
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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).

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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)

- (1) CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN AVIC ELECTROMECHANICAL;**
- (2) CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DEEMED DISPOSAL OF THE EQUITY INTEREST IN AVIC AVIONICS;**
- (3) CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION IN RELATION TO THE SUBSCRIPTION AND DEEMED DISPOSAL OF AVIC AVIONICS A SHARES BY THE COMPANY; AND**
- (4) PROPOSED CHANGE OF DIRECTOR**

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



A letter from the Board is set out on pages 6 to 32 of this circular. A letter from the Independent Board Committee is set out on page 33 of this circular. A letter from Maxa Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 34 to 57 of this circular.

A notice convening the EGM of AviChina Industry & Technology Company Limited* to be held at 6/F, Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the People's Republic of China on Wednesday, 26 October 2022 at 9 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

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 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.

29 September 2022

* For identification purpose only

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PRECAUTIONARY MEASURES FOR THE EGM

Please see page EGM-3 of this circular for measures being taken to prevent and control the spread of the COVID-19 pandemic, including but not limited to:

- compulsory temperature check before entering the EGM Venue, and those with a body temperature of over 37.3 degrees Celsius or with the flu-like symptoms or is otherwise unwell will not be admitted to the EGM Venue;
- wearing of surgical face mask is compulsory at any time within the EGM Venue;
- signing of health declaration form before admission to the EGM Venue;
- satisfying other requirements according to local epidemic prevention and control policies.

Any person who declines any of the aforementioned precautionary measures will not be admitted to the EGM Venue. The Company reminds the Shareholders that they may appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

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DEFINITIONS

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

“Announcements”	the announcements of the Company dated 26 May 2022 and 10 June 2022 in relation to the Share Swap and Absorption and Subscription
“Appraisal Rights”	the AVIC Avionics Appraisal Right and the AVIC Electromechanical Appraisal Right
“Appraisal Right Execution Date”	the date when the Appraisal Rights first become exercisable, which will be further determined and announced by AVIC Avionics and AVIC Electromechanical
“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 62.30% equity interest in the Company directly and indirectly as at the Latest Practicable Date
“AVIC Airborne Systems”	AVIC Airborne Systems Co., Ltd.* (中航機載系統有限公司), a wholly-owned subsidiary of AVIC
“AVIC Avionics”	China Avionics Systems Co., Ltd.* (中航航空電子系統股份有限公司), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange (stock code: 600372) and a non-wholly-owned subsidiary of the Company which is owned as to 39.43% by the Company as at the Latest Practicable Date
“AVIC Avionics A Shares”	the A shares of AVIC Avionics listed on the Shanghai Stock Exchange
“AVIC Avionics Appraisal Right”	the right to request the Company to purchase the AVIC Avionics A Shares held by the opposing AVIC Avionic shareholders in cash
“AVIC Avionics Appraisal Right Exercise Price”	RMB18.32 per share, being the exercise price of the AVIC Avionics Appraisal Right
“AVIC Electromechanical”	AVIC Electromechanical Systems Co., Ltd.* (中航工業機電系統股份有限公司), a joint stock limited liability company established in the PRC whose A shares are listed on the Shenzhen Stock Exchange (stock code: 002013) and a connected person of the Company by virtue of being owned as to 51.97% directly and indirectly by AVIC
“AVIC Electromechanical A Shares”	the A shares of AVIC Electromechanical listed on the Shenzhen Stock Exchange

