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中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

Announcement on the Annual Results for the Year Ended 31 December 2019

Financial Highlights

The Board is pleased to announce that, both the revenue of the Group and the profit attributable to equity holders of the Company recorded growth in the year 2019.

- For the year ended 31 December 2019, the Group recorded a revenue of RMB42,119 million, representing an increase of RMB6,363 million or 17.80% as compared with that of RMB35,756 million (as restated) in the corresponding period of the preceding year.
- For the year ended 31 December 2019, the profit attributable to equity holders of the Company amounted to RMB1,377 million, representing an increase of RMB91 million or 7.08% as compared with that of RMB1,286 million (as restated) in the corresponding period of the preceding year.
- The Board recommended the payment of a final dividend for the year 2019 in an aggregate amount of RMB187,353,655.08, representing a dividend of RMB0.03 per share (2018: RMB0.03 per share), calculated based on the number of the existing total issued shares of the Company of 6,245,121,836 shares as at the date of this announcement.

ANNUAL RESULTS

The board of directors (the “**Board**”) of AviChina Industry & Technology Company Limited* (the “**Company**” or “**AviChina**”) hereby announces the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2019, together with the comparative figures for the year 2018, as follows:

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	<u>2019</u> RMB'000	<u>2018</u> RMB'000 (Restated)
REVENUE	4	42,119,126	35,755,622
Cost of sales		<u>(33,104,168)</u>	<u>(27,961,704)</u>
Gross profit		9,014,958	7,793,918
Other income and gains	4	685,822	692,011
Other expenses		<u>(39,675)</u>	<u>(41,529)</u>
Other income and gains, net		646,147	650,482
Selling and distribution expenses		(687,377)	(670,195)
Administrative expenses		(5,294,907)	(4,529,235)
Impairment loss of financial assets		<u>(282,050)</u>	<u>(155,282)</u>
OPERATING PROFIT		3,396,771	3,089,688
Finance income		249,124	197,122
Finance costs		<u>(639,896)</u>	<u>(601,493)</u>
Finance costs, net	6	(390,772)	(404,371)
Share of profits of:			
Joint ventures		18,912	25,823
Associates		<u>208,695</u>	<u>186,952</u>
PROFIT BEFORE TAX	5	3,233,606	2,898,092
Income tax expenses	7	<u>(297,602)</u>	<u>(322,750)</u>
PROFIT FOR THE YEAR		<u>2,936,004</u>	<u>2,575,342</u>
Attributable to:			
Equity holders of the Company		1,376,856	1,285,608
Non-controlling interests		<u>1,559,148</u>	<u>1,289,734</u>
		<u>2,936,004</u>	<u>2,575,342</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
For profit for the year	9	<u>RMB 0.220</u>	<u>RMB0.215</u>

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

Year ended 31 December 2019

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

31 December 2019

	Notes	<u>2019</u> RMB'000	<u>2018</u> RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		12,624,271	15,836,597
Right-of-use assets- land use rights /Land use rights		1,496,226	1,701,996
Right-of-use assets-others		880,067	-
Investment properties		303,102	365,106
Goodwill		69,122	69,122
Other intangible assets		480,621	575,863
Investments in joint ventures		151,428	141,772
Investments in associates		1,144,770	970,799
Financial assets at fair value through other comprehensive income		1,396,766	888,628
Deferred tax assets		349,947	324,183
Prepayments, deposits and other receivables		1,432,017	1,424,001
Contract assets		526,733	856,741
		<u>20,855,070</u>	<u>23,154,808</u>
CURRENT ASSETS			
Inventories		25,671,657	23,442,736
Accounts and notes receivables	10	21,673,943	21,272,651
Prepayments, deposits and other receivables		3,966,225	2,791,983
Contract assets		2,541,907	2,074,429
Financial assets at fair value through profit or loss		502,343	280,629
Pledged deposits		955,999	1,414,308
Term deposits with initial terms of over three months		1,517,242	1,394,771
Cash and cash equivalents		13,059,640	12,122,364
		<u>69,888,956</u>	<u>64,793,871</u>
TOTAL ASSETS		<u>90,744,026</u>	<u>87,948,679</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Continued)

