effects on the Group upon completion of the Proposed Acquisition as set out in sub-sections of this section above; and (iii) the terms of the Equity Acquisition and Share Issuance Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned as set out in the sub-section headed "Overall assessment" under the section headed "5. Issue Price of the Consideration Shares" of this letter above, we are of the view that the potential dilution is acceptable.

DISCUSSION AND ANALYSIS

1. Reasons for the Equity Acquisition and Share Issuance Agreement

The Group's helicopter business has been expanding in 2018 and first half of 2019, the Proposed Acquisition can further expand its existing business in the industry with an increase in the scope of business, it is also likely to create industrial synergy and promote operational independence. The Proposed Acquisition is considered to be in line with the development strategy plan of the Group in the helicopter industry. Also, the Target Group has been profit-making in recent years and therefore the Proposed Acquisition can enhance the income level and profitability of the Group. Given the latest financial position of the Group, it is reasonable for the Company to settle the consideration through the issuance of the Consideration Shares. We concur with the Director's view that the transactions contemplated under the Equity Acquisition and Share Issuance Agreement are in the interests of the Company and the Shareholders as a whole.

2. Consideration

The Consideration was determined after arm's length negotiations between the parties with reference to various factors including but not limited to the financial position of the Group and historical financial performance of the Target Group, future business outlook and potential of the Target Group, economic and industrial situation, and valuation results of the Target Equity as set out in the Valuation Reports prepared by the PRC Valuer as at the Valuation Benchmark Date.

We have discussed with the PRC Valuer regarding the valuations, including the scope of work, qualifications of the PRC Valuer, valuation approach, valuation assumptions and details of the valuation, and are of the view that the methodologies adopted by the PRC Valuer are reasonable. The consideration for each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft is based on the value of the relevant proportion of equity interests to be acquired. On this basis, we consider such considerations to be fair and reasonable.

3. Settlement of the consideration

The Consideration will be settled by the issue of Consideration Shares at the Issue Price. The Issue Price of HK$4.19 per Share (i) represents a premium of approximately 36.58% over the latest published NAV per H Share; and (ii) represents a premium ranging from approximately 16.4% to 19.7% over closing prices of the H Shares in different periods prior to and including the Agreement Date, which are more favourable as compared with those of the Comparable Issues. We consider the Issue Price is reasonable and in line with the market practice.

4. Financial effects

The net assets attributable to owners of the Company would increase after completion of the Proposed Acquisition, with a decrease in gearing ratio but a slight decrease in the NAV per Share assuming the Proposed Acquisition had taken place on 30 June 2019. Upon completion of the Proposed Acquisition, the Target Companies will become wholly owned subsidiaries of the Company and the results of the Target Group will be consolidated into that of the Group. Given the financial performance of the Target Group in recent years, it is expected that the earnings of the Enlarged Group will be enhanced after the completion of the Proposed Acquisition.

5. Decrease in public Shareholders' percentage shareholding

Public Shareholders' shareholding is expected to be diluted from approximately 43.96% as at the Latest Practicable Date to approximately 35.44% immediately after completion of the Proposed Issuance. The dilution is itself an unattractive feature, but in our view should be assessed in the context of the transactions contemplated under the Equity Acquisition and Share Issuance Agreement as a whole, which we consider the potential dilution effect is acceptable.

OPINION AND RECOMMENDATION

Taking into account the above principal factors and reasons, we consider that the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Proposed Acquisition, although not in the ordinary and usual course of business of the Company, is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolution(s) in relation to the Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over nine years of experience in the corporate finance industry.

For illustration purposes, RMB is converted into HK$ at RMB1 = HK$1.107 in this letter.

1. FINANCIAL INFORMATION OF THE GROUP

The unaudited consolidated financial statements of the Company for the six months ended 30 June 2019 and the audited consolidated financial statements of the Company for the three years ended 31 December 2018 together with the relevant notes to the financial statements of the Company can be found on pages 16 to 60 of the interim report of the Company for the six months ended 30 June 2019, pages 97 to 244 of the annual report of the Company for the year ended 31 December 2018, pages 97 to 218 of the annual report of the Company for the year ended 31 December 2017 and pages 85 to 193 of the annual report of the Company for the year ended 31 December 2016.

Please also see below the hyperlinks to the interim report for the six months ended 30 June 2019 and the annual reports for the three years ended 31 December 2018, respectively.

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0919/2019091900299.pdf

https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0409/ltn20190409401.pdf

https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0410/ltn20180410325.pdf

https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0412/ltn20170412283.pdf

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at 31 October 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately RMB12,007,509,000, comprising secured borrowings of RMB496,068,000 and unsecured borrowings of approximately RMB11,511,441,000. Included in the outstanding secured borrowings, amount of approximately RMB69,500,000, RMB339,100,000 and RMB67,468,000 were secured by account receivables, a future receivable right and buildings of subsidiaries of the Enlarged Group respectively. The remaining outstanding secured borrowings was secured by shares of a shareholder of the Enlarged Group and guaranteed by a subsidiary of the Enlarged Group. Unsecured borrowings of approximately RMB1,762,890,000 are guaranteed by certain subsidiaries of the Enlarged Group and a third party.

Corporate bond

As at 31 October 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding corporate bond of approximately RMB2,103,961,000.

Lease liabilities

As at 31 October 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding lease liabilities of approximately RMB612,542,000, including secured leases liabilities of approximately RMB376,985,000 and unsecured leases liabilities of approximately RMB235,557,000. The outstanding secured lease payment of approximately RMB150,000,000 are secured by the land use right and guaranteed by a subsidiary of the Enlarged Group and the remaining of approximately RMB226,985,000 are secured by the plant and equipments and are not covered by any guarantees.

Contingent liabilities and guarantee

As at 31 October 2019, the Enlarged Group had issued guarantee in respect of banking facilities amounting to approximately RMB387,460,000 granted to fellow subsidiaries.

Pledge of assets

As at 31 October 2019, the Enlarged Group's secured bank and other borrowings, lease liabilities and banking facilities were secured by the Enlarged Group's accounts receivables, other receivables, plant and equipments and land use right.

Save as aforesaid and apart from intra-group liabilities and normal accounts and notes payable in the ordinary course of business of the Enlarged Group, the Enlarged Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, lease commitments, guarantees or other material contingent liabilities as at the close of business on the Latest Practicable Date.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Enlarged Group since the Latest Practicable Date.

3. SUFFICIENCY OF WORKING CAPITAL

As at the Latest Practicable Date, after due enquiry and taking into account the Proposed Acquisition, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirement, that is for at least the next 12 months from the date of publication of this circular.

4. FINANCIAL AND TRADING PROSPECTS

For the six months ended 30 June 2019, the revenue of the aviation entire aircraft segment of the Group amounted to RMB6,350 million, representing an increase of 40.61% as compared with that in the corresponding period of last year, which was mainly attributable to the sales volume increase in helicopters and trainers. The revenue of the aviation entire aircraft segment accounted for 35.36% of the total revenue of the Group. The revenue of the aviation parts and components segment of the Group amounted to RMB9,116 million, representing an increase of 22.10% as compared with that in the corresponding period of last year, which was mainly attributable to the revenue increase in avionics business. The revenue of the aviation parts and components segment accounted for 50.76% of the total revenue of the Group. The revenue of the aviation engineering services segment of the Group amounted to RMB2,492 million, representing an increase of 1.01% as compared with that in the corresponding period of last year. The revenue of the aviation engineering services segment accounted for 13.88% of the total revenue of the Group.

The segment results of the aviation entire aircraft segment of the Group amounted to RMB265 million, representing an increase of RMB88 million or 49.72% as compared with that of RMB177 million in the corresponding period of last year. The increase was mainly attributable to the increase of revenue from the aviation entire aircraft business. The segment results of the aviation parts and components segment of the Group amounted to RMB1,279 million, representing an increase of RMB145 million or 12.79% as compared with that of RMB1,134 million in the corresponding period of last year, which was mainly attributable to the increase of gross profit driven by the increase of revenue from the avionics business. The segment results of the aviation engineering services segment of the Group amounted to RMB148 million, representing an increase of RMB8 million or 5.71% as compared with that of RMB140 million in the corresponding period of last year.

During the second half of 2019, each of the aviation entire aircraft segment, the aviation parts and components segment and the aviation engineering services segment of the Group continues to operate normally and develop steadily. In the second half of 2019, in face of complicated international situations, formidable tasks of reform and development and maintaining stability, the Company will aim at becoming a flagship company providing high-tech aviation products and services universally applied for military and civil purposes, speed up the pace and efficiency of connection and conversion with capital, improve and manifest the corporate value. The Company will continue to carry out integration of aviation industrial chain, complete the asset swap of Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司) ("**Hongdu Aviation**"), and proceed with the helicopter business reorganization. The Proposed Acquisition of AVIC Helicopter is in line with the development strategy plan of the Company's helicopter industry. Upon completion of the Proposed Acquisition, the entire helicopter business chain of the Company will be more complete, further promoting the development of the helicopter business of the Company. The Proposed Acquisition can optimize the asset structure of the Company, and enhance the income level and profitability of the Company. The Company will implement innovation-driven strategy, so as to enhance the technical innovation capability in high-end technology. Aiming at strategic emerging industries, the Company will actively carry out investment, financing and equity operation by seizing opportunities in industrial investment and utilizing the industrial investment platform. The Company will endeavor to improve the level of corporate governance to world-class standard.

信永中和
ShineWing

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

6 January 2020

The Board of Directors
AviChina Industry & Technology Company Limited
2nd Floor,
Building 27,
No.26 Xihuan South Street,
Beijing Economic Technological Development Area,
Beijing,
The PRC

INTRODUCTION

We report on the historical financial information of AVIC Helicopter Co., Ltd.* (中航直升機有限責任公司) (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II-4 to II-98, which comprises the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 and 30 September 2019, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Group for the three years ended 31 December 2018 and the nine months ended 30 September 2019 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information of the Target Group set out on pages II-4 to II-98 forms an integral part of this report, which has been prepared for inclusion in the circular of AviChina Industry & Technology Company Limited (the "Company") dated 6 January 2020 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company (the "Proposed Acquisition").

DIRECTORS' RESPONSIBILITIES FOR HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of Historical Financial Information of the Target Group that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

* *For identification only*

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the consolidated financial position of the Target Group as at 31 December 2016, 2017 and 2018 and 30 September 2019 and its consolidated financial performance and its consolidated cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Target Group which comprises 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 nine months ended 30 September 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Target Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedure. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

ADJUSTMENTS

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined below have been made.

DIVIDEND

We refer to Note 13 to the Historical Financial Information which states that no dividends have been declared and paid by the Target Company in respect of the Relevant Periods.

A. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information was based, were prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

		Year ended 31 December			Nine months ended 30 September	
	NOTES	**2016**	**2017**	**2018**	**2018**	**2019**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Revenue	*6*	12,894,329	10,659,979	14,159,069	8,789,969	8,166,026
Cost of sales		(11,992,752)	(10,159,898)	(13,571,666)	(8,396,263)	(7,789,879)
Gross profit		901,577	500,081	587,403	393,706	376,147
Other income and gains	*7*	59,201	308,966	207,475	169,958	470,414
Other expenses		(1,719)	(3,779)	(1,342)	(1,382)	(1,186)
Other income and gains, net		57,482	305,187	206,133	168,576	469,228
Selling and distribution expenses		(3,975)	(1,567)	(5,668)	(4,346)	(2,127)
Administrative expenses		(744,736)	(495,287)	(610,121)	(361,295)	(335,285)
Impairment loss (recognised) reversed		(55,257)	1,777	51,349	46,304	(2,071)
Operating profit		155,091	310,191	229,096	242,945	505,892
Finance income		70,733	74,076	109,060	47,465	147,794
Finance costs		(36,417)	(53,869)	(57,152)	(41,498)	(38,444)
Finance income, net	*9*	34,316	20,207	51,908	5,967	109,350
Share of profits of associates	*18*	93,165	96,287	103,814	61,712	78,403
Profit before tax	*8*	282,572	426,685	384,818	310,624	693,645
Income tax expenses	*12*	(42,579)	(67,034)	(73,025)	(58,117)	(92,083)
Profit for the year/period		239,993	359,651	311,793	252,507	601,562
Attributable to:						
Equity holders of the Target Company		236,436	359,122	324,452	253,773	475,901
Non-controlling interests		3,557	529	(12,659)	(1,266)	125,661
		239,993	359,651	311,793	252,507	601,562

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Profit for the year/period	239,993	359,651	311,793	252,507	601,562
Other comprehensive income (loss)					
Gain (loss) on a defined benefit scheme	150	90,060	(55,479)	(20,120)	(370)
Share of other comprehensive income of associates	(1,741)	3,176	66	–	(186)
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods	(1,591)	93,236	(55,413)	(20,120)	(556)
Other comprehensive income (loss) for the year/period	(1,591)	93,236	(55,413)	(20,120)	(556)
Total comprehensive income for the year/ period	238,402	452,887	256,380	232,387	601,006
Attributable to:					
Equity holders of the Target Company	234,856	451,605	283,595	233,816	475,417
Non-controlling interests	3,546	1,282	(27,215)	(1,429)	125,589
	238,402	452,887	256,380	232,387	601,006

Consolidated Statements of Financial Position

	NOTES	As at 31 December 2016 RMB'000 (Audited)	2017 RMB'000 (Audited)	2018 RMB'000 (Audited)	As at 30 September 2019 RMB'000 (Audited)
Non-current assets					
Property, plant and equipment	14	3,019,912	3,325,486	3,183,558	3,156,180
Investment properties	15	75,700	70,395	61,157	58,885
Land use rights	16	352,900	345,826	340,706	335,879
Other intangible assets	17	17,450	14,926	12,058	9,846
Investments in associates	18	2,459,506	2,308,796	2,383,978	2,076,150
Deferred tax assets	19	4,218	4,172	4,068	4,617
Prepayments, deposits and other receivables	22	415,903	679,616	735,925	868,446
Total non-current assets		6,345,589	6,749,217	6,721,450	6,510,003
Current assets					
Inventories	20	1,612,835	2,103,186	3,453,053	7,593,892
Accounts and notes receivables	21	1,185,818	363,090	1,070,357	378,398
Prepayments, deposits and other receivables	22	9,604,147	11,811,883	10,443,132	7,862,345
Financial assets at fair value through profit or loss	24	–	–	–	734,331
Pledged deposits	25	330,007	258,522	188,691	230,750
Cash and cash equivalents	25	6,038,762	2,665,490	6,557,561	7,217,186
Total current assets		18,771,569	17,202,171	21,712,794	24,016,902
Total assets		25,117,158	23,951,388	28,434,244	30,526,905
Current liabilities					
Accounts and notes payables	26	2,705,520	1,983,912	2,613,755	2,584,869
Other payables and accruals	27	2,394,509	2,390,619	2,043,155	1,630,261
Interest-bearing bank and other borrowings	28	233,800	702,800	524,800	369,500
Contract liabilities	23	16,304,984	15,521,407	19,107,366	20,824,487
Tax payable		32,030	55,482	13,377	37,841
Total current liabilities		21,670,843	20,654,220	24,302,453	25,446,958

					As at
			As at 31 December		30 September
	NOTES	**2016**	**2017**	**2018**	**2019**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Audited)	(Audited)	(Audited)	(Audited)
Net current liabilities		(2,899,274)	(3,452,049)	(2,589,659)	(1,430,056)
Total assets less current liabilities		3,446,315	3,297,168	4,131,791	5,079,947
Non-current liabilities					
Interest-bearing bank and other borrowings	*28*	1,028,000	345,000	505,000	525,000
Deferred income from government grants	*29*	62,894	63,511	62,832	58,545
Deferred tax liabilities	*19*	–	–	–	2,265
Other payables and accruals	*27*	878,220	747,880	779,900	771,750
Total non-current liabilities		1,969,114	1,156,391	1,347,732	1,357,560
Total liabilities		23,639,957	21,810,611	25,650,185	26,804,518
Net assets		1,477,201	2,140,777	2,784,059	3,722,387
Equity					
Equity attributable to equity holders of the Target Company					
Share capital	*30*	5,610,332	5,610,332	5,610,332	5,610,332
Reserves	*31*	(4,677,045)	(4,225,440)	(3,518,532)	(3,042,699)
		933,287	1,384,892	2,091,800	2,567,633
Non-controlling interests		543,914	755,885	692,259	1,154,754
Total equity		1,477,201	2,140,777	2,784,059	3,722,387

Consolidated Statements of Changes in Equity

	Attributable to equity holders of the Target Company							
	Share capital	Capital reserve	Fair value reserve	Other reserves	Accumulated losses	Subtotal	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2016	5,610,332	884,511	–	97,699	(5,894,111)	698,431	481,627	1,180,058
Profit for the year	–	–	–	–	236,436	236,436	3,557	239,993
Other comprehensive loss for the year	–	–	(1,580)	–	–	(1,580)	(11)	(1,591)
Total comprehensive income for the year	–	–	(1,580)	–	236,436	234,856	3,546	238,402
Capital injection in cash by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	6,125	6,125
Contribution from non-controlling shareholders *(Note(a))*	–	–	–	–	–	–	52,616	52,616
Appropriation	–	–	–	24,910	(24,910)	–	–	–
As at 31 December 2016 (Audited)	5,610,332	884,511*	(1,580)*	122,609*	(5,682,585)*	933,287	543,914	1,477,201

* These reserve accounts comprise the consolidated deficit reserve of RMB4,677,045,000 in the consolidated statement of financial position for the year ended 31 December 2016.