DEFINITIONS

“AVIC Electromechanical Appraisal Right”	the right to request the Company to purchase the AVIC Electromechanical A Shares held by the opposing AVIC Electromechanical shareholders in cash
“AVIC Electromechanical Appraisal Right Exercise Price”	RMB10.33 per share, being the exercise price of the AVIC Electromechanical Appraisal Right
“AVIC Aviation Industry Investment”	AVIC Aviation Industry Investment Co., Ltd. (中航航空產業投資有限公司), a limited liability company established in the PRC and an indirect non wholly-owned subsidiary of AVIC
“AVIC Shenfei”	AVIC Shenfei Aircraft Company Limited (中航沈飛股份有限公司), a joint stock limited company established in the PRC with its shares listed on the Shanghai Stock Exchange and a non wholly-owned subsidiary of AVIC
“associate(s)”	has the same meaning as defined in the Listing Rules
“Board”	the board of directors of the Company
“Chengdu Aircraft Industry”	AVIC Chengdu Aircraft Industrial (Group) Co., Ltd. (成都飛機工業(集團)有限責任公司), a limited liability company established in the PRC and a wholly-owned subsidiary of AVIC
“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 Stock Exchange
“Completion”	Completion of the Share Swap and Absorption
“connected person(s)”	has the same meaning as defined in the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deemed Disposal”	the deemed disposal of the shareholding interest of the Company in AVIC Avionics as a result of the dilution of shareholding interest of the Company in AVIC Avionics upon: (i) the Completion; and (ii) the completion of the Subscription
“Domestic Shares”	the domestic share(s) of the Company, with a nominal value of RMB1.00 each

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened for approving, among other things, the Share Swap and Absorption Agreement, the Subscription Agreements and the transactions contemplated thereunder and the proposed appointment of director
“Enlarged Group”	the Group upon Completion and completion of the Subscription
“Entrusted AVIC Avionics A Shares”	The AVIC Avionics A Shares held by AVIC Airborne Systems to be entrusted to the Company pursuant to the Entrusted Voting Arrangement Agreement
“Entrusted Voting Arrangement”	the arrangement that AVIC Airborne entrusts the Company to exercise the voting rights of the Entrusted AVIC Avionics A Shares
“Entrusted Voting Arrangement Agreement”	the agreement entered into between the Company and AVIC Airborne Systems in relation to the Entrusted Voting Arrangement
“Exchange Shares”	2,582,243,037 AVIC Avionics A Shares to be issued by AVIC Avionics to the AVIC Electromechanical shareholders under the Share Swap and Absorption
“Exchange Ratio”	the ratio determining the number of AVIC Avionics A Shares required in exchange for one AVIC Electromechanical A Share
“Group”	the Company and its subsidiaries as at the date of the Latest Practicable Date
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping established for the purpose of making recommendations to the Independent Shareholders in respect of the Share Swap and Absorption and the Subscription
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Swap and Absorption and the Subscription
“Independent Shareholders”	the Shareholders other than AVIC and its associates who are not required to abstain from voting on resolutions approving the Share Swap and Absorption and the Subscription

DEFINITIONS

“Latest Practicable Date”	22 September 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“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
“Price Determination Date”	being the date on which AVIC Electromechanical and AVIC Avionics first publish the board resolutions relating to the Share Swap and Absorption and the Subscription on the Shanghai Stock Exchange and the Shenzhen Stock Exchange
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SASTIND”	The State Administration of Science, Technology and Industry for National Defense (國家國防科技工業局)
“SFC”	The Securities and Futures Commissions
“Shareholders”	the shareholders of the Company
“Share Swap and Absorption”	the swap of AVIC Avionics A Shares and AVIC Electromechanical A Shares and the absorption of AVIC Electromechanical by AVIC Avionics pursuant to the terms of the Share Swap and Absorption Agreement
“Share Swap and Absorption Agreement”	the agreement entered into between AVIC Avionics and AVIC Electromechanical in relation to the Share Swap and Absorption
“Share Swap Date”	the date on which the Exchange Shares are issued by AVIC Avionics to shareholders of AVIC Electromechanical and registered in the securities registration and clearing institution
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of AVIC Avionics A Shares by not more than 35 designated investors at a total consideration of not exceeding RMB5, 000 million
“Subscription Price”	the subscription price for AVIC Avionics A Shares contemplated under the Subscription Agreements