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CURRENT LIABILITIES			
Accounts and notes payables	11	27,223,029	25,324,860
Other payables and accruals		4,504,501	3,722,719
Interest-bearing bank and other borrowings		6,665,294	9,022,435
Obligations under finance leases		-	59,803
Contract liabilities		7,212,132	6,995,894
Lease liabilities		85,427	-
Tax payable		159,402	217,336
		45,849,785	45,343,047
Total current liabilities			
		24,039,171	19,450,824
NET CURRENT ASSETS			
		44,894,241	42,605,632
TOTAL ASSETS LESS CURRENT LIABILITIES			
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		2,042,809	1,294,190
Deferred income from government grants		755,827	777,498
Deferred tax liabilities		63,625	36,640
Convertible bonds		2,128,959	2,930,007
Obligations under finance leases		-	474,415
Contract liabilities		20,905	-
Lease liabilities		681,172	-
Other payables and accruals		651,366	895,630
		6,344,663	6,408,380
Total non-current liabilities			
		52,194,448	51,751,427
TOTAL LIABILITIES			
		38,549,578	36,197,252
Net assets			
		38,549,578	36,197,252
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		6,245,122	6,245,122
Reserves		12,235,782	11,095,266
		18,480,904	17,340,388
Non-controlling interests		20,068,674	18,856,864
		38,549,578	36,197,252
Total equity			
		38,549,578	36,197,252

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

AviChina Industry & Technology Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on 30 April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation of China Aviation Industry Corporation II (“AVIC II”). AVIC II merged with China Aviation Industry Corporation I (“AVIC I”) to form Aviation Industry Corporation of China (“AVIC”) on 6 November 2008, and AVIC became the holding company of the Company thereafter. The Company’s H shares were listed on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) on 30 October 2003. The address of its registered office is 2nd Floor, Building 27, No. 26 Xihuan South Street, Beijing Economic Technological Development Area, Beijing, and the PRC.

The Company and its subsidiaries (hereinafter collectively referred as the “Group”) are principally involved in the research, development, manufacture and sale of aviation products and the delivery of aviation engineering services such as planning, design, consultation, construction and operation.

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

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

By applying the principles of merger accounting, these consolidated financial statements also included the financial position, results and cash flows of assets swap as if it had been combined within the Group throughout the year ended 31 December 2019, and from the earliest date presented. Comparative figures as at 31 December 2018 and for the year then ended have been restated as a result of such. All intra-group transactions and balances have been eliminated on consolidation.

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

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

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

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

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

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

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

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

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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. The Group has applied IFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019, and has not restated comparatives for the 2018 reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 17 Leases.

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

The Group as lessee

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The Group as lessee (Continued)

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

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

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

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

Notes:

- (a) As at 1 January 2019, right-of-use assets were measured at the carrying amount of approximately RMB115,558,000 as if IFRS 16 had been applied since the commencement date. Difference between the right-of-use assets and the lease liabilities was recognised as an adjustment to the opening balance of retained earnings and non-controlling interest of approximately RMB1,583,000 and RMB3,152,000 respectively.
- (b) The obligations under finance leases of approximately RMB534,218,000 as at 31 December 2018 are now included within lease liabilities. The carrying amount of the related assets under finance leases amounting to approximately RMB671,906,000 is reclassified to right-of-use assets.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Practical expedients applied

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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

3. OPERATING SEGMENT INFORMATION

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

The executive directors classifies the business into three reportable segments:

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

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

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

3. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2019	Aviation entire aircraft	Aviation parts and components	Aviation engineering services	Total
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Segment Revenue:				
Sales to external customers	15,309,526	20,951,733	5,857,867	42,119,126
Intersegment sales				<u>1,752,598</u>
				43,871,724
<i>Reconciliation:</i>				
Elimination of intersegment operations				<u>(1,752,598)</u>
Revenue				<u>42,119,126</u>
Segment results	784,446	2,591,964	303,463	3,679,873
<i>Reconciliation:</i>				
Interest income				249,124
Corporate and other unallocated expenses				(55,495)
Finance costs				<u>(639,896)</u>
Profit before tax				<u>3,233,606</u>
Segment assets	30,659,636	46,670,623	15,102,297	92,432,556
<i>Reconciliation:</i>				
Elimination of intersegment receivables				<u>(1,688,530)</u>
Total assets				<u>90,744,026</u>
Segment liabilities	19,952,006	23,871,902	10,059,070	53,882,978
<i>Reconciliation:</i>				
Elimination of intersegment payables				<u>(1,688,530)</u>
Total liabilities				<u>52,194,448</u>
Other segment information:				
Share of profits of :				
Joint ventures	488	18,424	-	18,912
Associates	246	207,407	1,042	208,695
(Reversal) / impairment losses recognised in the statement of profit or loss	(2,687)	443,518	45,275	486,106
Other non-cash items	(41,401)	14,935	3,233	(23,233)
Depreciation and amortisation	347,962	706,186	196,920	1,251,068
Investments in joint ventures	25,078	126,350	-	151,428
Investments in associates	347,224	705,653	91,893	1,144,770
Capital expenditure*	382,739	1,731,470	628,430	2,742,639

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

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

3. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2018 (Restated)	Aviation entire aircraft <u>RMB'000</u>	Aviation parts and components <u>RMB'000</u>	Aviation engineering services <u>RMB'000</u>	Total <u>RMB'000</u>
Segment Revenue:				
Sales to external customers	11,010,731	19,149,069	5,595,822	35,755,622
Intersegment sales				<u>1,174,711</u>
				36,930,333
<i>Reconciliation:</i>				
Elimination of intersegment operations				<u>(1,174,711)</u>
Revenue				<u>35,755,622</u>
Segment results	596,601	2,362,586	390,061	3,349,248
<i>Reconciliation:</i>				
Interest income				197,121
Corporate and other unallocated expenses				(46,784)
Finance costs				<u>(601,493)</u>
Profit before tax				<u>2,898,092</u>
Segment assets	31,033,855	43,837,545	14,425,495	89,296,895
<i>Reconciliation:</i>				
Elimination of intersegment receivables				<u>(1,348,216)</u>
Total assets				<u>87,948,679</u>
Segment liabilities	19,475,715	23,430,037	10,193,891	53,099,643
<i>Reconciliation:</i>				
Elimination of intersegment payables				<u>(1,348,216)</u>
Total liabilities				<u>51,751,427</u>
Other segment information:				
Share of profits of :				
Joint ventures	612	25,211	-	25,823
Associates	34	186,827	91	186,952
Impairment losses recognised in the statement of profit or loss	(33,960)	269,366	23,841	259,247
Other non-cash items	95,058	22,820	-	117,878
Depreciation and amortisation	419,773	599,343	194,714	1,213,830
Investments in joint ventures	24,590	117,182	-	141,772
Investments in associates	347,998	580,839	41,962	970,799
Capital expenditure*	501,929	1,446,593	78,105	2,026,627

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

3. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

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

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

¹ Revenue from Aviation entire aircraft.

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

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

Disaggregation of revenue by timing of recognition

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

4. REVENUE, OTHER INCOME AND GAINS (Continued)

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

5. PROFIT BEFORE TAX

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

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

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

6. FINANCE COSTS, NET

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

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

7. INCOME TAX EXPENSES

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2018: 15%), in accordance with the relevant PRC enterprise income tax rules and regulations, provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25% (2018: 25%) on the assessable income of respective entities in the Group.

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

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

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

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

8. DIVIDENDS

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

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 6,245,121,836 (2018: 5,979,116,357) in issue during the year.

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

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

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

10. ACCOUNTS AND NOTES RECEIVABLES

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

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

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

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

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

11. ACCOUNTS AND NOTES PAYABLES

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

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:

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

CONSOLIDATED OPERATING RESULTS

1 Composition of revenue

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

The revenue of the Group's aviation entire aircraft business for the year 2019 amounted to RMB15,309 million, representing an increase of RMB4,298 million or 39.03% as compared with that of RMB11,011 million in the corresponding period of the preceding year, which was mainly attributable to the increase in sales volume of helicopter and trainer products. The revenue of the aviation entire aircraft business for the year 2019 accounted for 36.35% of the total revenue of the Group, representing an increase of 5.56 percentage points as compared with that in the corresponding period of the preceding year.