	Attributable to equity holders of the Target Company							
	Share capital	Capital reserve	Fair value reserve	Other reserves	Accumulated losses	Subtotal	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016 and 1 January 2017 (Audited)	5,610,332	884,511	(1,580)	122,609	(5,682,585)	933,287	543,914	1,477,201
Profit for the year	–	–	–	–	359,122	359,122	529	359,651
Other comprehensive income for the year	–	–	92,483	–	–	92,483	753	93,236
Total comprehensive income for the year	–	–	92,483	–	359,122	451,605	1,282	452,887
Contribution from non-controlling shareholders (Note(a))	–	–	–	–	–	–	210,689	210,689
Appropriation	–	–	–	27,185	(27,185)	–	–	–
As at 31 December 2017 (Audited)	5,610,332	884,511*	90,903*	149,794*	(5,350,648)*	1,384,892	755,885	2,140,777

* These reserve accounts comprise the consolidated deficit reserve of RMB4,225,440,000 in the consolidated statement of financial position for the year ended 31 December 2017.

	Attributable to equity holders of the Target Company							
	Share capital	Capital reserve	Fair value reserve	Other reserves	Accumulated losses	Subtotal	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017 and 1 January 2018 (Audited)	5,610,332	884,511	90,903	149,794	(5,350,648)	1,384,892	755,885	2,140,777
Profit for the year	–	–	–	–	324,452	324,452	(12,659)	311,793
Other comprehensive (loss) income for the year	–	–	(40,857)	–	–	(40,857)	(14,556)	(55,413)
Total comprehensive income for the year	–	–	(40,857)	–	324,452	283,595	(27,215)	256,380
Deemed disposal of interest in subsidiaries without changing of control***	–	524,749	(22,819)	(53,718)	–	448,212	(448,212)	–
Acquisition of additional interest of subsidiaries without changing of control**	–	(24,899)	–	–	–	(24,899)	2,751	(22,148)
Contribution from non-controlling shareholders (Note(a))	–	–	–	–	–	–	409,050	409,050
Appropriation	–	–		24,119	(24,119)	–	–	–
As at 31 December 2018 (Audited)	5,610,332	1,384,361*	27,227*	120,195*	(5,050,315)*	2,091,800	692,259	2,784,059

* These reserve accounts comprise the consolidated deficit reserve of RMB3,518,532,000 in the consolidated statement of financial position for the year ended 31 December 2018.

** The amount represent the acquisition of 2.11% of 哈爾濱飛機工業集團有限責任公司 equity interest at a cash consideration of RMB22,148,000. The transaction is considered as equity transaction. The difference between the consideration and carrying amount of net assets attributable to additional interest are recognised in capital reserve.

	Attributable to equity holders of the Target Company							
	Share capital	Capital reserve	Fair value reserve	Other reserves	Accumulated losses	Subtotal	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017 and 1 January 2018 (Audited)	5,610,332	884,511	90,903	149,794	(5,350,648)	1,384,892	755,885	2,140,777
Profit for the period	–	–	–	–	253,773	253,773	(1,266)	252,507
Other comprehensive loss for the period	–	–	(19,957)	–	–	(19,957)	(163)	(20,120)
Total comprehensive (loss) income for the period	–	–	(19,957)	–	253,773	233,816	(1,429)	232,387
Deemed disposal of interest in subsidiaries without changing of control***	–	524,749	(22,819)	(53,718)	–	448,212	(448,212)	–
Acquisition of additional interest of subsidiaries without changing of control**	–	(24,899)	–	–	–	(24,899)	2,751	(22,148)
Appropriation	–	–	–	20,921	(20,921)	–	–	–
As at 30 September 2018 (Unaudited)	5,610,332	1,384,361*	48,127*	116,997*	(5,117,796)*	2,042,021	308,995	2,351,016

* These reserve accounts comprise the consolidated deficit reserve of RMB3,568,311,000 in the consolidated statement of financial position for the nine months ended 30 September 2018.

** The amount represent the acquisition of 2.11% equity interest of 哈爾濱飛機工業集團有限責任公司 equity interest at a cash consideration of RMB22,148,000. The transaction is considered as equity transaction. The difference between the consideration and carrying amount of non-controlling interest net assets attribute to the addition interest are recognised in capital reserve.

*** The subsidiaries which have net liabilities, issued registered shares to non-controlling interest. The transaction constituted a deemed disposal by the Target company of its approximately 47.96% equity interest of 昌河飛機工業(集團)有限公司without losing control. The differences between the contribution and the net liabilities attribute to the company disposal are recognised in capital reserve.

	Share capital *RMB'000*	Capital reserve *RMB'000*	Fair value reserve *RMB'000*	Other reserves *RMB'000*	Accumulated losses *RMB'000*	Subtotal *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
As at 31 December 2018 and 1 January 2019 (Audited)	5,610,332	1,384,361	27,227	120,195	(5,050,315)	2,091,800	692,259	2,784,059
Profit for the period	–	–	–	–	475,901	475,901	125,661	601,562
Other comprehensive (loss) income for the period	–	–	(484)	–	–	(484)	(72)	(556)
Total comprehensive income for the period	–	–	(484)	–	475,901	475,417	125,589	601,006
Acquisition of additional interest of subsidiaries without changing of control**	–	416	–	–	–	416	(5,539)	(5,123)
Contribution from non-controlling shareholders (Note(a))	–	–	–	–	–	–	342,445	342,445
Appropriation	–	–	–	16,702	(16,702)	–	–	–
As at 30 September 2019 (Audited)	5,610,332	1,384,777*	26,743*	136,897*	(4,591,116)*	2,567,633	1,154,754	3,722,387

* These reserve accounts comprise the consolidated deficit reserve of RMB3,042,699,000 in the consolidated statement of financial position for the nine months ended 30 September 2019.

** The amount represent the acquisition of 40% equity interest of 哈爾濱哈飛航空維修工程有限公司at a cash consideration of RMB5,123,000. The transaction is considered as equity transaction. The difference between the consideration and carrying amount of net assets attributable to additional interest are recognised in capital reserve.

Note (a):

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

Consolidated Statements of Cash Flows

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	282,572	426,685	384,818	310,624	693,645
Adjustments for:					
Interest expense	36,417	53,869	57,152	41,498	38,444
Share of profits of associates	(93,165)	(96,287)	(103,814)	(61,712)	(78,403)
Interest income	(70,733)	(74,076)	(109,060)	(47,465)	(147,794)
Loss (gain) on disposal of property, plant and equipment	930	2,138	(2,050)	363	393
Gain on disposal of investments in associates	–	(257,775)	(510)	–	(362,353)
Gain on disposal of financial assets at fair value through profit or loss	–	–	(86)	–	(570)
Fair value gain on financial assets at fair value through profit or loss	–	–	–	–	(15,111)
Depreciation on investment properties	3,370	3,310	3,494	3,013	2,289
Depreciation on property, plant and equipment	285,895	362,962	410,698	294,679	307,221
Amortisation of other intangible assets	2,907	2,924	2,868	2,264	2,212
Amortisation of land use rights	14,636	9,844	9,908	7,202	8,094
Impairment (reversal) of accounts receivables and prepayments, deposits and other receivables	55,257	(1,777)	(51,349)	(46,304)	2,071
Release of deferred income arising from government grant	(40,625)	(28,224)	(25,478)	(1,391)	(41,194)
Reversal of provision	–	–	(120,904)	(120,904)	(21,233)
Operating cash flows before movements in working capital	477,461	403,593	455,687	381,867	387,711
Increase in inventories	(68,942)	(490,351)	(1,349,867)	(609,412)	(4,140,839)
(Increase)/decrease in accounts and notes receivables	(938,370)	824,110	(706,913)	(77,257)	689,888
Decrease/(increase) in prepayments, deposits and other receivables	3,575,076	(2,501,926)	1,483,975	1,409,094	2,409,888
Increase/(decrease) in accounts and notes payables	1,404,058	(721,608)	629,843	(47,629)	(28,885)
(Decrease)/increase in contract liabilities	(2,545,206)	(783,577)	3,585,959	3,125,746	1,717,121
(Decrease)/increase in other payables and accruals	(1,988,209)	(44,882)	(250,783)	180,383	(71,256)
(Increase)/decrease in pledged deposits	(78,813)	71,485	69,831	(131,219)	(42,059)
Decrease in financial assets at fair value through profit and loss	–	–	86	–	570
Cash (used in)/generated from operations	(162,945)	(3,243,156)	3,917,818	4,231,573	922,139
Interest received	70,733	74,076	109,060	47,465	147,794
Interest paid	(33,310)	(53,857)	(57,022)	(44,617)	(24,924)
Income tax paid	(64,389)	(43,536)	(115,026)	(66,034)	(65,903)
NET CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES	(189,911)	(3,266,473)	3,854,830	4,168,387	979,106

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(1,031,019)	(492,190)	(274,934)	(229,734)	(296,455)
Purchase of land use rights	(20)	–	–	–	(3,269)
Purchase of other intangible assets	(722)	(400)	–	–	–
Government grant for purchase of property, plant and equipment	32,578	29,541	25,433	4,320	36,907
Proceeds from disposal of property, plant and equipment	92,035	63,202	296,782	–	54,581
Disposal of investments in associates	–	478,666	3,060	–	–
Dividend received from associates	31,581	28,382	27,048	27,048	29,178
NET CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES	(875,567)	107,201	77,389	(198,366)	(179,058)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings	1,359,800	695,800	914,800	309,800	24,500
Repayments of borrowings	(1,426,000)	(909,800)	(932,800)	(169,800)	(159,800)
Capital injection by non-controlling shareholders of subsidiaries	6,125	–	–	–	–
Payments for acquisition of additional interests in subsidiaries	–	–	(22,148)	(22,148)	(5,123)
NET CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES	(60,075)	(214,000)	(40,148)	117,852	(140,423)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,125,553)	(3,373,272)	3,892,071	4,087,873	659,625
CASH AND CASH EQUIVALENTS AT 1 JANUARY	7,164,315	6,038,762	2,665,490	2,665,490	6,557,561
CASH AND CASH EQUIVALENTS AT 31 DECEMBER/30 SEPTEMBER	6,038,762	2,665,490	6,557,561	6,753,363	7,217,186
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:					
Cash and bank balances	6,368,769	2,924,012	6,746,252	7,143,103	7,447,936
Less: Pledged deposits	(330,007)	(258,522)	(188,691)	(389,740)	(230,750)
Cash and cash equivalents as stated in consolidated statements of cash flows	6,038,762	2,665,490	6,557,561	6,753,363	7,217,186

B. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

1. CORPORATE AND GROUP INFORMATION

Avichina Helicopter Co., Ltd.* (中航直升機有限責任公司) (the "Target Company") is a limited liability company incorporated in the People's Republic of China (the "PRC"). The address of its registered office is天津自貿試驗區(空港經濟區)西三道166號A3-198.

The Target Company and its subsidiaries (collectively refer to the "Target Group") are principally engaged in trading of aviation entire aircraft and aviation parts and components and rendering of aviation maintenance services in Mainland China.

The directors of the Target Company considered that the immediate and ultimate holding company as at the date of this report is Aviation Industry Corporation of China, which is a state-owned enterprise under the control of the State Council of the PRC government.

The financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Target Company and its subsidiaries. RMB is the currency of the primary economic environment in which the Target Company and its subsidiaries operate.

2. GROUP REORGANISATION AND BASIC OF PRESENTATION

For the purpose of the proposed acquisition, the Target Company is undergoing a group reorganisation to rationale the structure of the Target Group pursuant to the acquisition agreement, to exclude non-aviation business which will be transferred to and held by the ultimate holding company after completion of the proposed reorganisation. Accordingly, the Target Group resulting from the reorganisation is regarded as a continuation of the Aviation Business. As at the reporting period and the date of this report, the reorganisation is not yet completed. For the purpose of this report, the Historical Financial Information of the Target Group has been prepared on the basis as if the reorganisation completed throughout the Relevant Periods.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the Relevant Periods have been prepared to present the results and cash flows of the companies now comprising the Target Group as if the current group structure upon completion of the proposed reorganisation had been in existence throughout the Relevant Periods or since their respective dates of incorporation or establishment, where this is a shorter period. The consolidated statements of financial position of the Target Group as at the reporting date of Relevant Periods have been prepared to present the assets and liabilities of the companies comprising the Target Group as if the current group structure had been in existence as at the respective dates.

Notwithstanding that the Target Group have relatively net current liabilities of approximately RMB1,430,056,000 as at 30 September 2019, the consolidated financial statements have been prepared on a going concern basis as in the opinion of the directors of the Target Company, the Target Group should be able to maintain itself as a going concern in the next twelve months from 30 September 2019 by taking into consideration that the directors of the Target Company anticipate that the Group will generate positive cash flows from its operations. The directors of the Target Company consider that the Target Group will have sufficient working capital to meet its financial obligations when they fall due for the next twelve months from 30 September 2019.

Accordingly, the directors of the Target Group are of the opinion that it is appropriate to prepare these consolidated financial statements for the period ended 30 September 2019 on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Target Group be unable to continue as a going concern.

* *For identification only*

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(S)")

For the purpose of preparing and presenting the Historical Financial Information, the Target Group has consistently adopted all the IFRSs, which include IFRSs, Accounting Standards ("IASs"), amendments and interpretations ("Int(s)") which are effective for the Target Group's financial year beginning on 1 January 2019, including IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments", throughout the Relevant Period, except that the Target Group adopted IFRS 16 "Leases" ("IFRS 16") on 1 January 2019 and adopted IAS 17 "Leases" ("IAS 17") during the years ended 31 December 2016, 2017 and 2018.

IFRS 16 "Leases"

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in Note 4. The Target Group has applied IFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for Relevant Period as permitted under the specific transitional provisions in the standard. Accordingly, the Historical Financial Information as at and for the years ended 31 December 2016, 2017 and 2018 was prepared under IAS 17 Leases.

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

The major impacts of the adoption of IFRS 16 are described below.

The Target Group as lessee

The major impacts of the adoption of IFRS 16 on the Target Group's consolidated financial statements are described below:

The Target Group leases a number of properties and leasehold land located in PRC.

All lease entered by the Target Group expect those in relation to leasehold properties located in PRC as lessee as at 1 January 2019 was lease with remaining lease term less than 12 months. Therefore, there is no impact on the opening balance of equity and all financial line items. Regarding to leasehold land located in PRC except those classified as investment properties, they were classified as prepaid lease payment under IAS 17 and included in land use rights, which is identified as right of use asset under IFRS 16.

Under IFRS 16, the Target Group is required to account for all leasehold properties including, leasehold land portion as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties") and include separately in investment properties. The adoption of IFRS 16 does not have a significant impact on the Group's financial statement as the Group previously elected to apply IAS 40, "Investment properties", to account for all of its leasehold properties that were held for investment purpose as at 31 December 2018. Consequently, these leasehold investment properties continue to be carried at cost value and recognised as investment properties.

Practical expedients applied

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

- Not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Target Group relied on its assessment made applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*;

- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and

- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Target Group as lessor

The Target Group leases some of the properties during the Relevant Periods. The accounting policies applicable to the Target Group as lessor are not different from those under IAS 17.

New and amendments to IFRSs issued but not yet effective

At the date of this report, the following new and amendment to IFRSs have been issued but are not yet effective. The Target Group has not early applied these new and amendment to IFRSs:

IFRS 17	Insurance Contracts[2]
Amendments to IFRS 3	Definition of a Business[3]
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 1 and IAS 8	Definition of Material[1]

1 Effective for annual periods beginning on or after 1 January 2020

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

3 Effective for business combinations and asset acquisition for which the acquisition date is after the beginning of the first annual reporting period beginning on or after 1 January 2020.

4 Effective dates not yet been determined.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB.

The consolidated financial statements have been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Target Company and its subsidiaries. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target 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 Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target 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 Target Group's voting rights and potential voting rights.

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

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Target 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 Target Group are eliminated in full on consolidation.

The Target 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 Target 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 Target 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 Target Group had directly disposed of the related assets or liabilities.

Investments in associates

An associate is an entity in which the Target Group has a long-term interest of the equity voting rights 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.

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

The Target Group's share of the post-acquisition results and other comprehensive income of associates are included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or the Target 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 Target Group and its associates are eliminated to the extent of the Target Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

Fair value measurement

The Target Group measures its financial instruments 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 Target 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 Target 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 Target Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

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

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

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 is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Target 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 Target Group;

(ii) has significant influence over the Target Group; or

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

or

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

(i) the entity and the Target 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 Target 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 Target Group or an entity related to the Target 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 Target Group or to the parent of the Target Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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 Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Buildings	20 – 30 years
Plant and equipment	5 – 10 years
Furniture, fixtures, other equipment and motor vehicles	3 – 5 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.

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 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

Intangible assets acquired separately are measured on initial recognition at cost. 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.

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 10 years.

Leases

Under IAS 17 "Lease" (before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Target 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 Target Group is the lessor, assets leased by the Target 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 Target 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.

Under IFRS 16 "Lease" (on or after 1 January 2019)

Definition of a lease

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

The Target Group as lessee

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

Lease liability

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

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; and

- the amount expected to be payable by the lessee under residual value guarantees.

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

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

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

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

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

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

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Whenever the Target Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

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

The Target Group presents right-of-use assets except those classified as investment properties as a separate line item "Land use rights" on the consolidated statement of financial position.

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

Financial instruments

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

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

Financial assets

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

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost

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

Equity instruments designated as at FVTOCI

On initial recognition, the Target 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 investment revaluation 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 Target 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 'investment and other income' line item in profit or loss.

Financial assets at FVTPL

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

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

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the other incomes line item. Fair value is determined in the manner described in note 36.