DEFINITIONS

“Subscription Agreement(s)”	the subscription agreements entered into between AVIC Avionics and: (i) the Company; and (ii) AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry in relation to the Subscription
“subsidiary(ies)”	has the same meaning as defined in the Listing Rules
“The Administrative Measures”	The Administrative Measures for the Issuance of Securities by Listed Companies* (上市公司證券發行管理辦法)
“The Material Asset Restructurings Measures”	Measures for the Administration of the Material Asset Restructurings of Listed Companies (2020 Amendment)* (上市公司重大資產重組管理辦法 (2020修正))

* *For identification purpose only.*

For the purpose of this circular, unless otherwise indicated, the exchange rate at RMB1 = HK\$1.12 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.

LETTER FROM THE BOARD



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. Zhang Minsheng

Mr. Yan Lingxi

Non-executive Directors:

Mr. Lian Dawei

Mr. Li Xichuan

Mr. Xu Gang

Mr. Wang Jun

Independent non-executive Directors:

Mr. Liu Weiwu

Mr. Mao Fugen

Mr. Lin Guiping

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, 22nd Floor

Fairmont House

8 Cotton Tree Drive

Central

Hong Kong

29 September 2022

To the Shareholders:

Dear Sir or Madam,

- (1) PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN AVIC ELECTROMECHANICAL;**
- (2) PROPOSED DEEMED DISPOSAL OF THE EQUITY INTEREST IN AVIC AVIONICS;**
- (3) PROPOSED SUBSCRIPTION OF AVIC AVIONICS A SHARES BY THE COMPANY; AND**
- (4) PROPOSED CHANGE OF DIRECTOR**

* For identification purpose only

LETTER FROM THE BOARD

A. INTRODUCTION

References are made to the announcements of the Company: (i) dated 26 May 2022 and 10 June 2022 in relation to the Share Swap and Absorption and Subscription, among other things, the proposed acquisition and connected transaction of 100% equity interests of AVIC Electromechanical, the proposed deemed disposal and connected transaction of equity interests in AVIC Avionics and the proposed subscription of AVIC Avionics A Shares by the Company; and (ii) dated 30 August 2022 in relation to the proposed change of Director.

After trading hours on 10 June 2022, (i) AVIC Avionics and AVIC Electromechanical have entered into the Share Swap and Absorption Agreement; and (ii) AVIC Avionics and the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry have entered into the Subscription Agreements respectively.

The purpose of this circular is to provide you with, among other things, (i) details relating to the Share Swap and Absorption and Subscription and the transactions contemplated thereunder; (ii) proposed change of Director (iii) a letter of recommendation from the Independent Board Committee on the Subscription and the transactions contemplated thereunder to the Independent Shareholders; (iv) a letter of advice from the Independent Financial Adviser on the connected transactions contemplated under the Subscription to the Independent Shareholders and the Independent Board Committee; (v) the financial information of the Company; (vi) the financial information of AVIC Avionics; (vii) the financial information of AVIC Electromechanical and its subsidiaries; (viii) the accountants' report of AVIC Electromechanical and its subsidiaries; (ix) the unaudited pro forma financial information of the Enlarged Group; (x) other information under the Listing Rules; and (xi) the notice of the EGM.

B. SHARE SWAP AND ABSORPTION

Share Swap and Absorption Agreement

The major terms of the Share Swap and Absorption Agreement are summarised as follows:

Date

10 June 2022

Parties to the Share Swap and Absorption Agreement

1. AVIC Avionics; and
2. AVIC Electromechanical

Subject Matter

AVIC Avionics has agreed to issue AVIC Avionics A Shares to the Share Swap participating shareholders of AVIC Electromechanical in exchange for the entire AVIC Electromechanical A Shares held by them as at the Share Swap Date. Upon Completion, AVIC Avionics will take over all

LETTER FROM THE BOARD

the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical and its subsidiaries, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and registration. Application will be made by AVIC Avionics to the Shanghai Stock Exchange for approval for the listing of, and permission to deal in, the Exchange Shares.