The revenue of the Group's aviation parts and components business for the year 2019

amounted to RMB20,952 million, representing an increase of RMB1,803 million or 9.42% as compared with that of RMB19,149 million in the corresponding period of the preceding year, which was mainly attributable to the increase in the revenue of avionics and optronic products of the Group. The revenue of the aviation parts and components business for the year 2019 accounted for 49.74% of the total revenue of the Group, representing a decrease of 3.81 percentage points as compared with that in the corresponding period of the preceding year.

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

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

2. Selling and distribution expenses

The Group's selling and distribution expenses for the year 2019 amounted to RMB687 million, representing an increase of RMB17 million or 2.54% as compared with that of RMB670 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase in staff cost of sales persons resulting from market exploration by China Aviation Optical-Electrical Technology Co., Ltd.* (中航光電科技股份有限公司) ("**JONHON Optronic**") and China Avionics Systems Co., Ltd.* (中航航空電子系統股份有限公司) ("**AVIC Avionics**"), subsidiaries of the Company. In 2019, the selling and distribution expenses accounted for 1.63% of the revenue of the Group, representing a decrease of 0.24 percentage point as compared with that in the corresponding period of the preceding year.

3. Administrative expenses

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

4. Operating profit

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

5. Finance costs, net

The Group's net finance costs in 2019 amounted to RMB391 million, representing a decrease of RMB13 million or 3.22% as compared with that of RMB404 million in the corresponding period of the preceding year, which was mainly attributable to the increase in the interests generated from the bank deposits of certain subsidiaries of the Company as compared with that of the preceding year. Please refer to note 6 to the financial statements for details.

6. Income tax expenses

The Group's income tax expenses in 2019 amounted to RMB298 million, representing a decrease of RMB25 million or 7.74% as compared with that of RMB323 million in the corresponding period of the preceding year. Please refer to note 7 to the financial statements for details.

7. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company for the year 2019 amounted to RMB1,377 million, representing an increase of RMB91 million or 7.08% as compared with that of RMB1,286 million in the corresponding period of the preceding year. The increase in the revenue and the growth in the gross profit contribution both led to an increase in the profit attributable to equity holders of the Company during the reporting period as compared with that in the corresponding period of the preceding year.

SEGMENT INFORMATION

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

THE AVIATION ENTIRE AIRCRAFT BUSINESS

Revenue

The Group's revenue derived from the aviation entire aircraft business for 2019 was RMB15,309 million, representing an increase of 39.03% as compared with that in the corresponding period of the preceding year. The above revenue includes: (1) the revenue derived from the helicopter business, which amounted to RMB12,766 million, representing an increase of RMB2,522 million or 24.62% as compared with that in the corresponding period of the preceding year, and accounted for 83.39% of the total revenue of the aviation entire aircraft business as the sales volume of helicopters increased; (2) the revenue derived from the trainer aircraft business, which amounted to RMB2,440 million, representing an increase of RMB1,706 million or 232.43% as compared with that in the corresponding period of the preceding year, and accounted for 15.94% of the total revenue of the aviation entire aircraft business as the sales volume of the trainer aircraft increased significantly; (3) the revenue derived from the general purpose aircraft business, which amounted to RMB103 million, representing an increase of RMB71 million or 221.88% as compared with that in the corresponding period of the preceding year, and accounted for 0.67% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group for the year 2019 accounted for 36.35% of the Group's total revenue, representing an increase of 5.56 percentage points as compared with that in the corresponding period of the preceding year.

Gross Profit Margin

The gross profit margin of the Group's aviation entire aircraft business for the year 2019 was 9.77%, representing a slight decrease as compared with that in the corresponding period of the preceding year. Such decrease was mainly attributable to the change in the structure of the entire aircraft products.

THE AVIATION PARTS AND COMPONENTS BUSINESS

Revenue

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

accounted for 75.15% of the total revenue of the aviation parts and components business.

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

Gross Profit Margin

The gross profit margin of the Group's aviation parts and components business for the year 2019 was 31.59%, representing an increase of 1.35 percentage points as compared with that in the corresponding period of the preceding year.