Impairment of financial assets

For financial instruments, the Target Group measures the loss allowance equal to 12-month expected credit loss ("ECL"), unless when there has a significant increase in credit risk since initial recognition, the Target 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. The expected credit losses on financial assets subject to lifetime ECL are estimated using a provision matrix based on the Target 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.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target 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 Target 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 Target 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 Target Group's operations.

Irrespective of the outcome of the above assessment, the Target 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 Target Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Target 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 fulfill its contractual cash flow obligations. The Target 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 Target 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 Target Group considers the changes in the risk that the specified debtor will default on the contract.

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

Definition of default

The Target 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 Target Group, in full (without taking into account any collaterals held by the Target Group).

The Target Group considers that default has occurred when a financial asset is more than 12 months past due unless the Target 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.

Write-off policy

The Target 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 Target 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 Target 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 Target Group in accordance with the contract and all the cash flows that the Target 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 Target 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 Target Group expects to receive from the holder, the debtor or any other party.

If the Target 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 Target 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 Target 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 for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

Derecognition of financial assets

The Target 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 Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target 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.

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 Target 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 Target Company's own equity instruments.

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.

Inventories

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

Cash and cash equivalents

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

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 Target Group operates.

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

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward 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:

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.

Government grants

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

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

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Target 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 Target 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:

- The customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;
- The Target Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- The Target Group' performance does not create an asset with an alternative use to the Target Group and the Target 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 liabilities

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration from the customer. A contract liability would also be recognised if the Target Group has an unconditional right to receive consideration before the Target 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 Target Group recognised revenue from the following major sources:

- Trading of aviation entire aircraft and parts
- Rendering of aviation maintenance services

Revenue is recognised when or as the Target 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 Target 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 Target Group performs; or
- do not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

For each performance obligation satisfied at a point in time, revenue is recognised when the customer obtains control of a promised asset and the Target 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 Target Group considers the following indicators:

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

Rental income

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

Interest income

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

Other employee benefits

Pension scheme

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

Termination benefits

The Target Group has recognised the termination benefit obligations as a liability. The Target 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.

Foreign currencies

These consolidated financial statements are presented in RMB, which is the Target Company functional currency. Each entity in the Target 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 Target 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).

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 4, the Target Group's directors are required to make judgements, estimates and assumptions about amounts of assets, liabilities, revenue and expenses reported and disclosures made in the financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

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

Classification between investment properties and owner-occupied properties

The Target 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 Target Group considers whether a property generates cash flows largely independently of the other assets held by the Target 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 Target 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

The Target 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. 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.

Depreciation and amortisation

The Target Group's management determines the estimated useful lives and related depreciation/amortisation charges for the property, plant and equipment, investment properties, land use rights and intangible assets with reference to the estimated periods that the Target 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 Target 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 Target 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 Target 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.

6. REVENUE AND SEGMENT INFORMATION

Revenue comprises income from sales of aviation products and rendering of services, net of sales related taxes and discounts during the year/period.

The following is an analysis of the Target Company's revenue during the Relevant Periods and nine months ended 30 September 2018.

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Disaggregation of revenue by type of revenue					
Sales of goods	12,806,504	10,593,607	14,052,116	8,745,816	8,080,043
Rendering of services	87,825	66,372	106,953	44,153	85,983
	12,894,329	10,659,979	14,159,069	8,789,969	8,166,026

All revenue is recognised at a point in time throughout Relevant Periods.

Transaction price allocated to the remaining performance obligations

During the three years ended 31 December 2016, 2017, 2018 and nine months ended 30 September 2018 and 2019, the aggregate amount of transaction price allocated to the performance obligations that are unsatisfied (or partially satisfied) are approximately RMB30,054,077,000, RMB25,129,113,000, RMB17,019,451,000, RMB22,704,823,000 and RMB27,481,003,000 respectively. The amounts represent revenue expected to be recognised in the future from sales contracts. The Target Group will recognise this revenue as the service is performed or the goods are delivered, which is expected to occur during the year ending:

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
2017	8,621,844	N/A	N/A	N/A	N/A
2018	5,977,860	9,535,590	N/A	3,426,775	N/A
2019	4,604,533	4,743,683	5,638,251	6,237,441	6,804,713
2020	6,907,840	6,907,840	6,907,840	8,102,553	10,219,480
2021	3,942,000	3,942,000	4,473,360	4,938,054	10,456,810
	30,054,077	25,129,113	17,019,451	22,704,823	27,481,003

The above amounts do not include variable consideration which is constrained.

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

The executive directors classify the business into two reportable segments:

– Trading of aviation entire aircraft and parts; and

– Rendering of aviation maintenance 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 Target 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.

	Trading of aviation entire aircraft and parts	Rendering of aviation maintenance services	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2016			
Segment Revenue			
Sales to external customers	12,810,706	115,213	12,925,919
Intersegment sales			(31,590)
			12,894,329
Segment profit	301,661	66,884	368,545
Interest income			70,733
Corporate and other unallocated expenses			(120,289)
Finance costs			(36,417)
Profit before tax			282,572

	Trading of aviation entire aircraft and parts	Rendering of aviation maintenance services	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017			
Segment Revenue			
Sales to external customers	10,597,345	62,634	10,659,979
Intersegment sales			–
			10,659,979
Segment profit	393,849	94,547	488,396
Interest income			74,076
Corporate and other unallocated expenses			(81,918)
Finance costs			(53,869)
Profit before tax			426,685

	Trading of aviation entire aircraft and parts	Rendering of aviation maintenance services	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2018			
Segment Revenue			
Sales to external customers	14,062,778	106,953	14,169,731
Intersegment sales			(10,662)
			14,159,069
Segment profit	256,402	217,741	474,143
Interest income			109,060
Corporate and other unallocated expenses			(141,233)
Finance costs			(57,152)
Profit before tax			384,818

	Trading of aviation entire aircraft and parts	Rendering of aviation maintenance services	Total
	RMB'000	*RMB'000*	*RMB'000*
Period ended 30 September 2018 (unaudited)			
Segment Revenue			
Sales to external customers	8,750,690	41,187	8,791,877
Intersegment sales			(1,908)
Revenue – external sales			8,789,969
Segment profit	243,603	190,587	434,190
Interest income			47,465
Corporate and other unallocated expenses			(129,533)
Finance costs			(41,498)
Profit before tax			310,624

	Trading of aviation entire aircraft and parts	Rendering of aviation maintenance services	Total
	RMB'000	*RMB'000*	*RMB'000*
Period ended 30 September 2019			
Segment Revenue			
Sales to external customers	8,088,094	77,932	8,166,026
Intersegment sales			–
			8,166,026
Segment profit	535,443	80,252	615,695
Interest income			147,794
Corporate and other unallocated expenses			(31,400)
Finance costs			(38,444)
Profit before tax			693,645

Segment assets and liabilities

The following is an analysis of the Target Group's assets and liabilities by reportable and operating segment:

Segment assets

	At 31 December			At 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trading of aviation entire aircraft and aviation parts and components	23,057,280	21,864,670	26,283,625	28,424,999
Rendering of aviation maintenance services	2,079,813	2,124,969	2,887,524	2,194,266
Total segment assets	25,137,093	23,989,639	29,171,149	30,619,265
Elimination of intersegment receivables	(19,935)	(38,251)	(736,905)	(92,360)
Total assets	25,117,158	23,951,388	28,434,244	30,526,905

Segment liabilities

	At 31 December			At 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trading of aviation entire aircraft and aviation parts and components	23,174,409	21,345,413	25,299,892	26,559,505
Rendering of aviation maintenance services	485,483	503,449	1,087,198	337,373
Total segment liabilities	23,659,892	21,848,862	26,387,090	26,896,878
Elimination of intersegment payables	(19,935)	(38,251)	(736,905)	(92,360)
Total liabilities	23,639,957	21,810,611	25,650,185	26,804,518

Other segment information

	Trading of aviation entire aircraft and aviation parts and components	Rendering of aviation maintenance services	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2016			
Share of profits of:			
Associates	37,040	56,125	93,165
Impairment losses recognised in the statement of profit or loss	3,383	51,874	55,257
Depreciation and amortisation	302,205	4,603	306,808
Investments in associates	929,263	1,530,243	2,459,506
Capital expenditure*	1,044,865	3,369	1,048,234

* Capital expenditure consists of additions to property, plant and equipment, investment properties, land use rights and intangible assets.

	Trading of aviation entire aircraft and aviation parts and components	Rendering of aviation maintenance services	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017			
Share of profits of:			
Associates	38,090	58,197	96,287
Impairment losses (reversed) recognised	(190)	(1,587)	(1,777)
Depreciation and amortisation	374,399	4,641	379,040
Investments in associates	735,554	1,573,242	2,308,796
Capital expenditure*	732,509	2,541	735,050

	Trading of aviation entire aircraft and aviation parts and components	Rendering of aviation maintenance services	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2018			
Share of profits of:			
Associates	35,480	68,334	103,814
Impairment losses (reversed) recognised	(51,359)	10	(51,349)
Depreciation and amortisation	421,968	5,000	426,968
Investments in associates	759,915	1,624,063	2,383,978
Capital expenditure*	557,455	5,091	562,546

* Capital expenditure consists of additions to property, plant and equipment, investment properties, land use rights and intangible assets.

	Trading of aviation entire aircraft and aviation parts and components	Rendering of aviation maintenance services	Total
	RMB'000	*RMB'000*	*RMB'000*
Period ended 30 September 2018 (unaudited)			
Share of profits of:			
Associates	22,568	39,144	61,712
Impairment losses (reversed) recognised	(46,314)	10	(46,304)
Depreciation and amortisation	301,157	6,001	307,158
Investments in associates	749,531	1,594,829	2,344,360
Capital expenditure*	320,541	325	320,866

	Trading of aviation entire aircraft and aviation parts and components *RMB'000*	Rendering of aviation maintenance services *RMB'000*	Total *RMB'000*
Period ended 30 September 2019			
Share of profits of:			
Associates	26,686	51,717	78,403
Impairment losses recognised	2,071	–	2,071
Depreciation and amortisation	315,458	4,358	319,816
Investments in associates	419,960	1,656,190	2,076,150
Capital expenditure*	333,032	5,069	338,101

* Capital expenditure consists of additions to property, plant and equipment, investment properties, land use rights and intangible assets.

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Target Group is as follow:

	Year ended 31 March			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Company A[1]	5,976,450	6,703,554	8,231,080	5,783,409	5,904,958
Company B[1]	1,454,112	N/A[2]	N/A[2]	971,172	832,433
Company C[1]	3,758,028	N/A[2]	2,132,009	N/A[2]	N/A[2]
Company D[1]	N/A[2]	1,531,140	N/A[2]	N/A[2]	N/A[2]
Company E[1]	N/A[2]	N/A	N/A[2]	902,069	N/A[2]

1 Revenue from Trading of aviation entire aircraft.

2 The corresponding revenue did not contribute over 10% of the total revenue of the Target Group.

7. OTHER INCOME AND GAINS

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Other income from contracts with customers					
Income from sale of materials	13,937	14,766	37,410	36,215	2,249
Cost from sale of materials	(12,304)	(12,499)	(33,749)	(31,256)	(2,172)
Profit from sale of materials	1,633	2,267	3,661	4,959	77
Income from rendering of other services	38,705	28,955	61,453	39,044	56,617
Total other income from contracts with customers	40,338	31,222	65,114	44,003	56,694
Other income from other sources					
Net rental income	5,049	13,408	14,329	1,843	10,206
	45,387	44,630	79,443	45,846	66,900
Other income from contracts with customers					
Gains					
Fair value gain on financial assets through profit or loss	–	–	–	–	15,111
Foreign exchange gains, net	–	–	2,179	1,044	867
Gain on disposal of:					
Interests in associates	–	257,775	510	–	362,353
Financial assets through profit or loss	–	–	86	–	570
Property, plant and equipment	–	–	2,050	–	–
Reversal of provision made in prior year *(note 27)*	–	–	120,904	120,904	21,233
Others	13,814	6,561	2,303	2,164	3,380
	13,814	264,336	128,032	124,112	403,514
Other income and gains	59,201	308,966	207,475	169,958	470,414

8. PROFIT BEFORE TAX

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

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Cost of inventories sold	11,925,036	10,101,537	13,470,412	8,364,106	7,527,668
Depreciation:					
Investment properties	3,370	3,310	3,494	3,013	2,289
Property, plant and equipment	285,895	362,962	410,698	294,679	307,221
Amortisation:					
Land use rights	14,636	9,844	9,908	7,202	8,094
Intangible assets	2,907	2,924	2,868	2,264	2,212
Research and development costs:					
Current year expenditure	1,216,777	1,525,287	1,737,170	943,355	513,155
Less: Government grants released*	(820,216)	(1,347,622)	(1,425,704)	(858,554)	(379,817)
	396,561	177,665	311,466	84,801	133,338

* 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.

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

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Auditors' remuneration	971	1,335	983	720	732
Employee benefit expense (including directors' and supervisors' remuneration):					
Wages, salaries, housing benefits and other allowances	53,347	39,382	50,366	19,692	69,337
Pension scheme contributions	65,130	62,800	56,030	48,260	28,270
Foreign exchange (gains) loss, net	11	781	(2,179)	(1,044)	(867)
Minimum lease payment in respect of rental premises	35,093	28,499	33,304	21,140	19,095
Loss on disposal of property, plant and equipment	930	2,138	–	363	393

9. FINANCE INCOME, NET

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Finance income					
Bank interest income	70,733	74,076	109,060	47,465	147,794
Finance costs					
Interest on bank borrowings and other borrowings	42,009	61,250	56,247	40,739	41,909
Less: Interest capitalised	(6,783)	(7,945)	–	–	(4,001)
Other financial costs	1,191	564	905	759	536
	36,417	53,869	57,152	41,498	38,444
Finance income, net	34,316	20,207	51,908	5,967	109,350

The interests were capitalised in construction in progress with bank borrowing interest rate of 4.13%-5.75%, 4.13%-5.75%, nil, 4.75% and nil respectively throughout the Relevant Periods and during nine months ended 30 September 2018.

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Salaries and allowances*	–	–	–	–	514

* The salaries of certain directors were born by ultimate holding company of the Target Company.

(a) Executive director and non-executive directors

	Fees	Salaries and allowances	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2016					
Executive director:					
Ji Lingfeng	–	–	–	–	–
Non-executive directors:					
Yu Feng	–	–	–	–	–
Zhao Xuesen	–	–	–	–	–
Lv Jie	–	–	–	–	–
Hu Xiaofeng	–	–	–	–	–
Luo Linsen	–	–	–	–	–
Liu Hui	–	–	–	–	–
Pei Jiali	–	–	–	–	–
Tian Xueying	–	–	–	–	–
	–	–	–	–	–

	Fees	Salaries and allowances	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2017					
Executive director:					
Ji Lingfeng	–	–	–	–	–
Non-executive directors:					
Yu Feng[2]	–	–	–	–	–
Zhao Xuesen	–	–	–	–	–
Lv Jie	–	–	–	–	–
Hu Xiaofeng[2]	–	–	–	–	–
Luo Linsen[2]	–	–	–	–	–
Liu Hui[2]	–	–	–	–	–
Pei Jiali[4]	–	–	–	–	–
Tian Xueying[2]	–	–	–	–	–
Zhang Xian[2]	–	–	–	–	–
DuJuan	–	–	–	–	–
Qu Jingwen[2]	–	–	–	–	–
Li Xueqin[2]	–	–	–	–	–
	–	–	–	–	–

	Fees *RMB'000*	Salaries and allowances *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
31 December 2018					
Executive director:					
Ji Lingfeng	–	–	–	–	–
Non-executive directors:					
Qu Jingwen	–	–	–	–	–
Zhao Xuesen	–	–	–	–	–
Lv Jie	–	–	–	–	–
Li Xueqin	–	–	–	–	–
Du Juan	–	–	–	–	–
Yang Baojun[4]	–	–	–	–	–
Pei Jiali[4]	–	–	–	–	–
Zhang Xian[5]	–	–	–	–	–
	–	–	–	–	–

	Fees *RMB'000*	Salaries and allowances *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
30 September 2018 (unaudited)					
Executive director:					
Ji Lingfeng	–	–	–	–	–
Non-executive directors:					
Qu Jingwen	–	–	–	–	–
Zhao Xuesen	–	–	–	–	–
Lv Jie	–	–	–	–	–
Li Xueqin	–	–	–	–	–
Du Juan	–	–	–	–	–
Pei Jiali	–	–	–	–	–
Zhang Xian	–	–	–	–	–
	–	–	–	–	–

	Fees	Salaries and allowances	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
30 September 2019					
Executive director:					
Ji Lingfeng	–	–	–	–	–
Non-executive directors:					
Qu Jingwen	–	–	–	–	–
Zhao Xuesen	–	–	–	–	–
Lv Jie	–	–	–	–	–
Li Xueqin	–	–	–	–	–
Chang Hongliang[5]	–	–	–	–	–
Du Juan	–	–	–	–	–
Zhang Xian[5]	–	–	–	–	–
Yang Baojun	–	514	–	–	514
	–	514	–	–	514

(b) Supervisors

	Fees	Salaries and allowances	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2016					
Supervisors:					
Ni Xianping	–	–	–	–	–
Chen Guanjun	–	–	–	–	–
Han Xiaoyang	–	–	–	–	–
Yin Honghai[1]	–	–	–	–	–
Zhao Weihua	–	–	–	–	–
Yang Zijiang	–	–	–	–	–
Yan Wei[1]	–	–	–	–	–
	–	–	–	–	–

	Fees	Salaries and allowances	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2017					
Supervisors:					
Ni Xianping[3]	–	–	–	–	–
Chen Guanjun[3]	–	–	–	–	–
Han Xiaoyang[3]	–	–	–	–	–
Zhao Weihua	–	–	–	–	–
Yang Zijiang	–	–	–	–	–
Yan Wei[1]	–	–	–	–	–
Hu Xiaofeng[3]	–	–	–	–	–
Xu Peihui[3]	–	–	–	–	–
Hong Bo[3]	–	–	–	–	–
	–	–	–	–	–

	Fees	Salaries and allowances	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 December 2018					
Supervisors:					
Zhao Weihua	–	–	–	–	–
Yang Zijiang	–	–	–	–	–
Yan Wei	–	–	–	–	–
Hu Xiaofeng	–	–	–	–	–
Xu Peihui	–	–	–	–	–
Hong Bo	–	–	–	–	–
	–	–	–	–	–

	Fees	Salaries and allowances	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
30 September 2018 (unaudited)					
Supervisors:					
Zhao Weihua	–	–	–	–	–
Yang Zijiang	–	–	–	–	–
Yan Wei	–	–	–	–	–
Hu Xiaofeng	–	–	–	–	–
Xu Peihui	–	–	–	–	–
Hong Bo	–	–	–	–	–
	–	–	–	–	–

	Fees	Salaries and allowances	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
30 September 2019					
Supervisors:					
Zhao Weihua	–	–	–	–	–
Yang Zijiang	–	–	–	–	–
Yan Wei[1]	–	–	–	–	–
Hu Xiaofeng[6]	–	–	–	–	–
Xu Peihui	–	–	–	–	–
Zhang Yanqun[6]	–	–	–	–	–
Hong Bo	–	–	–	–	–
	–	–	–	–	–

1 On 15 December 2016, Yan Wei was appointed as the new supervisor of the Target Company; Yin Honghai was resigned as supervisor of the Target Company.