The Exchange Price and the Exchange Ratio

The Exchange Ratio is determined with reference to the exchange price of AVIC Avionics A Shares (the “**AVIC Avionics Exchange Price**”) and the exchange price of AVIC Electromechanical A Shares (the “**AVIC Electromechanical Exchange Price**”). Each of the AVIC Electromechanical Exchange Price and the AVIC Avionics Exchange Price is determined with reference to the average trading price of AVIC Electromechanical A Shares and AVIC Avionics A Shares, respectively, for the 120 trading days prior to the Price Determination Date. Based on the above formula, AVIC Electromechanical Exchange Price is RMB12.59 per share (as adjusted by its 2021 profit distribution plan) and AVIC Avionics Exchange Price is RMB18.94 per share (as adjusted by its 2021 profit distribution plan). Therefore, the Exchange Ratio equals to 1: 0.6647, which means that one AVIC Electromechanical A Share can exchange for 0.6647 AVIC Avionics A Share.

The Exchange Ratio was arrived at with reference to, among other things, (i) the rules and regulations under the Material Asset Restructuring Measures 《上市公司重大資產重組管理辦法》 and the Companies Law of the PRC; (ii) the valuation value of AVIC Electromechanical and AVIC Avionics in the past; and (iii) the usual practice and operation of share swap and absorption in other comparable cases in the market. Furthermore, the Company considers that the 120 day average trading price of AVIC Avionics A Shares and AVIC Electromechanical A Shares can better reflect the fair value of AVIC Avionics and AVIC Electromechanical given the recent huge short-term fluctuation of the A-shares stock market.

Number of Exchange Shares to be issued

As at the Latest Practicable Date, the total issued share capital of AVIC Electromechanical is 3,884,824,789 AVIC Electromechanical A Shares, which will all participate in the Share Swap and Absorption. Based on the Exchange Ratio, it is estimated that a total of 2,582,243,037 AVIC Avionics A Shares (representing approximately 133.92% of the AVIC Avionics A Shares in issue as at the Latest Practicable Date) will be issued as Exchange Shares to the shareholders of AVIC Electromechanical. Upon Completion, the total number of issued shares of AVIC Avionics will be 4,510.46 million.

If any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital, allotment of shares and cancellation of treasury shares occurs on AVIC Avionics or AVIC Electromechanical between the Price Determination Date to the implementation date of Share Swap and Absorption, the number of Exchange Shares will be adjusted accordingly.

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The number of AVIC Avionics A Shares to be acquired by the AVIC Electromechanical shareholders shall be an integer. If the number of AVIC Electromechanical A Shares held by them is not an integer after multiplying the Exchange Ratio, the AVIC Electromechanical shareholders shall be sorted according to the size of the mantissa after the decimal point and one AVIC Avionics A Share will be issued to these shareholders in turn until the actual number of swapped AVIC Avionics A Shares equals to the number of AVIC Avionics A Shares intended to be issued for the Share Swap and Absorption.

Upon Completion, the shareholding of the Company in AVIC Avionics will reduce from 39.43% to 16.86%. Therefore, the Share Swap and Absorption will also constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. AVIC Avionics will continue to be a subsidiary of the Company upon the Completion.

Listing of the Exchange Shares

The Exchange Shares will be listed and circulated on the main board of the Shanghai Stock Exchange.