THE AVIATION ENGINEERING SERVICES BUSINESS

Revenue

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

Gross Profit Margin

The gross profit margin of the Group's aviation engineering services business for the year 2019 was 15.39%, representing a decrease of 0.64 percentage point as compared with that in the corresponding period of the preceding year.

BUSINESS REVIEW AND OUTLOOK

In 2019, faced with increasing downward economic pressure and complicated political and economic environment domestically and internationally, Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司) ("AVIC"), the controlling shareholder of the Company, adhered to the strategic goal of building up a strong aviation country, implemented the development strategy of the aviation industry in the new era and vigorously promoted the transformation and upgrade as well as high-quality development of AVIC. Satisfactory progress has been achieved by AVIC in various key missions.

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

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

under the theme of “getting close to helicopter”, displaying the national achievements in terms of helicopter development and professional capacities of national helicopters over seven decades since the founding of the People’s Republic of China.

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

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

In 2019, by consistently implementing the innovation-driven strategy, the Group has achieved encouraging achievements for the aviation parts and components business in terms of technological innovation. Series of technological achievements of JONHON Optronic made new breaking to stand up to international leading level. JONHON Optronic received the special prize for Scientific and Technological Progress Awards of National Defense from the Ministry of Industry and Information Technology, and assisted in the construction of national pillars such as domestically built aircraft carrier, Jielong 1 and Long March 11 carrier rockets, high-speed maglev trains and comprehensively promoted the R&D and flight test of the state-produced Large Scale Aircraft. In the field of communication, JONHON Optronic followed up with the construction of 5G and comprehensively participated in the global 5G platform project of the customers. JONHON Optronic has broken the international monopoly of high speed backplane connector products and batch supplying it in the global platform of customers. In respect of new energy vehicle, JONHON Optronic was also successfully listed into the top global suppliers of vehicle companies and its charging connectors and liquid cooling products also entered into the supplying chain of top customers in the world. AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. * (陝西華燕航空儀錶有限公司) carried out technological innovation by optimizing the designs, overcoming the difficulties in relation to production processes and improving the operation methods, which has effectively improved its working efficiency and the qualification rate of products. Lanzhou Wanli Aviation Electric Co., Ltd. * (蘭州萬里航空機電有限責任公司) held the launching ceremony for the application of its first industrial robot proactively promoting smart manufacturing. Shanghai Aviation Electric Co., Ltd. * (上海航空電器有限公司) won the first prize in the 2019

Collection of Achievements of China Enterprise Reform and Development (2019 中國企業改革發展優秀成果一等獎) with the “Research on Innovative Airborne System and Correlated Manufacturing System for Civilian Aircraft (民用飛機機載系統正向研製體系創新研究)”. Meanwhile, AVIC Shaanxi Qianshan Avionics Co., Ltd. * (陝西千山航空電子有限責任公司) successfully delivered the first set of assembling parts of the flight data recorder researched and manufactured for Shunfeng’s drones according to the scheduled timeframe.

In 2019, the Group’s production of ancillary aviation products achieved smooth progress. Hongdu Aviation completed the airworthiness inspection of a work package in C919 project. Jiangxi Changhe Aviation Industry Co., Ltd. * (江西昌河航空工業有限公司) successfully passed the on-site visual inspection of pre-production verification (PPV) for outer flaps and front beams of the C919 project, and on-site review of the professional PPV on rudders made with composite materials for Boeing 787.

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

Notwithstanding challenges imposed by the worldwide outbreak of the novel coronavirus epidemic, intense trade tensions and financial turmoil in 2020, the situation that Chinese economy is on an uptrend in the long term remains unchanged. Meanwhile, the year 2020 is also a critical year for China’s establishment of a comprehensive well-off society and marks the conclusion for the 13th Five-year Plan for National Economic and Social Development (“**13th Five-year Plan**”). To tackle with more severe difficulties and challenges, AVIC will firmly adhere to the strategic goal of building up a strong aviation country and make consistent efforts to deepen the reform with a view to taking the development of China's aviation industry to new heights on an ongoing basis. Taking advantage of the opportunities presented by its pilot program of state-owned capital investment companies and the 14th Five-year Plan for National Economic and Social Development (“**14th Five-year Plan**”), the