2 On 2 June 2017, Qu Jingwen, Li Xueqin, Zhang Xian and Du Juan were appointed as the new non-executive directors of the Target Company; Yu Feng, Hu Xiaofeng, Luo Linsen, Liu Hui and Tian Xueying were resigned as the non- executive directors of the Target Company.

3 On 2 June 2017, Hu Xiaofeng, Xu Peihui and Hong Bo were appointed as the new supervisors of the Target Company; Ni Xianping, Chen Guanjun and Han Xiaoyang were resigned as the supervisors of the Target Company.

4 On 31 October 2018, Yang Baojun was appointed as the new non-executive director of the Target Company; Pei Jiali was resigned as the non-executive director of the Target Company.

5 On 9 May 2019, Chang Hongliang was appointed as the new non-executive director of the Target Company; Zhang Xian was resigned as the non-executive director of the Target Company.

6 On 30 August 2019, Zhang Yanqun was appointed as the new supervisors of the Target Company; Hu Xiaofeng was resigned as the supervisors of the Target Company.

11. FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2018, the five individuals whose remuneration were highest in the Target Group did not include any directors of the Target Company whose remuneration are set out in Note 10 above. For the period ended 30 September 2019, one was the director of the Target Company whose emoluments are set out in Note 10 above. The emoluments of the remaining individuals are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Salaries and allowances	1,901	1,811	2,470	2,092	1,875

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				
	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Nil to HK$1,000,000 (equivalent to approximately RMB896,000, RMB833,000, RMB840,000, RMB977,000 and RMB908,000 for the years ended 31 December 2016, 2017, 2018 and nine months ended 30 September 2018 and 2019 respectively)	5	5	5	5	4

12. INCOME TAX EXPENSES

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
PRC Enterprise Income Tax					
Current income tax	40,627	66,988	72,921	58,506	90,367
Deferred income tax *(note 19)*	1,952	46	104	(389)	1,716
Total tax charge for the year/period	42,579	67,034	73,025	58,117	92,083

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC enterprises is 25% during the Relevant Periods and the nine months ended 30 September 2018.

A subsidiary of Target Company is subject to corporate income tax at the rate of 25%, which was qualified as High and New Technology Enterprise and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the Relevant Periods and the nine months ended 30 September 2018.

The reconciliation between the Target Group's tax charge and the amount which is calculated based on the statutory tax rate of 25% in the PRC is as follows:

	Year ended 31 December			**Nine months ended 30 September**	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Profit before tax	282,572	426,685	384,818	310,624	693,645
Tax at the statutory tax rate of 25%	70,643	106,671	96,205	77,656	173,411
Lower tax rate(s) for specific provinces or enacted by local authorities	(17,275)	(26,089)	(5,663)	(4,400)	(37,921)
Tax effect of super deduction of research and development expenses *(Note a)*	(21,767)	(11,724)	(14,905)	(8,846)	(39,694)
Profits and losses attributable to associates	(23,291)	(24,072)	(25,954)	(15,428)	(19,601)
Expenses not deductible for tax	3,812	6,728	6,837	7,924	6,761
Tax losses utilised from previous periods	(4,334)	(5,798)	–	–	–
Tax losses not recognised	33,265	18,731	7,635	–	2,348
Others	1,526	2,587	8,870	1,211	6,779
Tax charge at the Target Group's effective rate	42,579	67,034	73,025	58,117	92,083

Note a: According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year ("Super Deduction"). The Target Group has made its best estimate for the Super Deduction to be claimed for the Target Group's entities in ascertaining their assessable profits for the Relevant Periods ended and nine months ended 30 September 2018.

13. DIVIDEND

No dividend was paid or proposed during the Relevant Periods, nor has any dividend been proposed since the end of the reporting period.

14. PROPERTY, PLANT AND EQUIPMENT

2016	Construction in progress	Buildings	Plant and equipment	Furniture, fixtures, other equipment and motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
As at 1 January 2016	739,844	956,640	774,910	867,040	3,338,434
Additions	832,064	–	205,496	9,932	1,047,492
Transfer upon completion	(783,221)	510,358	268,143	4,720	–
Disposal/write-off	–	(41,539)	(36,217)	(53,163)	(130,919)
Transfer to investment properties	–	(87,346)	–	–	(87,346)
As at 31 December 2016	788,687	1,338,113	1,212,332	828,529	4,167,661
Accumulated depreciation and impairment					
As at 1 January 2016	–	(234,199)	(315,075)	(388,995)	(938,269)
Depreciation	–	(57,155)	(127,158)	(101,582)	(285,895)
Disposal/write-off	–	24,931	4,047	8,976	37,954
Transfer to investment properties	–	38,461	–	–	38,461
As at 31 December 2016	–	(227,962)	(438,186)	(481,601)	(1,147,749)
Net book value					
As at 31 December 2016	788,687	1,110,151	774,146	346,928	3,019,912

2017	Construction in progress	Buildings	Plant and equipment	Furniture, fixtures, other equipment and motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
As at 1 January 2017	788,687	1,338,113	1,212,332	828,529	4,167,661
Additions	641,459	–	2,001	91,190	734,650
Transfer upon completion	(910,425)	302,934	509,820	97,671	–
Disposal/write-off	–	(24,721)	(12,206)	(52,623)	(89,550)
Transfer from investment properties	–	1,981	–	–	1,981
Transfer to investment properties	–	(3,183)	–	–	(3,183)
As at 31 December 2017	519,721	1,615,124	1,711,947	964,767	4,811,559
Accumulated depreciation and impairment					
As at 1 January 2017	–	(227,962)	(438,186)	(481,601)	(1,147,749)
Depreciation	–	(52,923)	(175,444)	(134,595)	(362,962)
Disposal/write-off	–	10,774	1,463	11,974	24,211
Transfer from investment properties		(908)	–	–	(908)
Transfer to investment properties	–	1,335	–	–	1,335
As at 31 December 2017	–	(269,684)	(612,167)	(604,222)	(1,486,073)
Net book value					
As at 31 December 2017	519,721	1,345,440	1,099,780	360,545	3,325,486

2018	Construction in progress	Buildings	Plant and equipment	Furniture, fixtures, other equipment and motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
As at 1 January 2018	519,721	1,615,124	1,711,947	964,767	4,811,559
Additions	266,536	3,183	19,664	273,163	562,546
Transfer upon completion	(532,082)	234,952	297,130	–	–
Disposal/write off	(14,695)	(124,723)	(15,705)	(173,483)	(328,606)
Transfer from investment properties	–	1,436	–	–	1,436
As at 31 December 2018	239,480	1,729,972	2,013,036	1,064,447	5,046,935
Accumulated depreciation and impairment					
As at 1 January 2018	–	(269,684)	(612,167)	(604,222)	(1,486,073)
Depreciation	–	(80,676)	(182,372)	(147,650)	(410,698)
Disposal/write off	–	11,466	7,939	14,469	33,874
Transfer from investment properties	–	(480)	–	–	(480)
As at 31 December 2018	–	(339,374)	(786,600)	(737,403)	(1,863,377)
Net book value					
As at 31 December 2018	239,480	1,390,598	1,226,436	327,044	3,183,558

2019.9	**Construction in progress** *RMB'000*	**Buildings** *RMB'000*	**Plant and equipment** *RMB'000*	**Furniture, fixtures, other equipment and motor vehicles** *RMB'000*	**Total** *RMB'000*
Cost					
As at 1 January 2019	239,480	1,729,972	2,013,036	1,064,447	5,046,935
Additions	241,332	–	70,035	23,465	334,832
Transfer upon completion	(227,884)	145,858	78,384	3,642	–
Disposal/write-off	(9,384)	(49,135)	(2,762)	(13,745)	(75,026)
Transfer to investment properties	–	(35)	–	–	(35)
As at 30 September 2019	243,544	1,826,660	2,158,693	1,077,809	5,306,706
Accumulated depreciation and impairment					
As at 1 January 2019	–	(339,374)	(786,600)	(737,403)	(1,863,377)
Depreciation	–	(62,723)	(146,238)	(98,260)	(307,221)
Elimination on disposal/write-off	–	–	6,115	13,937	20,052
Transfer to investment properties	–	20	–	–	20
As at 30 September 2019	–	(402,077)	(926,723)	(821,726)	(2,150,526)
Net book value					
As at 30 September 2019	243,544	1,424,583	1,231,970	256,083	3,156,180

15. INVESTMENT PROPERTIES

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Carrying amount at 1 January	11,345	75,700	70,395	61,157
Depreciation	(3,370)	(3,310)	(3,494)	(2,289)
Transfer from property, plant and equipment	48,885	1,848	–	15
Transfer from land use rights	18,840	–	–	2
Transfer to property, plant and equipment	–	(1,073)	(956)	–
Transfer to land use rights	–	(2,770)	(4,788)	–
Carrying amount at 31 December, 30 September	75,700	70,395	61,157	58,885
At valuation	135,933	132,668	122,800	122,800

16. LAND USE RIGHTS

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Cost				
As at 1 January	531,278	502,753	507,220	515,653
Additions	20	–	–	3,269
Transfer from investment properties	–	4,467	8,433	–
Transfer to investment properties	(28,545)	–	–	(9)
As at 31 December, 30 September	502,753	507,220	515,653	518,913
Accumulated amortisation				
As at 1 January	(144,922)	(149,853)	(161,394)	(174,947)
Amortisation	(14,636)	(9,844)	(9,908)	(8,094)
Transfer from investment properties	–	(1,697)	(3,645)	–
Transfer to investment properties	9,705	–	–	7
As at 31 December, 30 September	(149,853)	(161,394)	(174,947)	(183,034)
Net book amount				
As at 31 December, 30 September	352,900	345,826	340,706	335,879

17. OTHER INTANGIBLE ASSETS

Technology know-how

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Cost				
As at 1 January	28,322	29,044	29,444	29,444
Additions	722	400	–	–
As at 31 December, 30 September	29,044	29,444	29,444	29,444
Accumulated amortisation and impairment				
As at 1 January	(8,687)	(11,594)	(14,518)	(17,386)
Amortisation	(2,907)	(2,924)	(2,868)	(2,212)
As at 31 December, 30 September	(11,594)	(14,518)	(17,386)	(19,598)
Net book amount				
As at 31 December, 30 September	17,450	14,926	12,058	9,846

18. INVESTMENTS IN ASSOCIATES

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Share of net assets, as at 1 January	2,399,663	2,459,506	2,308,796	2,383,978
Share of profit for the year	93,165	96,287	103,814	78,403
Disposal (note)	–	(220,891)	(2,550)	(356,867)
Dividend declared	(31,581)	(29,282)	(26,148)	(29,178)
Share of other comprehensive income of associates	(1,741)	3,176	66	(186)
Share of net assets, as at 31 December, 30 September	2,459,506	2,308,796	2,383,978	2,076,150

Note:

(i) During the year ended 31 December 2017, the Target Group disposed 0.89910%, 0.10009% and 0.89910% equity interest of 中航直升機股份有限公司 in the stock market at cash consideration of approximately RMB224,232,000, RMB26,904,000 and RMB245,928,000 respectively. Gain of RMB257,775,000, net of direct expenses of RMB18,398,000 was recognised in other income and gain.

(ii) During the year ended 31 December 2018, the Target Group disposed 26% equity interest of江西昌恒航空科技有限公司 to an independent third party at a cash consideration of RMB3,066,000. Gain of RMB510,000, net of direct expenses of RMB6,000 was recognized in other income and gain.

(iii) During the nine months ended 30 September 2019, the Target Group disposed 3% equity interest of中航直升機股份有限公司 to an independent third party to exchange富國中證軍工龍頭交易型開放性指數證券投資基金 (the "Trust"), which is listed at Shanghai stock exchange, PRC. The total consideration of the disposal is RMB719,220,000. The Trust is recognised as financial asset at fair value through profit or loss. Gain of RMB362,353,000 are included other income and gain.

As at 31 December 2016, 2017, 2018 and 30 September 2019, the Target Group had interests in the following material associates:

Name of entity	Form of entity	Country of incorporation	Place of operation	Proportion of ownership interests held by the Target Group (%)				Proportion of voting power held (%)				Principal activity
				As at 31 December			As at 30 September	As at 31 December			As at 30 September	
				2016	2017	2018	2019	2016	2017	2018	2019	
江西昌恒航空科技有限公司*(Note i)*	Incorporated	PRC	PRC	26.00	26.00	–	–	26.00	26.00	–	–	Manufacture, development and sale of aviation products
景德鎮昌河航空設備技術有限責任公司	Incorporated	PRC	PRC	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	Research, development, design, manufacture and sale of aero products, including parts and components
江西昌海航空零部件製造有限公司	Incorporated	PRC	PRC	28.00	28.00	28.00	28.00	28.00	28.00	28.00	28. 00	Research, development, design, manufacture and sale of aero products, including parts and components
上海西科斯基飛機有限公司	Incorporated	PRC	PRC	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	Research and manufacture of helicopters and components, and production, sale and maintenance services
中航直升機股份有限公司*(Note ii)*	Incorporated	PRC	PRC	20.93	19.03	19.03	16.03	20.93	19.03	19.03	16.03	Research, development, design, manufacture and sale of aero products, including parts and components

Note:

(i) The Target Group disposed the interests in 江西昌恒航空科技有限公司 on 17 October 2018.

(ii) Although the Target Company holds less than 20% of the equity interests and voting rights in 中航直升機股份有限公司, it is deemed to have significant influence since the equity interests held by other shareholdings are dispersed.

The following table shows information on the associates that is material to the Target Group. These associates are accounted for in the Historical Financial Information of the Target Group using the equity method. The summarised financial information presented is based on the IFRS financial statements of the associates.