Appraisal Right of the Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders

AVIC Avionics Appraisal Right

Pursuant to the Share Swap and Absorption Agreement, the Company has agreed to grant the AVIC Avionics Appraisal Right to the shareholders of AVIC Avionics (the “**Opposing AVIC Avionics Shareholders**”) that:

- (i) vote against the resolutions in relation to the Share Swap and Absorption and the Subscription and the signing of the Share Swap and Absorption Agreement at the shareholders’ meetings of AVIC Avionics;
- (ii) retain their AVIC Avionics A Shares in connection with the AVIC Avionics Appraisal Right from the record date of the shareholders’ meeting of AVIC Avionics approving the Share Swap and Absorption until the Appraisal Right Execution Date; and
- (iii) complete the relevant procedures within the period as stipulated in the Share Swap and Absorption Agreement.

The AVIC Avionics Appraisal Right is exercisable on the Appraisal Right Execution Date, pursuant to which the Opposing AVIC Avionics Shareholders can request the Company to purchase the AVIC Avionics A Shares at the AVIC Avionics Appraisal Right Exercise Price.

LETTER FROM THE BOARD

AVIC Avionics Appraisal Right Exercise Price

The AVIC Avionics Appraisal Right Exercise Price equals to RMB18.32 per share (as adjusted by its 2021 profit distribution plan), which is determined with reference to the its average trading price for the 20 trading days of AVIC Avionics prior to the Price Determination Date. The AVIC Avionic Appraisal Right Exercise Price was arrived at with reference to the usual practice and operation of share swap and absorption in 20 other comparable cases (the “**Comparable Cases**”) in the market (including but not limited to the share swap and absorption of: (i) Beijing Capital Retailing Group Co., Ltd.* (北京首商集團股份有限公司) by Wangfujing Group Co., Ltd.* (王府井集團股份有限公司); (ii) Yingkou Port Liability Co., Ltd.* (營口港務股份有限公司) by Liaoning Port Co., Ltd. (遼寧港口股份有限公司); (iii) China CNR Corporation Limited* (中國北車股份有限公司) by CSR Corporation Limited* (中國南車股份有限公司); (iv) Chongqing Titanium Industry Co., Ltd of Pangang Group* (攀鋼集團重慶鈦業有限公司) by Panzhihua New Steel & Vanadium Co., Ltd.* (攀枝花新鋼鈇股份有限公司); and (v) Shanghai Airlines Co., Ltd.* (上海航空股份有限公司) by China Eastern Airlines Corporation Limited* (中國東方航空股份有限公司), which the appraisal right exercise price is set as the average trading price for the 20 trading days of the listed company prior to the announcement date of the board approval of the share swap and absorption. Considering: (i) the AVIC Avionics Appraisal Right Exercise Price has no premium over the average trading price for the 20 trading days of AVIC Avionics prior to the Price Determination Date, which is in line with the market practice and is the same as the 1st quartile, median and 3rd quartile of the premium rate of the appraisal right exercise price of the dissenting shareholders in the Comparable Cases; and (ii) AVIC Avionics A Shares is freely transferable in the secondary market and the use of the average trading price of AVIC Avionics can better reflect the value of AVIC Avionics A Shares, the Directors are of the view that the AVIC Avionics Appraisal Right Exercise Price is fair and reasonable.

AVIC Avionics Appraisal Right Exercise Price Adjustment Mechanisms

Pursuant to the Share Swap and Absorption Agreement, the AVIC Avionics Appraisal Right will be adjusted upon fulfillment of the following conditions:

- (i) **ex-rights and ex-dividend events adjustment:** if any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital and allotment of shares occurs between the date of the shareholders’ meeting announcement approving the Share Swap and Absorption and the date of exercise of the AVIC Avionics Appraisal Right (including both days) (the “**First AVIC Avionics Appraisal Right Exercise Price Adjustment Period**”), the AVIC Avionics Appraisal Right Exercise Price will be adjusted accordingly. There is no limit on the number of price adjustments under the ex-rights and ex-dividend events adjustment mechanism, and the AVIC Avionics Appraisal Right Exercise Price will be adjusted upon occurrence of any of the ex-rights and ex-dividends events; or
- (ii) **one-off stipulated events adjustment:** if the stipulated events in the Share Swap and Absorption Agreement occur between the date of the shareholders’ meeting announcement approving the Share Swap and Absorption and the date of approval of the Share Swap and Absorption by CSRC (the “**Second AVIC Avionics Appraisal**”