Group will continue to strive towards the goal of becoming a flagship company to provide high-tech aviation products and services generally used for military and civil purposes, overcome difficulties together with its shareholders and pursue high-quality corporate development:

1. The Company will further implement the strategy of financial-industrial combination and give full play to the integrated financial-industrial platform to carry out multi-dimensional and mutually beneficial cooperation and optimize the industrial structure, in order to build an aviation supply chain system with international competitiveness;
2. The Company will accelerate the development driven by innovation in accordance with national industrial development deployment policy and strengthen its innovation capabilities to stimulate the industrial development;
3. The Company will complete the acquisition of equity interests in helicopter business and consolidate the helicopter industry chain, with a view to swiftly consolidating the synergetic advantages through capital operation, and promoting further development of the helicopter business;
4. The Company will exert vigorous efforts in investment and financing, equity operation and capital integration and keep on optimizing its capital structure, so as to enhance its quality as a listed company;
5. The Company will give full play to its overseas platform to pursue opportunities for overseas capital operation and seek for international collaboration in the areas such as airborne equipment and unmanned aerial vehicle; and
6. The Company will improve its risk control system, enhance its governance capability on a continuous basis, strictly observe the strategy of “Rule of Law” and operate in compliance.

CASH FLOW AND FINANCIAL RESOURCES

1 Liquidity and Capital Resources

As at 31 December 2019, the Group's cash and cash equivalents amounted to RMB13,060 million, which was mainly derived from the following sources:

- cash and bank deposits at the beginning of the year; and
- funds generated from its operations.

The Group's cash flow for each of the years 2019 and 2018 were as follows:

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

2 Operating, Investing and Financing Activities

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

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

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

period.

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

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

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

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

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

GEARING RATIO

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

CONTINGENT LIABILITIES

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

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2019, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

GUARANTEED AND SECURED LOANS

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

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

EXCHANGE RATE RISKS

The Group mainly operates in the PRC with most of its transactions settled in RMB. The exposure to foreign currencies exchange risks arising from transactions involving assets, liabilities and operating activities of the Group are primarily associated with United States Dollar, Euro and Hong Kong Dollar. The Directors consider that the exchange rate risks to the Group will not have any material adverse impact on the Group's financial results.

USE OF PROCEEDS

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

EMPLOYEES

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

Employees Breakdown (by business segments)	Number of employees	Percentage to total number of employees (%)
Aviation Entire aircraft business	14,237	31.70
Aviation Parts and components business	27,738	61.76
Aviation Engineering services business	2,888	6.43
Other businesses	47	0.11
Total	44,910	100

For the year ended 31 December 2019, the total staff costs of the Group amounted to RMB7,626 million, representing an increase of RMB417 million or 5.78% as compared with those of RMB7,209 million in the corresponding period of the preceding year.

PURCHASE, SALE AND REDEMPTION OF SHARES

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

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

1 On 31 May 2019, Hongdu Aviation and Jiangxi Hongdu Aviation Industry Group Co., Ltd.* (江西洪都航空工業集團有限責任公司) (“**Hongdu Group**”) entered into the Asset Swap Agreement, pursuant to which Hongdu Aviation agreed to (i) acquire the Acquisition Assets from Hongdu Group (the “**Acquisition**”); and (ii) dispose of the Disposal Assets to Hongdu Group (the “**Disposal**”). The Acquisition Assets are Hongdu Group's defence business related assets. The Disposal Assets are Hongdu Aviation's parts and components manufacturing business related assets. The consideration for the acquisition of the Acquisition Assets is RMB1,362,424,500, such consideration shall be satisfied by Hongdu Aviation transferring the Disposal Assets to Hongdu Group. The consideration for the disposal of the Disposal Assets is RMB2,208,462,300, such consideration shall be satisfied by Hongdu Group (i) transferring the Acquisition Assets to Hongdu Aviation; and (ii) paying the difference