江西昌恒航空科技有限公司

	As at 31 December			**As at 30 September**
	2016	**2017**	**2018**	**2019**
% of ownership interests/voting rights held by the Target Groups	26.00%	26.00%	–	–
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	277	3,732	–	–
Current assets	14,259	7,162	–	–
Current liabilities	(4,870)	(1,084)	–	–
Net assets	9,666	9,810	–	–
The Target Groups' share of net assets	2,513	2,550	–	–
The Target Groups' share of carrying amount of interests	2,513	2,550	–	–

	Year ended 31 December			**Nine months ended 30 September**	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	3,327	9,475	–	4,255	–
(Loss) profit and total comprehensive income	(28)	144	–	103	–

景德鎮昌河航空設備技術有限責任公司

	As at 31 December 2016	2017	2018	As at 30 September 2019
% of ownership interests/voting rights held by the Target Groups	30.00%	30.00%	30.00%	30.00%
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	25,383	23,163	22,658	23,591
Current assets	17,466	15,303	9,952	8,314
Non-current liabilities	(10,161)	(11,160)	(9,613)	(10,217)
Current liabilities	(25,158)	(19,923)	(11,249)	(9,277)
Net assets	7,530	7,383	11,748	12,411
The Target Groups' share of net assets	2,259	2,215	3,525	3,723
Others	–	–	(314)	–
The Target Groups' share of carrying amount of interests	2,259	2,215	3,211	3,723

	Year ended 31 December 2016	2017	2018	Nine months ended 30 September 2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	19,041	21,814	28,721	22,554	14,394
Profit and total comprehensive income	3,874	3,220	3,320	4,386	663
Dividends received from the associate	–	900	–	–	–

	江西昌海航空零部件製造有限公司			
	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
% of ownership interests/voting rights held by the Target Groups	28.00%	28.00%	28.00%	28.00%
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	18	25	10	15
Current assets	30,707	30,875	31,149	31,458
Current liabilities	(272)	(452)	(569)	(674)
Net assets	30,453	30,448	30,590	30,799
The Target Groups' share of net assets	8,527	8,525	8,565	8,624
The Target Groups' share of carrying amount of interests	8,527	8,525	8,565	8,624

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	781	550	962	275	1,127
Profit (loss) and total comprehensive income	62	(5)	142	11	232

上海西科斯基飛機有限公司

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
% of ownership interests/voting rights held by the Target Groups	21.00%	21.00%	21.00%	21.00%
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	9,094	10,348	7,344	6,281
Current assets	35,625	36,028	64,118	44,851
Non-current liabilities	(2,096)	(2,540)	–	–
Current liabilities	(4,951)	(6,570)	(31,637)	(7,386)
Net assets	37,672	37,266	39,825	43,746
The Target Groups' share of net assets	7,911	7,826	8,363	9,187
Share of other comprehensive income	1,350	1,520	1,838	1,838
The Target Groups' share of carrying amount of interests	9,261	9,346	10,201	11,025

	Year ended 31 December			Nine months ended 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	22,129	31,196	24,665	15,743	42,044
Profit and total comprehensive income	406	2,072	2,153	1,815	3,921

	中航直升機股份有限公司			
	As at 31 December			As at 30 September
	2016	2017	2018	2019
% of ownership interests/voting rights held by the Target Groups	20.93%	19.03%	19.03%	16.03%
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	3,508,435	3,533,333	3,298,337	3,198,554
Current assets	16,317,281	18,968,037	20,736,787	21,239,778
Non-current liabilities	(686,688)	(735,130)	(727,945)	(756,265)
Current liabilities	(12,065,070)	(14,247,140)	(15,289,401)	(15,395,960)
Net assets	7,073,958	7,519,100	8,017,778	8,286,107
The Target Groups' share of net assets	1,480,579	1,430,885	1,525,783	1,328,263
Fair value adjustment	956,367	855,275	836,218	724,515
The Target Groups' share of carrying amount of interests	2,436,946	2,286,160	2,362,001	2,052,778

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	12,521,514	12,048,109	13,065,514	8,185,519	10,528,816
Profit and total comprehensive income	431,261	472,062	510,693	298,661	398,684
Dividends received from the associate	31,581	28,382	26,148	26,148	29,178

19. DEFERRED TAX

The movements in deferred tax assets during the Relevant Periods are as follows:

	Impairment of accounts and other receivable
	RMB'000
At 1 January 2016	6,170
Deferred tax charged to profit or loss during the year	(1,952)
At 31 December 2016 and 1 January 2017	4,218
Deferred tax charged to profit or loss during the year	(46)
At 31 December 2017 and 1 January 2018	4,172
Deferred tax charged to profit or loss during the year	(104)
At 31 December 2018 and 1 January 2019	4,068
Deferred tax credited to profit or loss during the period	549
At 30 September 2019	4,617

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

	As at 31 December			**As at 30 September**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Deductible temporary differences	180,520	177,825	122,431	122,266
Tax losses not recognised	428,611	418,713	401,189	410,580

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

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
2017	51,167	–	–	–
2018	81,719	43,063	–	–
2019	44,619	44,619	44,619	44,619
2020	118,047	118,047	118,047	118,047
2021	133,059	133,059	133,059	133,059
2022	–	79,925	74,925	74,925
2023	–	–	30,539	30,539
2024	–	–	–	9,391
	428,611	418,713	401,189	410,580

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.

The movement in deferred tax liabilities during the Relevant Periods:

	Fair value change of the financial assets through profit or loss
	RMB'000
At 1 January 2016, 2017 and 2018 and 31 December 2018	–
Deferred tax charged to profit or loss during the period	2,265
At 30 September 2019	2,265

20. INVENTORIES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Raw materials	173,259	247,304	334,065	534,979
Work in progress	1,439,576	1,855,882	3,118,988	7,058,913
	1,612,835	2,103,186	3,453,053	7,593,892

21. ACCOUNTS AND NOTES RECEIVABLES

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Accounts receivables				
– Fellow subsidiaries	219,197	78,151	120,836	169,491
– Others	938,514	232,625	858,705	107,128
Accounts receivable, gross	1,157,711	310,776	979,541	276,619
Loss allowance	(3,879)	(1,397)	(1,043)	(1,283)
Accounts receivable, net	1,153,832	309,379	978,498	275,336
Notes receivables				
– Fellow subsidiaries	30,570	52,300	89,950	98,760
– Others	1,416	1,411	1,909	4,302
	31,986	53,711	91,859	103,062
Accounts and notes receivables	1,185,818	363,090	1,070,357	378,398

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

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Within 1year	1,035,640	218,743	787,467	178,092
1 to 2 years	53,881	29,880	71,123	22,535
2 to 3 years	49,170	51,724	54,115	10,850
Over 3 years	15,141	9,032	65,793	63,859
	1,153,832	309,379	978,498	275,336

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

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
At beginning of year	1,542	3,879	1,397	1,043
Impairment losses recognised (reversed)	2,337	(1,382)	(354)	240
Amount written off as uncollectible	–	(1,100)	–	–
	3,879	1,397	1,043	1,283

The Target 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 Target Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9.

Accounts receivables were collateralised by the titles of the products sold.

At 31 December 2016, 2017, 2018 and 30 September 2019, accounts receivables were denominated in RMB.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Advances to suppliers				
– Ultimate holding company	–	284	284	284
– Fellow subsidiaries	9,069,750	11,642,066	10,239,673	7,614,581
– Others	258,577	67,651	142,248	67,696
Dividends receivable				
– Associates	–	900	–	–
Prepayments and deposits				
– Others	4,409	2,279	4,851	6,989
Other advances				
– Others	256,877	582,913	571,454	744,119
Prepayment of construction in progress				
– Others	36,145	4,373	125,812	87,435
Other receivables				
– Ultimate holding company	160	1,330	1,479	1,595
– Fellow subsidiaries	342,640	114,249	86,390	195,066
– Others	51,492	75,454	6,866	13,026
	10,020,050	12,491,499	11,179,057	8,730,791
Less: Non-current portion	(415,903)	(679,616)	(735,925)	(868,446)
	9,604,147	11,811,883	10,443,132	7,862,345

The movements in loss allowance for impairment of other receivables are as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
At beginning of year	231,199	178,510	178,115	127,117
Impairment loss recognised (reversed)	52,920	(395)	(50,995)	1,831
Amount written off as uncollectable	(105,609)	–	(3)	–
	178,510	178,115	127,117	128,948

The assessments on ECL of other receivables and deposits are set out in note 37.

23. CONTRACT LIABILITIES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Trading of aviation entire aircraft and parts	16,296,750	15,514,807	19,096,772	20,777,621
Rendering of aviation maintenance services	8,234	6,600	10,594	46,866
Advance from customers	16,304,984	15,521,407	19,107,366	20,824,487
Current	16,304,984	15,521,407	19,107,366	20,824,487
Ultimate holding company	–	–	86,402	86,402
Fellow subsidiaries	29,817	17,851	9,745	21,669
Others	16,275,167	15,503,556	19,011,219	20,716,416
	16,304,984	15,521,407	19,107,366	20,824,487

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at FVTPL include:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Financial listed securities – quoted and listed in PRC	–	–	–	734,331

25. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Cash and bank balances	6,368,769	2,924,012	6,746,252	7,447,936
Less: Pledged deposits	(330,007)	(258,522)	(188,691)	(230,750)
Cash and cash equivalents	6,038,762	2,665,490	6,557,561	7,217,186

At the end of the reporting period, the cash and bank balances of the Target Group were denominated in RMB and USD (see details in note 37). 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 Target 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 three months depending on the immediate cash requirements of the Target 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 2016, 2017, 2018 and 30 September 2019, approximately RMB6,165,582,000, RMB2,793,677,000, RMB6,598,857,000, and RMB7,205,491,000 was deposited in AVIC Finance Co, Ltd., a fellow subsidiary of the Target Company.

26. ACCOUNTS AND NOTES PAYABLES

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Accounts payables *(Note (a))*				
– Fellow subsidiaries	1,096,701	652,135	753,333	743,907
– Related parties	–	–	1,699	39
– Others	500,142	702,691	1,076,197	1,048,532
	1,596,843	1,354,826	1,831,229	1,792,478
Notes payables				
– Fellow subsidiaries	1,048,605	395,063	267,572	298,027
– Others	60,072	234,023	514,954	494,364
	1,108,677	629,086	782,526	792,391
	2,705,520	1,983,912	2,613,755	2,584,869

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:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Within 1 year	1,325,183	1,040,903	1,600,313	1,459,324
1 to 2 years	146,408	134,387	37,789	155,627
2 to 3 years	46,120	94,757	41,900	33,912
Over 3 years	79,132	84,779	151,227	143,615
	1,596,843	1,354,826	1,831,229	1,792,478

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

27. OTHER PAYABLES AND ACCRUALS

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

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Wages, salaries, bonuses and other employee benefits	1,024,063	893,068	886,735	914,631
Accrued expenses				
– Others	3,105	3,120	3,248	3,115
Consumption tax, business tax and other taxes payable	14,409	33,589	12,891	45,569
Other advances from				
– Non-controlling interests of a subsidiary	215,180	215,180	215,180	–
– Others	1,390,625	1,407,042	1,213,662	1,153,209
Provision *(Note (a))*	298,575	298,575	177,671	–
Deferred income from government grants	1,191	1,891	2,525	2,525
Interest payable	3,107	3,119	3,249	16,769
Other payables				
– Fellow subsidiaries	108,904	22,234	15,191	7,999
– Others	213,570	260,681	292,703	258,194
	3,272,729	3,138,499	2,823,055	2,402,011
Less: non-current portion *(Note (b))*	(878,220)	(747,880)	(779,900)	(771,750)
	2,394,509	2,390,619	2,043,155	1,630,261

Note (a): The balance represents the provision made for the financial guarantee granted to 中航惠騰風電設備股份有限公司, a fellow subsidiary of the Target Company, to guarantee bank borrowing. Prior to 1 January 2016, the guarantee went bankrupt and under liquidation progress. Thus, full provision was provided. In the year ended 2018, the liquidation progress completed, RMB120,904,000 and RMB21,233,000 of the bank loan was recovered by the selling proceed of asset of guarantee sold in 2018 and 2019 respectively. The recovered amount was recognised in other income.

Note (b): The Target Group operates unfunded termination benefit plans (the "Plans") for qualifying employees of Target Group.

The Plan exposes the Target Group to actuarial risks, such as interest rate risk, longevity risk and salary risk.

Interest rate risk	A decrease in the bond interest rate will increase the plan liability.
Longevity risk	The present value of the termination benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the termination benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

Amounts recognised in profit or loss or other comprehensive income in respect of the Plan is as follows:

	As at 31 December			As at 30 September	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Net interest expense	28,460	27,310	30,700	23,430	19,750
Total amounts recognised in profit or loss	28,460	27,310	30,700	23,430	19,750
Remeasurement of defined benefit liability:					
Actuarial (gains)/losses arising from changes in experience adjustments	(150)	(90,060)	55,479	20,120	370
Total amounts recognised in other comprehensive income	(150)	(90,060)	55,479	20,120	370
Total defined benefit costs	28,310	(62,750)	86,179	43,550	20,120

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of the Plans is as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Present value of unfunded defined benefit obligation	945,110	815,480	842,110	834,060
Net liability arising from defined benefit obligation	945,110	815,480	842,110	834,060
Less: current portion (included in wages, salaries, bonuses and other employee benefits)	(66,890)	(67,600)	(62,210)	(62,310)
Non-current porting	878,220	747,880	779,900	771,750

Movements in the present value of the funded defined benefit obligations were as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
At beginning of the year	987,010	945,110	815,480	842,110
Current service cost	–	–	–	–
Interest cost	28,460	27,310	30,700	19,750
Remeasurements:				
Actuarial (gains) loss arising from changes in experience adjustments	(150)	(90,060)	55,479	370
Benefits paid	(70,210)	(66,880)	(59,549)	(28,170)
At the end of the year	945,110	815,480	842,110	834,060

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	As at 31 December 2016			As at 31 December 2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank borrowings – unsecured	4%-5%	2017	52,600	4%-5%	2018	92,800
Other borrowings – unsecured	–	–	–	4.35%	2018	2,000
Current portion of long-term bank borrowings – unsecured	4.14%-5.75%	2017	181,200	1.08%-2.65%	2018	608,000
			233,800			702,800
Non-current						
Bank borrowings – unsecured	1.78%-5.2%	2018-2019	1,028,000	5.2%	2019	345,000
			1,261,800			1,047,800

	As at 31 December 2018			As at 30 September 2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank borrowings – unsecured	3.92%	2019	170,000	–	–	–
Other borrowings – unsecured	4.35%	2019	9,800	4.61%	2020	24,500
Current portion of long-term Bank borrowings – unsecured	5.20%	2019	345,000	5.20%	26/10/2019	345,000
			524,800			369,500
Non-current						
Bank borrowings – unsecured	2.65%-4.75%	2020-2021	505,000	2.65%-4.75%	2020-2022	525,000
			1,029,800			894,500

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Analysed into:				
Bank borrowings repayable:				
– Within one year	233,800	700,800	515,000	345,000
– In the second year	683,000	137,000	400,000	400,000
– In the third to fifth year, inclusive	345,000	208,000	105,000	125,000
	1,261,800	1,045,800	1,020,000	870,000
Other borrowings repayable *(note a)*:				
– Within one year	–	2,000	9,800	24,500

Notes (a): As at 31 December 2017 and 2018 and 30 September 2019, other borrowings represented unsecured and unguaranteed borrowings granted by a non-controlling interests of a subsidiary with amount RMB2,000,000, RMB9,800,000 and RMB24,500,000 respectively bearing interest at 4.35%, 4.35% and 4.61% per annum respectively and repayable within one year.

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

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Bank borrowings				
– Fixed rates (1.08% – 5.75%)	1,261,800	1,045,800	1,020,000	870,000
Other borrowings				
– Fixed rates (4.35% – 4.61%)	–	2,000	9,800	24,500

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:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Weighted average effective interest rates				
– Bank borrowings	3.61%	3.445%	3.94%	3.96%
– Other borrowings	–	4.35%	4.35%	4.61%

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

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Guarantees provided by				
– Entities within the Target Group	1,326	3,774	–	–
– Non-controlling interests	150,000	75,000	–	–
– Related parties	134,274	136,626	–	–
	285,600	215,400	–	–

All guarantees were released during the year ended 31 December 2018.

29. DEFERRED INCOME FROM GOVERNMENT GRANTS

Movements of deferred income from government grants for each of the years ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2019 are as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
At 1 January	72,132	64,085	65,402	65,357
Additions	32,578	29,541	25,433	36,907
Amortisation	(40,625)	(28,224)	(25,478)	(41,194)
At 31 December	64,085	65,402	65,357	61,070
Less: Current portion *(note 27)*	(1,191)	(1,891)	(2,525)	(2,525)
	62,894	63,511	62,832	58,545

30. SHARE CAPITAL

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Registered, issued and fully paid domestic shares of RMB1 each:				
At the beginning and end of the year/period	5,610,332	5,610,332	5,610,332	5,610,332

31. RESERVES

The amounts of the Target 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 Target Group mainly includes reserves arising from capital contributions from shareholder and disposals to non-controlling interests without change in control.

(b) Fair value reserve

Fair vale reserve represents the change in fair value of defined benefit scheme granted to employee.

(c) Other reserve

Other reserve represents safety reserve. Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Target 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 the year ended 31 December 2016, 2017, 2018 and the period ended 30 September 2018, 2019, approximately RMB29,329,000, RMB32,935,000, RMB26,158,000, RMB21,526,000 and RMB17,110,000 were appropriated to the special reserve respectively, and approximately RMB4,419,000, RMB5,750,000, RMB2,039,000, RMB605,000 and RMB408,000 were utilised.