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Right Exercise Price Adjustment Period”), AVIC Avionics shall convene a board meeting within 10 trading days after the occurrence of the stipulated events to determine whether adjustment of AVIC Avionics Appraisal Right Exercise Price under the one-off stipulated events adjustment mechanism is required. The decision of the board of AVIC Avionics will be final and no future adjustment to the AVIC Avionics Appraisal Right Exercise Price will be triggered under the one-off stipulated events adjustment mechanism.

During the overlapping period of the First AVIC Avionics Appraisal Right Exercise Price Adjustment Period and the Second AVIC Avionics Appraisal Right Exercise Period, the AVIC Avionics Appraisal Right Exercise Price will be subject to both the ex-rights and ex-dividend events adjustment and one-off stipulated events adjustment mechanisms.

Estimated capital requirement for AVIC Avionics Appraisal Right

As at the Latest Practicable Date, there are 652 million AVIC Avionics A Shares held by independent shareholders. Assuming the Share Swap and Absorption will be approved at the shareholders meeting of AVIC Avionics by way of special resolutions (resolutions to be approved by two-third of independent shareholders with at most one-third of independent shareholders holding approximately 217 million AVIC Avionics A Shares opposing the Share Swap and Absorption) pursuant to the Measures for the Administration of the Material Asset Restructurings of Listed Companies (2020 Amendment)* (上市公司重大資產重組管理辦法(2020修正)) and all the Opposing AVIC Avionics Shareholders have chosen to exercise the AVIC Avionics Appraisal Right, the Company estimates that the maximum amount of capital required is approximately RMB3,982 million. However, considering: (i) not all Opposing AVIC Avionics Shareholders will attend the shareholders’ meeting; (ii) not all Opposing AVIC Avionics Shareholders will choose to exercise the AVIC Avionics Appraisal Right and it is expected that the amount of capital required for the AVIC Avionics Appraisal Right will be lower than the maximum amount stated above; and (iii) based on the maximum percentage of opposing shareholders of the purchaser company in the Comparable Cases, the Company estimates that approximately 5.17% independent shareholders of AVIC Avionics will oppose the Share Swap and Absorption and exercise the AVIC Avionics Appraisal Right, and the amount of capital required to purchase the AVIC Avionics A Shares from the Opposing AVIC Avionics Shareholders will not exceed RMB617.87 million.

AVIC Electromechanical Appraisal Right

Pursuant to the Share Swap and Absorption Agreement, the Company has agreed to grant the AVIC Electromechanical Appraisal Right to the shareholders of AVIC Electromechanical (the “**Opposing AVIC Electromechanical Shareholders**”) that:

- (i) vote against the resolutions in relation to the Share Swap and Absorption and the signing of the Share Swap and Absorption Agreement at the shareholders’ meetings of AVIC Electromechanical;

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- (ii) retain their AVIC Electromechanical A Shares in connection with the AVIC Electromechanical Appraisal Right from the record date of the shareholders' meeting of AVIC Electromechanical approving the Share Swap and Absorption until the Appraisal Right Execution Date; and
- (iii) complete the relevant procedures within the period as stipulated in the Share Swap and Absorption Agreement.

The AVIC Electromechanical Appraisal Right is exercisable on the Appraisal Right Execution Date, pursuant to which the Opposing AVIC Electromechanical Shareholders can request the Company to purchase the AVIC Electromechanical A Shares at the AVIC Electromechanical Appraisal Right Exercise Price.