between the consideration for the Acquisition and the Disposal (being RMB846,037,800) to Hongdu Aviation in cash. The Asset Swap Transactions comprise both the Acquisition and the Disposal. Pursuant to the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”), the Company classifies the Asset Swap Transactions by reference to the larger of the Acquisition or the Disposal in terms of percentage ratios, and complies with the applicable requirements of the Hong Kong Listing Rules based on such classification. As the highest applicable percentage ratio in respect of the Asset Swap Transactions exceeds 5% but is less than 25%, the Asset Swap Transactions constitute a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. In addition, as the highest percentage ratio (other than profits ratio) in respect of the Asset Swap Transactions is 5% or above, the Asset Swap Transactions also constitute a non-exempt connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the Asset Swap Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules. The Asset Swap Transactions have been approved on the extraordinary general meeting convened on 23 August 2019. For details, please refer to the announcement of the Company dated 31 May 2019 and 23 August 2019, and the circular dispatched to the shareholders dated 23 July 2019.

2 On 28 November 2019, the Company entered into the Equity Acquisition and Share Issuance Agreement with AVIC and Tianjin Free Trade Zone Investment Company Limited* (天津保稅區投資有限公司) (“**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 Co., Ltd.* (中航直升機有限責任公司)(“**AVIC Helicopter**”) held by AVIC and Tianjin Free Trade Zone Investment, respectively; (ii) 10.21% equity interests in Harbin Aircraft Industry Group Co., Ltd.* (哈爾濱飛機工業集團有限責任公司)(“**Harbin Aircraft**”) held by AVIC; and (iii) 47.96% equity interests in Changhe Aircraft Industries (Group) Co., Ltd.* (昌河飛機工業(集團)有限責任公司)(“**Changhe Aircraft**”) held by AVIC, at a total consideration of approximately RMB5,687,537,050.94. Upon completion of the Proposed Acquisition, each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft will become a wholly-owned subsidiary of the Company. As confirmed by relevant regulatory authorities in the PRC and each party to the Equity Acquisition and Share Issuance Agreement, the consideration for the Proposed Acquisition is proposed to be settled by issuance of the domestic shares of the Company to AVIC and Tianjin Free Trade Zone Investment. As at the date of the Equity Acquisition and Share Issuance Agreement, AVIC is the controlling shareholder of the Company, and thus it is a connected person of the Company. The Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder are connected transactions of the Company under the Hong Kong Listing Rules. Therefore, the

Equity Acquisition and Share Issuance Agreement and the transactions contemplated thereunder also are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. As at the date of the announcement, the above transactions have been approved on the extraordinary general meeting convened on 13 February 2020. For details, please refer to the announcements of the Company dated 12 October 2018, 13 October 2019, 28 November 2019 and 13 February 2020, and the circular dispatched to the shareholders dated 6 January 2020.

3 On 4 December 2019, AVIC Airborne Systems Company Limited* (中航機載系統有限公司) (“**AVIC Airborne Systems**”) entered into the Equity Transfer Agreement with AVIC Avionics, pursuant to which, AVIC Avionics agreed to sell and AVIC Airborne Systems agreed to acquire, 100% of the equity interest in Shaanxi Baocheng Aviation Instrument Co., Ltd.* (陝西寶成航空儀錶有限責任公司) (“**Shaanxi Baocheng**”) for a consideration of RMB481,981,016.05. Immediately upon completion of the Transfer, AVIC Avionics will no longer hold any equity interest in Shaanxi Baocheng. As at the date of the Equity Transfer Agreement, AVIC Avionics is a subsidiary of the Company and AVIC is the controlling shareholder of the Company. AVIC Airborne Systems is a wholly-owned subsidiary of AVIC and is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The entering into of the Equity Transfer Agreement between AVIC Avionics and AVIC Airborne Systems constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 4 December 2019.