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

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

Percentage of equity interest held by non-controlling interests

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
哈爾濱飛機工業集團有限責任公司	2.11%	2.11%	10.21%	10.21%
哈爾濱哈飛航空維修工程有限公司	40.00%	40.00%	40.00%	–
天津中航錦江航空維修工程有限責任公司	49.00%	49.00%	49.00%	49.00%
昌河飛機工業(集團)有限責任公司	–	–	47.96%	47.96%

Profit for the year allocated to non-controlling interests

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
哈爾濱飛機工業集團有限責任公司	2,983	5,017	(130)	32,822
哈爾濱哈飛航空維修工程有限公司	275	370	379	–
天津中航錦江航空維修工程有限責任公司	299	(4,858)	(6,742)	(1,690)
昌河飛機工業(集團)有限責任公司	–	–	(6,166)	94,529

Accumulated balances of non-controlling interests at the reporting date

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
哈爾濱飛機工業集團有限責任公司	110,292	146,062	1,936	377,197
哈爾濱哈飛航空維修工程有限公司	4,836	5,206	5,585	–
天津中航錦江航空維修工程有限責任公司	21,471	16,612	9,870	8,180
昌河飛機工業(集團)有限責任公司	407,315	588,005	674,868	769,377

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

31 December 2016	**哈爾濱飛機工業集團有限責任公司**	**哈爾濱哈飛航空維修工程有限公司**	**天津中航錦江航空維修工程有限責任公司**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	4,532,112	58,976	29,192
Profit for the year	162,473	687	611
Total comprehensive income for the year	161,945	687	611
Current assets	2,924,939	57,738	45,552
Non-current assets	2,326,024	1,694	7,557
Current liabilities	3,078,608	47,342	9,290
Non-current liabilities	2,391,455	–	–
Net cash flows (used in) from operating activities	(721,764)	13,461	(15,470)
Net cash flows used in investing activities	(197,106)	(273)	(2,302)
Net cash flows (used in) from financing activities	(29,988)	–	15,074
Effect of foreign exchange rate changes, net	–	–	–
Net income (decrease) increase in cash and cash equivalents	(948,857)	13,188	(2,698)

31 December 2017	哈爾濱飛機工業集團有限責任公司	哈爾濱哈飛航空維修工程有限公司	天津中航錦江航空維修工程有限責任公司
	RMB'000	*RMB'000*	*RMB'000*
Revenue	2,781,923	54,106	9,079
Profit for the year	245,894	924	(9,915)
Total comprehensive income for the year	281,567	924	(9,915)
Current assets	1,816,848	79,649	57,245
Non-current assets	2,376,277	3,045	6,678
Current liabilities	1,778,949	69,680	29,731
Non-current liabilities	2,322,737	–	–
Net cash flows (used in) from operating activities	(31,549)	(2,822)	(12,000)
Net cash flows from (used in) investing activities	280,339	(119)	(752)
Net cash flows (used in) from financing activities	(126,676)	–	8,466
Net income increase (decrease) in cash and cash equivalents	122,114	(2,942)	(4,286)

31 December 2018	哈爾濱飛機工業集團有限責任公司	哈爾濱哈飛航空維修工程有限公司	天津中航錦江航空維修工程有限責任公司	昌河飛機工業(集團)有限責任公司
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	3,293,370	74,730	32,223	11,005,709
Profit for the year	49,555	947	(13,761)	205,408
Total comprehensive income for the year	(252,324)	947	(13,761)	164,458
Current assets	3,430,372	110,461	101,972	17,192,516
Non-current assets	2,569,475	5,223	6,595	3,126,275
Current liabilities	4,137,432	101,722	88,057	18,469,929
Non-current liabilities	1,832,725	–	–	880,857
Net cash flows from (used in) operating activities	803,395	2,729	(28,124)	3,087,213
Net cash flows used in investing activities	(212,657)	(2,795)	(2,539)	(436,519)
Net cash flows (used in) from financing activities	(178,006)	–	35,749	189,516
Net income increase in cash and cash equivalents	412,732	(66)	5,086	2,840,210

30 September 2019	哈爾濱飛機工業集團有限責任公司	哈爾濱哈飛航空維修工程有限公司	天津中航錦江航空維修工程有限責任公司	昌河飛機工業(集團)有限責任公司
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	518,037	35,801	42,178	7,704,792
Profit for the year	327,012	102	(3,449)	206,185
Total comprehensive income for the year	326,496	102	(3,449)	206,185
Current assets	7,303,647	153,176	130,507	16,389,121
Non-current assets	2,259,564	5,402	7,977	2,576,885
Current liabilities	7,373,340	144,514	121,286	16,823,953
Non-current liabilities	1,494,084	–	–	958,282
Net cash flows from (used in) operating activities	588,075	25,318	(7,031)	1,286,627
Net cash flows used in investing activities	(65,618)	(1,132)	(1,751)	(169,711)
Net cash flows (used in) from financing activities	(184,089)	–	3,143	(9,090)
Net income increase (decrease) in cash and cash equivalents	338,367	24,185	(5,639)	1,107,826

33. OPERATING LEASE COMMITMENTS

As lessee

The Target Group had total commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Land and buildings				
Within one year	–	–	–	2,483

Note:

Commitments disclosed for as at 31 December 2016, 2017 and 2018 represent future minimum lease payments under non-cancellable operating leases as defined under IAS 17.

Operating lease commitment as at 30 September 2019 represents only the short-term leases expiring within 12 months.

As lessor

Rental income earned for the years ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2018 and 2019 were RMB5,049,000, RMB13,408,000, RMB14,329,000, RMB1,843,000 and RMB10,206,000 respectively. The properties are expected to generate rental yields of 35%, 42%, 57% and 42% as at 31 December 2016, 2017, 2018 and 30 September 2019 respectively on an ongoing basis. All of the properties held have committed tenants for the next 1 year.

At the end of the reporting period, the Target Group had contracted with tenants for the following future minimum lease payments:

				As at
		As at 31 December		**30 September**
Within one year	**2016**	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Land and buildings	75,700	70,395	61,157	58,885
Plant and equipment	115,156	98,814	84,178	70,155
Furniture, fixtures, other equipment and motor vehicles	12,917	7,251	3,689	1,907
	203,773	176,460	149,024	130,947

34. RELATED PARTY DISCLOSURES

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Target 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 Target Group is of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

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

		As at 31 December			As at 30 September	
		2016	**2017**	**2018**	**2018**	**2019**
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Fellow subsidiaries:	*(1), (2)*					
Sales of products		16,070	182,254	122,456	118,652	250,973
Purchases of products		8,028,672	10,089,415	24,269,058	8,053,397	10,706,601
Rendering of service		80,382	68,956	235,933	62,944	135,240
Service fee payable		2,418	23,254	216,276	3,391	30,777
Rental expense		1,399	1,481	2,704	1,722	4,500
Rental income		33,729	35,851	32,001	34,584	25,085
Guarantee		853,618	852,292	952,292	952,292	612,460
Other financial services (interest income)		62,083	67,109	105,222	45,435	145,688
Other financial services (interest expense)		31,845	26,403	23,826	19,624	15,221
Related parties	*(2), (3)*					
Sales of products		–	–	103	–	–
Purchases of products		–	–	11,448	–	14,110
Non-controlling interests of subsidiaries						
Interest expense		–	10	407	299	322

Notes:

(1) Fellow subsidiaries are companies whose are controlled by the same ultimate holding company, Aviation Industry Corporation of China.

(2) In the opinion of the directors of the Target Company, the above transactions were carried out in the ordinary course of the Target Group's business and were determined based on mutually agreed terms as follows:

Purchases of goods and materials, and rendering 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.

Guarantees

Guarantees are provided by related parties for the subsidiaries of the Target Company to obtain borrowings.

(3) Related parties are companies whose are jointly controlled/significant influenced by the same ultimate holding company.

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Assets:				
Accounts receivable				
– Fellow subsidiaries	219,197	78,151	120,836	169,491
Notes receivable				
– Fellow subsidiaries	30,570	52,300	89,950	98,760
Advance to suppliers				
– Ultimate holding company	–	284	284	284
– Fellow subsidiaries	9,069,750	11,642,066	10,239,673	7,614,581
Other receivables and prepayments				
– Ultimate holding company	160	1,330	1,479	1,595
– Fellow subsidiaries	342,640	114,249	86,390	195,066
Deposits				
– Fellow subsidiaries	6,165,582	2,793,677	6,598,857	7,205,491
Liabilities:				
Accounts payable				
– Fellow subsidiaries	1,096,701	652,135	753,333	743,907
– Related parties	–	–	1,699	39
Notes payable				
– Fellow subsidiaries	1,048,605	395,063	267,572	298,027
Contract liabilities				
– Ultimate holding company	–	–	86,402	86,402
-Fellow subsidiaries	29,817	17,851	9,745	21,669
Other payables and accruals				
– Fellow subsidiaries	108,904	22,234	15,191	7,999
Borrowings				
– Fellow subsidiaries	528,000	528,000	515,000	345,000
– Non-controlling interests of a subsidiary	–	2,000	9,800	24,500

35. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Accounts and notes receivables	1,185,818	363,090	1,070,357	378,398
Financial assets included in prepayments, deposits and other receivables	355,716	133,087	33,137	138,844
Pledged deposits	330,007	258,522	188,691	230,750
Cash and cash equivalents	6,038,762	2,665,490	6,557,561	7,217,186
Financial assets at fair value through profit or loss	–	–	–	734,331
	7,910,303	3,420,189	7,849,746	8,699,509

Financial liabilities

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Accounts and notes payables	2,705,520	1,983,912	2,613,755	2,584,869
Financial liabilities included in other payables and accruals	689,710	219,162	636,407	689,711
Interest-bearing bank and other borrowings	1,261,800	1,047,800	1,029,800	894,500
	4,657,030	3,250,874	4,279,962	4,169,080

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value hierarchy

Some of the financial assets are measured at fair value as at 31 December 2016, 2017, 2018 and 30 September 2019. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis of financial instruments that are measured at fair value as at 31 December 2016, 2017, 2018 and 30 September 2019 for recurring measurement.

	At 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	Level 1	**Level 1**	**Level 1**	**Level 1**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets at fair value through profit or loss				
– PRC listed fund	–	–	–	734,331

The fair value of listed fund is determined with reference to quoted market bid prices from relevant stock exchanges.

There was no transfer between Levels 1, 2 and 3 during the Relevant Periods and 30 September 2019.

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values which are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise accounts and notes receivables, deposits and other receivables, pledged deposits, financial assets at fair value through profit and loss, accounts and notes payable, other payables and accruals, Interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target 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 Target 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 Target Group's major operating subsidiaries have foreign currency sales and purchases, which expose the Target Group to foreign currency risk. The Target 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 Target Group's exposure to foreign currency risk relates to its bank balances denominated in foreign currencies other than the functional currency of relevant group entity.

The carrying amounts of the Target Group's material foreign currency denominated monetary assets as at 31 December 2016, 2017 and 2018 and 30 September 2019 are as follows:

	Assets			
		At 31 December		**As at 30 September**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD	1,687	6,205	3,399	6,536

Sensitivity analysis

The following table details the Target Group's sensitivity to a 10% increase and decrease in RMB against the relevant foreign currencies for the Relevant Periods. 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% against the relevant currency for the Relevant Periods. 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.

	Profit or loss			
		At 31 December		**As at 30 September**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
USD	127	465	255	490

Interest-rate risk

The Target Group's income and operating cash flows are substantially independent of changes in market interest rates and the Target Group has no significant interest-bearing assets except for the cash and bank balances, details of which have been disclosed in note 25.

Price risk

The Target Group is principally exposed to equity securities price risk in respect of investments held by the Target Group which are classified as financial assets at fair value through profit or loss. All these financial assets are publicly traded in recognised stock exchanges. At 30 September 2019, if the quoted market price of these financial assets at fair value through profit or loss/held for trading held by the Target Group had increased/decreased by 10%, with all other variables held constant, post tax profit for the year and fair value reserve would have been approximately RMB62,418,000 higher/lower as a result of the changes in fair value of these financial assets.

There was no financial asset at fair value through profit or loss as at 31 December 2016, 2017 and 2018.

Credit risk

The Target Group has significant related party balances with low credit risk, and for the balances with third parties, the Target Group has no significant concentrations of credit risk. As at Relevant Periods and 30 September 2019, the Target Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Target Group performs periodic credit evaluations of its customers. Normally, the Target 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 Target 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 Target Company are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

The Target 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 Target Company consider that the Target Group's credit risk is significantly reduced.

For other receivables, the Target 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 Target 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 Target Group has tasked its operation management committee to develop and maintain the Target Group's credit risk grading to categories 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 Target Group's own trading records to rate its major customers and other debtors. The Target 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.

The Target 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 Target Group has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Target Group's financial assets as well as the Target Group's maximum exposure to credit risk by credit risk rating grades

At 31 December 2016	**External credit rating**	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
				RMB'000	*RMB'000*	*RMB'000*
Accounts and notes receivables	N/A	Performing	12-month ECL	1,189,697	(3,879)	1,185,818
Financial assets included in prepayments, deposits and other receivables	N/A	Performing	12-month ECL	534,226	(178,510)	355,716
					(182,389)	

At 31 December 2017	**External credit rating**	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
				RMB'000	*RMB'000*	*RMB'000*
Accounts and notes receivables	N/A	Performing	12-month ECL	364,487	(1,397)	363,090
Financial assets included in prepayments, deposits and other receivables	N/A	Performing	12-month ECL	311,202	(178,115)	133,087
					(179,512)	

At 31 December 2018	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
				RMB'000	*RMB'000*	*RMB'000*
Accounts and notes receivables	N/A	Performing	12-month ECL	1,071,400	(1,043)	1,070,357
Financial assets included in prepayments, deposits and other receivables	N/A	Performing	12-month ECL	160,254	(127,117)	33,137
					(128,160)	

At 30 September 2019	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
				RMB'000	*RMB'000*	*RMB'000*
Accounts and notes receivables	N/A	Performing	12-month ECL	379,680	(1,283)	378,397
Financial assets included in prepayments, deposits and other receivables	N/A	Performing	12-month ECL	267,792	(128,948)	138,844
					(130,231)	

The Target Group's concentration of credit risk by geographical locations is in PRC, which accounted for 100% of the total accounts and notes receivables and financial assets included in prepayments, deposits and other receivables as at 31 December 2016, 2017, 2018 and 30 September 2019.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. The Target 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 Target 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 2016, 2017, 2018 and 30 September 2019, the net current liabilities of the Target Group amounted to approximately RMB2,899,274,000, RMB3,452,049,000, RMB2,588,659,000, and RMB1,430,056,000 respectively. Management monitors regularly the Target 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 directors believe that the Target 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 Target Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31 December 2016					
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accounts and notes payables	2,705,520	–	–	–	2,705,520	2,705,520
Interest-bearing bank and other borrowings	269,530	1,073,307	–	–	1,342,837	1,261,800
Financial liabilities included in other payables and accruals	689,710	–	–	–	689,710	689,710
	3,664,760	1,073,307	–	–	4,738,067	4,657,030

	31 December 2017					
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accounts and notes payables	1,983,912	–	–	–	1,983,912	1,983,912
Interest-bearing bank and other borrowings	734,173	359,900	–	–	1,094,073	1,047,800
Financial liabilities included in other payables and accruals	219,162	–	–	–	219,162	219,162
	2,937,247	359,900	–	–	3,297,147	3,250,874

	31 December 2018					
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accounts and notes payables	2,613,755	–	–	–	2,613,755	2,613,755
Interest-bearing bank and other borrowings	561,713	524,626	–	–	1,086,339	1,029,800
Financial liabilities included in other payables and accruals	636,407	–	–	–	636,407	636,407
	3,811,875	524,626	–	–	4,336,501	4,279,962

	30 September 2019					
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accounts and notes payables	2,584,869	–	–	–	2,584,869	2,584,869
Interest-bearing bank and other borrowings	388,401	527,333	–	–	915,734	894,500
Financial liabilities included in other payables and accruals	689,711	–	–	–	689,711	689,711
	3,662,981	527,333	–	–	4,190,314	4,169,080

Capital management

The Target Group's objectives for managing capital are to safeguard the Target 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 Target Group's overall strategy remains unchanged from prior year.

In order to maintain or adjust the capital structure, the Target 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 Target 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 2016, 2017, 2018 and 30 September 2019 were as follows:

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
Total borrowings *(Note 28)*	1,261,800	1,047,800	1,029,800	894,500
Total assets	25,117,158	23,951,388	28,434,244	30,526,905
Gearing ratio	5.02%	4.37%	3.62%	2.93%

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Interest-bearing bank and other borrowings
	RMB'000
Balance at 1 January 2016	1,328,000
Financing cash flows	(66,200)
Balance at 31 December 2016 and 1 January 2017	1,261,800
Financing cash flows	(214,000)
Balance at 31 December 2017 and 1 January 2018	1,047,800
Financing cash flows	(18,000)
Balance at 31 December 2018 and 1 January 2019	1,029,800
Financing cash flows	(135,300)
Balance at 30 September 2019	894,500

39. STATEMENT OF FINANCIAL POSITION OF THE TARGET COMPANY

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

	As at 31 December			As at 30 September
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)	(Audited)
NON-CURRENT ASSETS				
Property, plant and equipment	225	137	55	520
Other intangible assets	16,567	13,767	10,967	8,867
Investments in subsidiaries	1,160,159	1,160,159	1,182,307	1,182,307
Investments in associates	1,530,243	1,573,242	1,624,064	1,656,190
Prepayments, deposits and other receivables	1,550	–	–	–
Total non-current assets	2,708,744	2,747,305	2,817,393	2,847,884
CURRENT ASSETS				
Accounts and notes receivables	2,278	–	–	–
Prepayments, deposits and other receivables	61,744	68,548	71,483	55,852
Cash and cash equivalents	354,666	322,660	956,705	175,775
Total current assets	418,688	391,208	1,028,188	231,627
TOTAL ASSETS	3,127,432	3,138,513	3,845,581	3,079,511
CURRENT LIABILITIES				
Accounts and notes payables	14,463	1,664	1,316	1,282
Other payables and accruals	359,488	347,475	891,204	65,362
Interest-bearing bank and other borrowings	50,000	50,000	–	–
Contract liabilities	4,900	4,900	4,900	4,900
Tax payable	–	–	–	28
Total current liabilities	428,851	404,039	897,420	71,572
TOTAL LIABILITIES	428,851	404,039	897,420	71,572
Net assets	2,698,581	2,734,474	2,948,161	3,007,939
EQUITY				
Share capital	5,610,332	5,610,332	5,610,332	5,610,332
Reserves	(2,911,751)	(2,875,858)	(2,662,171)	(2,602,393)
Total equity	2,698,581	2,734,474	2,948,161	3,007,939

40. PARTICULAR OF SUBSIDIARIES OF THE TARGET COMPANY

Details of the Target Company's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place and date of incorporation or registration/ operation	Issued and fully paid/ registered capital	Percentage of equity interest attributable to the Target Group: At 31 December 2016	2017	2018	At 30 September 2019	At the date of this report	Principal activities
		RMB'000	%	%	%	%	%	
Directly held subsidiaries								
天津中航錦江航空維修工程有限責任公司	PRC	60,000	51%	51%	51%	51%	51%	Repairing of aviation products
哈爾濱飛機工業集團有限責任公司	PRC	1,184,959	97.89%	97.89%	89.79%	89.79%	89.79%	Sale of aviation products
昌河飛機工業(集團)有限責任公司	PRC	442,592	100%	100%	52.04%	52.04%	52.04%	Sale of aviation products
Indirectly held subsidiary								
哈爾濱哈飛航空維修工程有限公司	PRC	5,000	60%	60%	60%	100%	100%	Repairing of aviation products

Notes:

All subsidiaries now comprising the Target Group are limited liability companies and have adopted 31 December as their financial year end date. Auditors for the statutory financial statements of these subsidiaries for the Relevant Periods were 中審眾環會計師事務所(特殊普通合夥) for the years ended 31 December 2016, 2017 and 瑞華會計師事務所 (特殊普通合夥) for the year ended 31 December 2018.