AVIC Electromechanical Appraisal Right Exercise Price

The AVIC Electromechanical Appraisal Right Exercise Price equals to RMB10.33 per share (as adjusted by its 2021 profit distribution plan), which is determined with reference to the average trading price of AVIC Electromechanical for the 20 trading days prior to the Price Determination Date. The AVIC Electromechanical Appraisal Right Exercise Price was arrived at with reference to the usual practice and operation of share swap and absorption in other comparable cases in the market, which the appraisal right exercise price is set as the average trading price for the 20 trading days of the listed company prior to the announcement date of the board approval of the share swap and absorption.

AVIC Electromechanical Appraisal Right Exercise Price Adjustment Mechanisms

Pursuant to the Share Swap and Absorption Agreement, the AVIC Electromechanical Appraisal Right will be adjusted upon fulfillment of the following conditions:

- (i) **ex-rights and ex-dividend events adjustment:** if any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital and allotment of shares occurs between the date of the shareholders' meeting announcement approving the Share Swap and Absorption and the date of exercise of the AVIC Electromechanical Appraisal Right (including both days) (the "**First AVIC Electromechanical Appraisal Right Exercise Price Adjustment Period**"), the AVIC Electromechanical Appraisal Right Exercise Price will be adjusted accordingly. There is no limit on the number of price adjustments under the ex-rights and ex-dividend events adjustment mechanism, and the AVIC Electromechanical Appraisal Right Exercise Price will be adjusted upon occurrence of any of the ex-rights and ex-dividends events; or
- (ii) **one-off stipulated events adjustment:** if the stipulated events in the Share Swap and Absorption Agreement occur between the date of the shareholders' meeting announcement approving the Share Swap and Absorption and the date of approval of the Share Swap and Absorption by CSRC (the "**Second AVIC Electromechanical Appraisal Right Exercise Price Adjustment Period**"), AVIC Electromechanical shall

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convene a board meeting within 10 trading days after the occurrence of the stipulated events to determine whether adjustment of AVIC Electromechanical Appraisal Right Exercise Price under the one-off stipulated events adjustment mechanism is required. The decision of the board of AVIC Electromechanical will be final and no future adjustment to the AVIC Electromechanical Appraisal Right Exercise Price will be triggered under the one-off stipulated events adjustment mechanism.

During the overlapping period of the First AVIC Electromechanical Appraisal Right Exercise Price Adjustment Period and the Second AVIC Electromechanical Appraisal Right Exercise Period, the AVIC Electromechanical Appraisal Right Exercise Price will be subject to both the ex-rights and ex-dividend events adjustment and the one-off stipulated events adjustment mechanisms.

Estimated capital requirement for AVIC Electromechanical Appraisal Right

As at the Latest Practicable Date, there are 1,866 million AVIC Electromechanical A Shares held by independent shareholders. Assuming the Share Swap and Absorption will be approved at the shareholders meeting of AVIC Electromechanical by way of special resolutions (resolutions to be approved by two-third of independent shareholders with at most one-third of independent shareholders holding approximately 622 million AVIC Electromechanical A Shares opposing the Share Swap and Absorption) pursuant to the Measures for the Administration of the Material Asset Restructurings of Listed Companies (2020 Amendment)* (上市公司重大資產重組管理辦法(2020修正)) and all the Opposing AVIC Electromechanical Shareholders have chosen to exercise the AVIC Electromechanical Appraisal Right, the Company estimates that the maximum amount of capital required is approximately RMB6,425 million. However, considering: (i) not all Opposing AVIC Electromechanical Shareholders will attend the shareholders' meeting; (ii) not all Opposing AVIC Electromechanical Shareholders will choose to exercise the AVIC Electromechanical Appraisal Right and it is expected that the amount of capital required for the AVIC Electromechanical Appraisal Right will be lower than the maximum amount stated above; and (iii) based on the maximum percentage of opposing shareholders of the vendor company in the Comparable Cases, the Company estimates that approximately 4.22% independent shareholders of AVIC Electromechanical will oppose the Share Swap and Absorption and exercise the AVIC Electromechanical Appraisal Right, and the amount of capital required to purchase the AVIC Electromechanical A Shares from the Opposing AVIC Electromechanical Shareholders will not exceed RMB813.44 million.