OTHER SIGNIFICANT EVENTS

1 As at 18 June 2019, the term of the Company's Shareholding Increase Plan in JONHON Optronic, a subsidiary of the Company, expired, and the Company had completed the shareholding increase. During the period, the Company purchased a total number of 1,711,300 shares of JONHON Optronic through centralized bidding system of Shenzhen Stock Exchange, accounting for approximately 0.22% of the total share capital of JONHON Optronic, at an average purchasing price of RMB34.77 per share, with a total amount of RMB 59,500,012.90 (including transaction fees). Before the implementation of the Shareholding Increase Plan, the Company held 325,632,280 shares of JONHON Optronic, representing approximately 41.17% of the total issued shares of JONHON Optronic. Upon completion of the Shareholding Increase Plan, the Company held 327,343,580 shares of JONHON Optronic. After completion of the 2018 equity distribution plan of JONHON Optronic, the number of shares of JONHON Optronic held by the Company increased from 327,343,580 to 425,546,654, representing approximately 41.39% of the total issued shares of JONHON Optronic. The Company will not reduce its shareholding in JONHON Optronic during the 6 months upon implementation of such shareholding increase and any period as

prescribed by laws. For details, please refer to the announcements issued by the Company on 18 December 2018 and 19 June 2019.

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

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

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

October 2016, 18 January 2017, 18 November 2019, 9 December 2019 and 27 December 2019.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

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

FINAL DIVIDEND

The Board recommended the payment of a final dividend for the year 2019 in an aggregate amount of RMB187,353,655.08, representing a dividend of RMB0.03 per share (2018: RMB0.03 per share), calculated based on the existing number of total issued shares of 6,245,121,836 shares of the Company as at the date of this announcement, subject to adjustment (if any) based on the number of total issued shares as at the Record Date (as defined below).

The final dividend will be paid to those shareholders whose names appear on the Company's register of members at the close of business on Wednesday, 3 June 2020 (the "**Record Date**"). To determine the identity of the shareholders entitled to receive the final dividend, the Company's register of members will be closed from Friday, 29 May 2020 to Wednesday, 3 June 2020 (both days inclusive), during which period no

transfer of H shares of the Company will be registered. In order to be entitled to receive the final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, by not later than 4:30 p.m. on Thursday, 28 May 2020.

In accordance with Article 152 of the Articles of Association of the Company, the dividend will be declared in RMB to the shareholders. The dividend payable to shareholders will be paid within three months after the dividend declaration date. The dividend to be paid in Hong Kong Dollars will be converted based on the average closing exchange rate between RMB and Hong Kong Dollars issued by the People's Bank of China for the five business days prior to the declaration of dividends at the annual general meeting of the Company to be held on Friday, 22 May 2020 (the "2019 AGM"). Subject to the approval of the Company's shareholders at the 2019 AGM, the aforementioned dividend is expected to be paid by the Company on or before 18 August 2020.

The 2019 AGM will be held on Friday, 22 May 2020. The H share register of members of the Company will be closed from Saturday, 2 May 2020 to Friday, 22 May 2020 (both days inclusive), during which period no transfer of H shares will be registered. Holders of the Company's H shares whose names appear on the Company's register of members at the opening of business on Friday, 22 May 2020 are entitled to attend and vote at the 2019 AGM. In order to be eligible to attend and vote at the 2019 AGM, holders of the Company's H shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H shares register, not later than 4:30 pm on Friday, 1 May 2020.

AUDIT COMMITTEE

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

The audit committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Company strictly complied with various applicable laws, rules and regulations as well as the Articles of Association of the Company to standardize its operation. The Board reviewed the corporate governance practices adopted by the Company for the year ended 31 December 2019 and was of the view that the Company had complied

with the principles and code provisions set out in the Corporate Governance Code under the Hong Kong Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Hong Kong Listing Rules and the Shares Trading Management Rules of the Company as its own guidelines for securities transactions by Directors, supervisors and relevant employees of the Company. Upon specific enquiries with Directors and supervisors, the Board confirms that all Directors and supervisors of the Company had complied with the standards for securities transactions under the Model Code for the year ended 31 December 2019.

THE ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2019 will be dispatched to the shareholders of the Company and will be published on the websites of The Stock Exchange of Hong Kong and of the Company (<http://www.avichina.com>) in due course.

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

Beijing, 30 March 2020

As at the date of this announcement, the Board comprises executive Directors Mr. Chen Yuanxian and Mr. Wang Xuejun, non-executive Directors Mr. Yan Lingxi, Mr. Lian Dawei, and Mr. Xu Gang as well as independent non-executive Directors Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin.

** For identification purpose only*