41. CONTINGENT LIABILITIES

The Target Group has issued guarantees in respect of banking facilities granted to fellow subsidiaries in aggregate of approximately RMB387,460,000 for the Relevant Periods.

42. MAJOR NON-CASH TRANSACTIONS

Other than those disclosed in consolidated statement change in equity and in note 18 in respect of disposal of an associate, there are no other material non-cash transaction.

43. EVENT AFTER THE REPORTING PERIOD

There was no subsequent event that needs to be disclosed or adjusted by the Target Group as at the date of this report.

44. SUBSEQUENT FINANCIAL STATEMENTS

As at the date of the report, no additional financial statement has been prepared by Target Company and its subsidiaries in respect of any period subsequent to 30 September 2019.

Yours faithfully,

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

*Set out below is the management discussion and analysis on the Target Group for each of the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 (the "**Reporting Period**"). The following financial information is based on the accountants' report of the Target Group as set out in Appendix II to this circular.*

A. OVERVIEW

The Target Group includes AVIC Helicopter and its subsidiaries. AVIC Helicopter is a limited liability company incorporated in the PRC and is mainly engaged in research and development, production, sales and maintenance of helicopters, other aircrafts and aviation components. There are four subsidiaries of AVIC Helicopter in operation, namely Harbin Aircraft, Changhe Aircraft, Tianjin AVIC Jin Jiang Aviation Maintenance Engineering Co., Ltd.* (天津中航錦江航空維修工程有限責任公司) and Harbin Hafei Aviation Maintenance Engineering Co., Ltd.* (哈爾濱哈飛航空維修工程有限公司).

B. OPERATING RESULTS OF THE TARGET GROUP

B.1 Revenue

The Target Group generates revenue from two main segments, namely (i) sale of aviation entire aircraft and parts, and (ii) provision of aviation maintenance service.

- With respect to the sale of aviation entire aircraft and parts segment, the Target Group provides to its customers various kinds and types of helicopters and aircraft as well as parts and components. The Target Group generated most of its revenue from the sale of aviation entire aircraft and parts segment in the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019 with an amount of RMB12,810.7 million, RMB10,597.3 million, RMB14,062.8 million, RMB8,750.7 million and RMB8,088.1 million, respectively, before deducting intersegments sales. The Target Group expects that this business segment will continue to contribute the majority part of the revenue of the Target Group in the future.

- With respect to the provision of aviation maintenance service segment, the services that the Target Group provides to its customers primarily include daily maintenance services and specific remodelling services of aircraft. In the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019, the Target Group generated revenue of RMB115.2 million, RMB62.6 million, RMB107.0 million, RMB41.2 million and RMB77.9 million, respectively, before deducting intersegments sales. The Target Group expects that the revenue generated from this business segment will further increase in the future due to enlarged demands for maintenance services.

The Target Group recorded revenue of RMB12,894.3 million, RMB10,660.0 million, RMB14,159.1 million, RMB8,790.0 million and RMB8,166.0 million for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019,

* *for identification purpose only.*

respectively. The fluctuation in the revenue of the Target Group during the Reporting Period was primarily due to the fluctuation in the number of orders received from the specific clients of the Target Group.

B.2 Cost of sales

The cost of sales of the Target Group primarily comprised material costs, labour costs and depreciation costs of fixed assets.

The Target Group recorded cost of sales of RMB11,992.8 million, RMB10,159.9 million, RMB13,571.7 million, RMB8,396.3 million and RMB7,789.9 million for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019, respectively. The fluctuation in the cost of sales of the Target Group during the Reporting Period was in accordance with the fluctuations in the revenue of the Target Group, which was primarily due to the fluctuations in the number of orders received.

B.3 Other income and gains, net

The other income and gains, net of the Target Group primarily comprised profits or gains generated from sales of raw materials, provision of labour services and disposal of equity interest by the Target Group.

The Target Group recorded other income and gains, net of RMB57.5 million, RMB305.2 million, RMB206.1 million, RMB168.6 million and RMB469.2 million for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019, respectively. The fluctuation of the other income and gains, net of the Target Group during the Reporting Period was primarily due to the fact that the Target Group recorded gains on disposal of equity interest in associates for the year ended 31 December 2017 and for the nine months ended 30 September 2019. The other income and gains, net of the Target Group increased from approximately RMB57.5 million for the year ended 31 December 2016 to approximately RMB305.2 million for the year ended 31 December 2017. The other income and gains, net of the Target Group decreased to approximately RMB206.1 million for the year ended 31 December 2018 as compared to RMB305.2 million for the year ended 31 December 2017. The other income and gains, net of the Target Group increased to approximately RMB469.2 million for the nine months ended 30 September 2019 as compared to RMB168.6 million for the nine months ended 30 September 2018.

B.4 Administrative expenses

The administrative expenses of the Target Group primarily comprised employee salaries, research and development expenses, amortisation costs of intangible assets, travel expenses and other costs and expenses.

The Target Group recorded administrative expenses of RMB744.7 million, RMB495.3 million, RMB610.1 million, RMB361.3 million and RMB335.3 million for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019, respectively. Due to the fluctuation in the research and development expenses of the Target Group during the Reporting Period, the administrative expenses of the Target Group fluctuated correspondingly during the Reporting Period. The administrative expenses of the Target Group decreased from approximately RMB744.7 million for the year ended 31 December 2016 to approximately RMB495.3 million for the year ended 31 December 2017. The administrative expenses of the Target Group increased to approximately RMB610.1 million for the year ended 31 December 2018 as compared to RMB495.3 million for the year ended 31 December 2017. The administrative expenses of the Target Group decreased to approximately RMB335.3 million for the nine months ended 30 September 2019 as compared to RMB361.3 million for the nine months ended 30 September 2018.

B.5 Finance income, net

The finance income, net of the Target Group is calculated by deducting finance costs from the finance income. The finance income of the Target Group primarily consisted of bank interest income, and the finance costs of the Target Group primarily consisted of interest on bank borrowings and other borrowings and other financial costs.

The Target Group recorded finance income, net of RMB34.3 million, RMB20.2 million, RMB51.9 million, RMB6.0 million and RMB109.4 million for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019, respectively. The finance income, net of the Target Group decreased from approximately RMB34.3 million for the year ended 31 December 2016 to approximately RMB20.2 million for the year ended 31 December 2017 mainly due to the increase in interest expenses in 2017 as compared to that in 2016. The finance income, net of the Target Group increased from approximately RMB20.2 million for the year ended 31 December 2017 to approximately RMB51.9 million for the year ended 31 December 2018 mainly due to the increase in bank interest income generating from the increased bank balance. The finance income, net of the Target Group significantly increased from approximately RMB6.0 million for the nine months ended 30 September 2018 to approximately RMB109.4 million for the nine months ended 30 September 2019 mainly due to the increase in bank interest income generating from the increased bank balance.

B.6 Profit for the year/period

The Target Group recorded profit for the year/period of RMB240.0 million, RMB359.7 million, RMB311.8 million, RMB252.5 million and RMB601.6 million for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019, respectively. The fluctuation of the profit for the year/period of the Target Group during the Reporting Period was primarily due to the fact that the Target Group recorded gains on disposal of equity interest in associates for the year ended 31 December 2017 and for the nine months ended 30 September 2019. The profit for the year of the Target Group increased from approximately RMB240.0 million for the year ended 31 December 2016 to approximately RMB359.7 million for the year ended 31 December 2017. The profit for the year of the Target Group decreased to approximately RMB311.8 million for the year ended 31 December 2018 as compared to RMB359.7

million for the year ended 31 December 2017. The profit for the period of the Target Group increased to approximately RMB601.6 million for the nine months ended 30 September 2019 as compared to RMB252.5 million for the nine months ended 30 September 2018.

C. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target Group had total current assets of RMB18,771.6 million, RMB17,202.2 million, RMB21,712.8 million and RMB24,016.9 million, respectively, which mainly comprised inventories, accounts and notes receivables as well as prepayments, deposits and other receivables.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target Group had total current liabilities of RMB21,670.8 million, RMB20,654.2 million, RMB24,302.5 million and RMB25,447.0 million, respectively, which mainly comprised accounts and notes payables, other payables and accruals as well as interest-bearing bank and other borrowings.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target Group had cash and cash equivalent of RMB6,038.8 million, RMB2,665.5 million, RMB6,557.6 million and RMB7,217.2 million, respectively. The Target Group recorded relatively small amount of cash and cash equivalent as at 31 December 2017 primarily due to the less revenue recorded in 2017.

As at the end of the Reporting Period, the substantial part of the cash and bank balances of the Target Group were denominated in RMB.

The Target Group historically met its liquidity requirement through a combination of the cash flow generated from its daily operation and short-term and long-term borrowings. The primary liquidity requirements of the Target Group are to finance working capital, fund the payment of interest and principal due on its indebtedness and fund capital expenditures and growth and expansion of its operations.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Target Group had interest-bearing bank and other borrowings of RMB1,261.8 million, RMB1,047.8 million, RMB1,029.8 million and RMB894.5 million, respectively, with an annual effective interest rate for bank borrowings of 3.61%, 3.445%, 3.94% and 3.96%, respectively. As at 31 December 2017 and 2018 and 30 September 2019, other borrowings of the Target Group represented unsecured and unguaranteed borrowings with an amount of RMB2,000,000, RMB9,800,000 and RMB24,500,000, respectively, bearing interest at 4.35%, 4.35% and 4.61% per annum respectively and repayable within one year. As at 31 December 2016, 2017 and 2018 and 30 September 2019, the interest-bearing bank and other borrowings of the Target Group were all borrowings with fixed interest rates. The long-term and short-term borrowings of the Target Group were all denominated in RMB.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the gearing ratio of the Target Group (being total borrowings over the total assets) was approximately 5%, 4%, 4% and 3%, respectively.

The objective of the treasury policies of the Target Group is to minimise risks. The Target Group adopts a prudent treasury policy towards its overall business operation and manages as well as monitors its financial risk exposures to ensure that appropriate measures are implemented on a timely and effective manner.

D. FOREIGN EXCHANGE EXPOSURE

The exposure of the Target Group to foreign currency risk relates to its bank balances denominated in foreign currencies. The carrying amounts of the material monetary assets denominated in foreign currency of the Target Group as at 31 December 2016, 2017 and 2018 and 30 September 2019 were approximately RMB1.7 million, RMB6.2 million, RMB3.4 million and RMB6.5 million.

For illustrative purpose only, if the foreign currency exchange rate increased or decreased by 10% during the Reporting Period, with all other variables held constant, the profit for the year/period of the Target Group for the year ended 31 December 2016, 2017 and 2018 and the nine months 30 September 2019 would have decreased or increased by approximately RMB0.1 million, RMB0.5 million, RMB0.3 million and RMB0.5 million, respectively.

Since the monetary assets of the Target Group denominated in foreign currency only accounted for a very small portion of the total assets of the Target Group, the fluctuation in foreign currency exchange rate only had limited impact on the results of the Target Group. The management of the Target Group will continue to monitor the foreign exchange exposure and implement appropriate measures if necessary.

E. CAPITAL COMMITMENT

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Targeted Group had no capital commitment.

F. CHARGE OF ASSETS

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Targeted Group did not have any charges over assets.

G. CONTINGENT LIABILITIES

As at 30 September 2019, the Target Group had issued guarantee in respect of banking facilities amounting to approximately RMB387,460,000 granted to fellow subsidiaries.

H. MATERIAL INVESTMENT, ACQUISITION AND DISPOSALS

For the year ended 31 December 2016, 2017 and 2018 and the nine months 30 September 2019, the Target Group did not have any material acquisition, disposals or significant investment. The Target Group has no future plan of material investments or capital assets in the coming year after the Proposed Acquisition.

I. EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2019, the Target Group had 3,186 employees.

The Target Group recruits, employs, promotes and remunerates its employees based on their qualifications, experience, skills, performances and contributions. Remuneration is also determined with reference to, among others, the market trend. Other benefits provided by the Target Group include but not limited to social insurance and housing fund. The Target Group has implemented various programs for staff training and development as well. For the year ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 and 2019, the Target Group incurred employment benefit expenses of approximately RMB118.5 million, RMB102.2 million, RMB106.4 million, RMB68.0 million and RMB97.6 million, respectively.

J. PROSPECTS

The Target Group is mainly engaged in aviation entire aircraft products, parts and components business and aviation maintenance services. The core product of the Target Group is aviation defence equipment. Upon completion of the Proposed Acquisition, the Target Group will continue to carry forward aviation defence equipment tasks and give full play to the industrial synergy with the Company, thus promoting the operating efficiency and profitability of the Group. The Target Group has no specific future plan for material investments or capital assets as at the Latest Practicable Date.

Please refer to the accountants' report of Target Group for the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 set out in Appendix II to this circular for further details of the financial information of the Target Group.

* *for identification purpose only.*

BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

In connection with the proposed major and connected transaction in relation to the proposed acquisition of the entire equity interest in AVIC Helicopter Co., Ltd. (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") (the "**Proposed Acquisition**") by AviChina Industry & Technology Company Limited (the "**Company**") and its subsidiaries (together with the Company hereinafter referred to as the "**Group**") (together with the Target Group hereinafter referred to as the "**Enlarged Group**") the unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared to illustrate the effect of the Proposed Acquisition on the Group's financial position as at 30 June 2019 as if the Proposed Acquisition had taken place on 30 June 2019.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on (i) the information on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2019 which has been extracted from the published interim report of the Group for the period ended 30 June 2019; and (ii) the information on the audited consolidated statement of financial position of the Target Company as at 30 September 2019, which has been extracted from the accountants' report set out in Appendix II to this circular.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared by the directors of the Company in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and is solely for the purpose to illustrate the financial position of the Enlarged Group as if the Proposed Acquisition had taken place on 30 June 2019.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described below in the accompanying notes that are (i) directly attributable to the Proposed Acquisition; and (ii) factually supportable.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared by the directors of the Company based on certain assumptions and estimates and for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed as at 30 June 2019 or at any future dates.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT 30 SEPTEMBER 2019

	The Group as at 30 June 2019	The Target Group as at 30 September 2019	Pro forma adjustments			Sub total	Pro forma adjustments		The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3a)*	*(Note 3b)*	*(Note 3c)*		*(Note 4)*	*(Note 5)*	
Non-current assets									
Property, plant and equipment	15,095,668	3,156,180	–	–	–	–	–	–	18,251,848
Right-of-uses assets	129,133	–	–	–	–	–	–	–	129,133
Investment properties	355,528	58,885	–	–	–	–	–	–	414,413
Land use rights	1,636,915	335,879	–	–	–	–	–	–	1,972,794
Goodwill	69,122	–	–	–	–	–	–	–	69,122
Other intangible assets	553,074	9,846	–	–	–	–	–	–	562,920
Investments in joint ventures	142,100	–	–	–	–	–	–	–	142,100
Interests in associates	1,086,119	2,076,150	–	–	(2,052,778)	(2,052,778)	–	–	1,109,491
Financial assets at fair value through other comprehensive income	1,444,520	–	–	–	–	–	–	–	1,444,520
Other non-current financial assets	6,600	–	–	–	–	–	–	–	6,600
Deferred tax assets	340,411	4,617	–	–	–	–	–	–	345,028
Prepayments, deposits and other receivables	1,703,814	868,446	–	–	–	–	–	–	2,572,260
Contract assets	708,404	–	–	–	–	–	–	–	708,404
	23,271,408	6,510,003	–	–	(2,052,778)	(2,052,778)	–	–	27,728,633
Current assets									
Inventories	24,751,084	7,593,892	–	–	–	–	–	–	32,344,976
Accounts and notes receivables	21,305,477	378,398	–	–	–	–	19,650	–	21,703,525
Prepayments, deposits and other receivables	3,691,730	7,862,345	–			–	(7,795,667)	–	3,758,408
Contract assets	2,345,892	–	–	–	–	–	–	–	2,345,892
Financial assets at fair value through profit or loss ("FVTPL")	435,487	734,331	–	–	–	–	–	–	1,169,818
Pledged deposits	648,489	230,750	–	–	–	–	–	–	879,239
Term deposits with initial terms of over three months	1,753,882	–	–	–	–	–	–	–	1,753,882
Cash and cash equivalents	8,210,669	7,217,186	–	–	–	–	–	(19,129)	15,408,726
	63,142,710	24,016,902	–	–	–	–	(7,776,017)	(19,129)	79,364,466

	The Group as at 30 June 2019	The Target Group as at 30 September 2019	Pro forma adjustments			Sub total	Pro forma adjustments		The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3a)*	*(Note 3b)*	*(Note 3c)*		*(Note 4)*	*(Note 5)*	
Current liabilities									
Accounts and notes payables	25,200,048	2,584,869	–	–	–	–	(7,782,140)	–	20,002,777
Other payables and accruals	3,757,063	1,630,261	–	–	–	–	6,048	–	5,393,372
Interest-bearing bank and other borrowings	8,372,562	369,500	–	–	–	–	–	–	8,742,062
Liabilities arising from sale and leaseback	60,495	–	–	–	–	–	–	–	60,495
Contract liabilities	5,796,304	20,824,487	–	–	–	–	75	–	26,620,866
Lease liabilities	31,750	–	–	–	–	–	–	–	31,750
Tax payable	173,814	37,841	–	–	–	–	–	–	211,655
	43,392,036	25,446,958	–	–	–	–	(7,776,017)	–	61,062,977
Net current assets	19,750,674	(1,430,056)	–	–	–	–	–	(19,129)	18,301,489
	43,022,082	5,079,947	–	–	(2,052,778)	(2,052,778)	–	(19,129)	46,030,122
Capital and reserves									
Share capital	6,245,122	5,610,332	1,500,669	–	(5,610,332)	(4,109,663)	–	–	7,745,791
Reserves	11,061,192	(3,042,699)	4,186,868	1,154,754	(77,205)	5,264,417	–	(19,129)	13,263,781
Equity attributable to owners of the Company	17,306,314	2,567,633	5,687,537	1,154,754	(5,687,537)	1,154,754	–	(19,129)	21,009,572
Non-controlling interests	18,585,065	1,154,754	–	(1,154,754)	(2,052,778)	(3,207,532)	–	–	16,532,287
Total equity	35,891,379	3,722,387	5,687,537	–	(7,740,315)	(2,052,778)	–	(19,129)	37,541,859
Non-current liabilities									
Interest-bearing bank and other borrowings	1,775,475	525,000	–	–	–	–	–	–	2,300,475
Deferred income from government grants	820,691	58,545	–	–	–	–	–	–	879,236
Deferred tax liabilities	52,991	2,265	–	–	–	–	–	–	55,256
Convertible bonds	3,058,707	–	–	–	–	–	–	–	3,058,707
Liabilities arising from sale and leaseback	442,850	–	–	–	–	–	–	–	442,850
Contract liabilities	300	–	–	–	–	–	–	–	300
Lease liabilities	96,274	–	–	–	–	–	–	–	96,274
Other payables and accruals	883,415	771,750	–	–	–	–	–	–	1,655,165
	7,130,703	1,357,560	–	–	–	–	–	–	8,488,263
	43,022,082	5,079,947	5,687,537	–	(7,740,315)	(2,052,778)	–	(19,129)	46,030,122

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP:

1. The financial information of the Group is extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2019 as set out in the published interim report of the Company for the six months ended 30 June 2019.

2. These figures are extracted from the audited consolidation statement of financial position of the Target Group as at 30 September 2019 which is set out in Appendix II to the Circular.

3(a). Pursuant to the Transfer Agreement, the aggregate consideration is RMB5,687,537,000, subject to price adjustment upon the completion of the Proposed Acquisition. The Company proposes to issue 1,500,669,000 shares of the Company at a price of RMB3.79 per share to settle the consideration. The number of shares to be issued is subject to finalisation of consideration upon the completion of the Proposed Acquisition.

3(b). The adjustment represented the proposed acquisition of the remaining equity interest of subsidiaries directly held by Aviation Industry Corporation of China ("AVIC"), ultimate holding company of the Company, pursuant to the Transfer Agreement. At 30 September, 2019, AVIC directly held 47.96%, 10.21% and 49% equity interest of 昌河飛機工業(集團)有限責任公司, 哈爾濱飛機工業集團有限責任公司 and 天津中航錦江航空維修工程有限責任公司 respectively. It was recognised as non-controlling interests in audited consolidated statement of financial position of the Target Group as at 30 September 2019 which is set out in Appendix II to the Circular. The consideration is included in the aggregate consideration set out in note 3(a) above. The carrying amount of non-controlling interest directly held by AVIC, amounting to approximately RMB1,154,754,000 (extracted from the audited consolidation of statement of financial position of the Target Group as at 30 September 2019) is derecognised.

3(c). The Proposed Acquisition will be regarded as business combination under common control as the Group and the Target Group are both ultimately controlled by AVIC before and after the Proposed Acquisition. Accordingly, the Proposed Acquisition would be accounted for using the principle of merger accounting. As such, the assets, liabilities and equity of the Target Group have been recognised in the unaudited proforma financial information at their carrying amounts. The excess amount of the Consideration over the carrying amount of the Target Group have been recognised as capital reserves under reserves. At 30 September 2019, 34.77% and 16.03% equity interests of 中航直昇機股份有限公司 were held by the Group and Target Group respectively. Thus, it was regarded as an associate of the Target Group and a non-wholly subsidiary of the Group. After the completion of the Proposed Acquisition, the equity interest held by the Group increase from 34.77% to 50.80%. The amount of RMB2,052,778,000 (extracted from note 18 to the Accountants Report) represented the reclassification of the carrying amount of the associate of the Target Group to the non-controlling interest of the Enlarged Group.

4. The adjustment represented the elimination of balance between the Group and the Target Group as at 30 September, 2019.

5. The direct expenses (including audit, legal, valuation, other professional services and transaction costs, cost of issuance of shares etc.) and the stamp duty payable in relation to the Proposed Acquisition are estimated to be approximately RMB19,129,000 in aggregate.

6. No adjustments have been made to adjust any trading results or other transactions of the Group or the Target Group entered into subsequent to 30 June 2019 and 30 September 2019 respectively.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

信永中和 ShineWing

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

The Directors
AviChina Industry & Technology Company Limited
2nd Floor,
Building 27,
No. 26 Xihuan South Street,
Beijing Economic Technological Development Area,
Beijing, the PRC.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of AviChina Industry & Technology Company Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of financial position as at 30 June 2019, and related notes as set out on pages IV-1 to IV-4 of the circular in connection with the proposed acquisition of the entire equity interest in AVIC Helicopter Co., Ltd. (the "**Proposed Acquisition**"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in Appendix IV to the circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Proposed Acquisition on the Group's financial position as at 30 June 2019 as if the Proposed Acquisition had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's condensed consolidated financial statements for six months ended 30 June 2019, on which no audit or review report has been published.

Directors' Responsibility for the Unaudited pro forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of the Proposed Acquisition on unadjusted financial information of the Group as if the Proposed Acquisition had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition at 30 September 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

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

Hong Kong
6 January 2020

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required: (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, are set out below:

Name of Director/ Supervisor	Capacity	Number of Shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Chen Yuanxian (a Director)	Beneficial owner	255,687 H Shares	0.004%	Long position
Yan Lingxi (a Director)	Beneficial owner	267,740 H Shares	0.004%	Long position
Zheng Qiang	Beneficial owner	239,687 H Shares	0.004%	Long position
(a supervisor)[Note]	Interest of spouse	71,000 H Shares	0.001%	Long position
Shi Shiming (a supervisor)	Beneficial owner	35,984 H Shares	0.0006%	Long position

Note: Mr. Zheng Qiang (a supervisor) and his spouse jointly held 126,400 A shares in AVIC Capital Co., Ltd.* (中航資本控股股份有限公司) ("AVIC Capital"), representing approximately 0.0014% of the total issued share capital of AVIC Capital as at the Latest Practicable Date. AVIC Capital is a subsidiary of AVIC, and is therefore an associated corporation (within the meaning of Part XV of the SFO) of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interests or short positions of the Company and its associated corporations (within the meaning of Part XV of the SFO): (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange; or (ii) which were required to be entered in the register kept by the Company pursuant to section

352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, required to be notified to the Company and the Hong Kong Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as the Directors are aware, the following person(s) (other than a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to the same class of shares immediately upon completion of the Proposed Issuance	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
AVIC [Note]	H Shares	Beneficial owner; interest in controlled corporation	3,499,531,569	56.04%	56.04%	Long position
	Domestic Shares	Beneficial owner	1,250,899,906	83.36%	20.03%	Long position
Tianjin Free Trade Zone Investment	Domestic Shares	Beneficial owner	249,769,500	16.64%	4.00%	Long position
Airbus Group	H Shares	Beneficial owner	312,255,827	5.00%	5.00%	Long position

Note: Among 3,499,531,569 H Shares, 3,297,780,902 H Shares were directly held by it as beneficial owner, 183,404,667 H Shares were held through AVIC Airborne Systems Company Limited* (中航機載系統有限公司), its subsidiary, and 18,346,000 H Shares were held through China Aviation Industry (HK) Company Limited* (中國航空工業集團(香港)有限公司), its subsidiary. 1,250,899,906 Domestic Shares refer to the Consideration Shares to be issued by the Company pursuant to the Equity Acquisition and Share Issuance Agreement.

Save and except that (i) Mr. Chen Yuanxian (an executive Director) was the vice general manager of AVIC; and (ii) Mr. Yang Lingxi (a non-executive Director) was a departmental director of AVIC, none of the Directors was also a director and/or employee of the above substantial shareholders.

4. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors or supervisors had any direct or indirect interest in any asset which had been, since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

6. CONSENT AND QUALIFICATION OF EXPERTS

The following are the qualifications of the experts who have given opinions or advice contained in this circular:

Name	Qualification
Somerley	A corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
SHINEWING (HK) CPA Limited ("**SHINEWING**")	Certified Public Accountants

As at the Latest Practicable Date, each of the above experts did not have shareholding interest in any member of the Group or any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interest in any assets which has been, since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and references to its name included in this circular in the form and context in which it is included.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

8. NO MATERIAL ADVERSE CHANGE

The Directors are of the opinion that since 31 December 2018, being the date to which the latest published audited accounts of the Group have been made up, there have been no material adverse changes in the financial or trading position of the Group.

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

10. MISCELLANEOUS

(a) Mr. Xu Bin, the company secretary of the Company, is a master degree holder and a senior economist. Mr. Xu graduated from Nanchang University in 2000 majoring in law, and then obtained an MBA degree in 2012 from Beijing University of Aeronautics and Astronautics. Mr. Xu served as a lawyer at Jiangxi Ganxing Law Firm since June 2000, and in-house legal counsel at Hongdu Group since October 2001. He also successively served as senior manager, head assistant, and deputy head of the Securities and Legal Department of the Company from February 2003 to June 2014. Mr. Xu has been serving as director of Chengdu CAIC Electronics Co., Ltd. since 1 December 2013 and the head of the Compliance Department of the Company since June 2014.

(b) The registered address of the Company is situated at 2nd floor, Building 27, No. 26 Xihuan South Street, Beijing Economic-Technological Development Area, Beijing, PRC. The registrar of the Company is Computershare Hong Kong Investor Services Limited, whose address is at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The principal place of business of the Company in Hong Kong is at Unit 2202A, 22th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

11. MATERIAL CONTRACTS

The particulars of material contracts (not being contracts entered into in the ordinary course of business) entered into by the member of the Group within the two years immediately preceding the issue of this circular are set out as follows:

(a) The joint venture agreement entered into between the Company, as the principal initiator, AVIC and AVIC Capital on 26 February 2018, in relation to the formation of AVIC Rongfu Fund Management Company Limited* (中航融富基金管理有限公司) ("**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. Details of the agreement are set out in the announcement of the Company dated 26 February 2018.

(b) The equity transfer agreement entered into between the Company and AVIC on 21 August 2018, 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). Details of the agreement are set out in the announcement of the Company dated 21 August 2018.

(c) The subscription agreement entered into between AviChina Hong Kong Limited* (中航科工香港有限公司), 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**") on 6 November 2018, and the equity transfer agreement entered into between the Company, 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 on the same date. Pursuant to the subscription agreement, AVIC Cabin has conditionally agreed to allot and issue 276,281,994 shares and each of AviChina Hong Kong Limited 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. Pursuant to the equity transfer agreement, 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), 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. Details of the agreement are set out in the announcement of the Company dated 6 November 2018.

(d) The placing agreement entered into between the Company and China International Capital Corporation Hong Kong Securities Limited (as the placing agent) on 14 December 2018, 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.

(e) The asset swap agreement entered into between Hongdu Aviation and Hongdu Group on 31 May 2019, pursuant to which Hongdu Aviation agreed to (i) acquire the defence business related assets ("**Acquisition Assets**") from Hongdu Group; and (ii) dispose of the parts and components manufacturing business related assets ("**Disposal Assets**") to Hongdu Group. The consideration for the acquisition of the Acquisition Assets is RMB1,362,424,500, and such consideration shall be satisfied by Hongdu Aviation transferring the Disposal Assets to Hongdu Group. The consideration for the disposal of the Disposal Assets is RMB2,208,462,300, and such consideration shall be satisfied by Hongdu Group (i) transferring the Acquisition Assets to Hongdu Aviation; and (ii) paying the difference between the consideration for the Acquisition Assets and the Disposal Assets (being RMB846,037,800) to Hongdu Aviation in cash. For details, please refer to the announcement of the Company dated 31 May 2019 and the circular dated 23 July 2019.

(f) The Equity Acquisition and Share Issuance Agreement referred to in this circular.

12. DOCUMENT(S) AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong up to and including 13 February 2020:

(a) the letter from the Board dated 6 January 2020, the text of which is set out on pages 5 to 25 of this circular;

(b) the letter of recommendation dated 6 January 2020 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 26 of this circular;

(c) the letter of advice dated 6 January 2020 from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 27 to 53 of this circular;

(d) the written consent from the experts referred to in paragraph 6 of this Appendix;

(e) the material contracts of the Company referred to in paragraph 11 of this Appendix;

(f) the Articles of Association;

(g) the annual reports of the Company for the three financial years ended 31 December 2018 and the interim report of the Company for the six months ended 30 June 2019;

(h) the accountant's report of the Target Group as set out in Appendix II to this circular;

(i) the report from SHINEWING regarding the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(j) the circular of the Company dated 23 July 2019 in relation to the asset swap comprising (1) acquisition of national defence related assets; and (2) disposal of parts and components manufacturing assets; and

(k) this circular.

中國航空科技工業股份有限公司
AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting ("**EGM**") of AviChina Industry & Technology Company Limited (the "**Company**") will be held at 9:00 a.m. on Thursday, 13 February 2020, at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC to consider and approve the following resolution. Unless otherwise indicated, capitalized terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 6 January 2020 (the "**Circular**"):

SPECIAL RESOLUTION

1. "**THAT**

(1) the Equity Acquisition and Share Issuance Agreement entered into between the Company, AVIC and Tianjin Free Trade Zone Investment, and the transactions contemplated thereunder (including the Proposed Acquisition and the Proposed Issuance), be and is hereby approved, ratified and confirmed;

(2) any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the relevant actions and transactions contemplated under the Equity Acquisition and Share Issuance Agreement, including but not limited to obtain necessary approval from relevant PRC government authorities, and to sign any further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make administrative or ancillary changes or amendments to the Equity Acquisition and Share Issuance Agreement as such Director or authorized representative may in his absolute discretion deem fit;

(3) the Board be and is hereby granted a Specific Mandate to allot and issue the Consideration Shares pursuant to the Equity Acquisition and Share Issuance Agreement;

(4) contingent on the Board resolving to issue the Consideration Shares pursuant to paragraph (3) of this resolution, the Board be authorized to:

(i) approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of the Consideration Shares;

(ii) increase the registered capital of the Company in accordance with the actual increase of capital by issuing the Consideration Shares pursuant to paragraph (3) of this resolution, register the increased registered capital with the relevant authorities and make such amendments to the Articles of Association as it thinks fit so as to reflect the increase in the registered capital of the Company; and

(iii) make all necessary filings and registrations with the relevant PRC, Hong Kong and/or other authorities."

By Order of the Board
AviChina Industry & Technology Company Limited*
Xu Bin
Company Secretary

Beijing, 6 January 2020

As at the date of this notice, the Board comprises (i) Mr. Chen Yuanxian and Mr. Wang Xuejun as executive directors; (ii) Mr. Yan Lingxi, Mr. Lian Dawei and Mr. Xu Gang as non-executive directors; and (iii) Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin as independent non-executive directors.

* *For identification purpose only*

Notes:

(1) CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY TO ATTEND AND VOTE AT THE EGM

Pursuant to Article 41 of the Articles of Association of the Company, the H Share register of members of the Company will be closed from Friday, 24 January 2020 to Thursday, 13 February 2020 (both days inclusive), during which period no transfer of H Shares will be registered. Shareholders of the Company whose names appear on the Company's Register of Members at the opening of business on Thursday, 13 February 2020 are entitled to attend and vote at the EGM.

In order to be eligible to attend and vote at the EGM, Shareholders of the Company 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 p.m. on Thursday, 23 January 2020 at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong.

(2) REGISTRATION PROCEDURES FOR ATTENDING THE EGM

a The Shareholder or its proxies shall produce his identification proof. If a corporation Shareholder's legal representative or any other person authorized by the board of directors or other governing body of such corporate Shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.

b Shareholders who wish to attend the EGM must complete the reply slip to confirm the attendance, and return the same to the correspondence address designated by the Company not later than 20 days before the date of the EGM, i.e. on or before Thursday, 23 January 2020.

c Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.

(3) PROXIES

a Any Shareholder who is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his behalf at the EGM. A proxy needs not be a Shareholder. Any Shareholder who wishes to appoint a proxy should first review the form of proxy for use in the EGM.

b Any Shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the board of the body corporate or by attorneys duly authorized. If the instrument is signed by an attorney of the appointer, the power of attorney authorizing the attorney to sign or other documents of authorization must be notarially certified. In order to be valid, for H Shareholders, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered to Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, at 17M Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM and return of a form of proxy will not preclude a Shareholder from attending EGM or any adjournment thereof (as the case may be) in person and voting at the EGM if he or she so wishes.

(4) THE EGM IS EXPECTED TO LAST FOR HALF A DAY. SHAREHOLDERS ATTENDING THE MEETING ARE RESPONSIBLE FOR THEIR OWN TRANSPORTATION AND ACCOMMODATION EXPENSES.

Designated address of the Company:

Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the PRC (Postal code: 100029)

Telephone No: 86-10-58354335/4313 Facsimile No: 86-10-58354310

Attention: Mr. Liu Kai/Mr. Hao Weidi

(5) Resolution above will be voted by poll by the Independent Shareholders.