Arrangement for the Rollover of the Undistributed Profits of AVIC Avionics and AVIC Electromechanical

In addition to the profit distribution plan approved by the respective shareholders' meetings of AVIC Avionics and AVIC Electromechanical, the accumulated undistributed profits of AVIC Avionics and AVIC Electromechanical as at the Share Swap Date shall be shared by the old and new shareholders of AVIC Avionics in proportion to their shareholdings.

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Conditions precedent

The Share Swap and Absorption Agreement shall take effect upon the satisfaction of the following conditions:

- (i) the Share Swap and Absorption Agreement having been duly signed by AVIC Avionics and AVIC Electromechanical;
- (ii) AVIC Avionics, AVIC Electromechanical and the Company having obtained all effective approvals in respect of the Share Swap and Absorption from its board of directors and shareholders pursuant to their respective articles and associations;
- (iii) the Share Swap and Absorption having completed all the regulatory procedures of the Stock Exchange; and
- (iv) the Share Swap and Absorption having obtained approvals from SASTIND, SASAC and CSRC.

Completion

The date of Completion shall be the date of completion of the transfer of all business operation, assets and liabilities of AVIC Electromechanical to AVIC Avionics. Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration.

C. SUBSCRIPTION

Introduction

Conditional upon the Share Swap and Absorption Agreement becoming effective, AVIC Avionics also intended to place AVIC Avionics A Shares to not more than 35 designated investors to raise fund at a total amount not exceeding RMB5,000 million. On 10 June 2022 (after trading hours), AVIC Avionics has entered into the Subscription Agreement with the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry respectively. Pursuant to the Subscription Agreements, subject to the Completion, (i) the Company has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB500 million in cash; (ii) AVIC Aviation Industry Investment agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB300 million in cash; (iii) AVIC Shenfei has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash; and (iv) Chengdu Aircraft Industry has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash.

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Subscription Agreements

Parties to the Subscription Agreements

1. AVIC Avionics;
2. the Company;
3. AVIC Aviation Industry Investment;
4. AVIC Shenfei; and
5. Chengdu Aircraft Industry

(the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, collectively the “**AVIC Subscribers**”)

Subject Matter

Conditional upon the approval of the Share Swap and Absorption, (i) the Company has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB500 million in cash; (ii) AVIC Aviation Industry Investment agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB300 million in cash; (iii) AVIC Shenfei has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash; and (iv) Chengdu Aircraft Industry has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash. If the number of issued shares of AVIC Avionics is less than one share, the AVIC Subscribers agree to round off the non-integer part. If the balance of the subscription amount is insufficient to convert into one share, such balance shall be converted into the capital reserve of AVIC Avionics.

The final subscription amount and the number of subscribed AVIC Avionics A Shares shall be in accordance with the payment notice as issued to the AVIC Subscribers by the underwriter of AVIC Avionics.

The aviation and airborne equipment manufacturing industry is a typically high-tech, high-value-added and high-risk strategic industry which is knowledge, technology and capital-intensive. The aviation industry in China is experiencing a rapid growth, and puts high requirements on research and development and modification of airborne equipment, which requires a large amount of funds investment.

In order to cope with the national industrial policies and industry development trends, the Group will require capital to improve its production capacity and facilities so as to enhance its production efficiency, product competitiveness and expand its market shares, so that the production tasks can be successfully completed. Although AVIC Avionics and AVIC Electromechanical have

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issued convertible corporate bonds to raise approximately RMB2,400 million and RMB2,100 million in 2017 and 2018 respectively, AVIC Avionics has utilised most of and AVIC Electromechanical has fully utilised the proceeds raised from the issue of the convertible corporate bonds.

Furthermore, with the increase in market demand, there was continuous increase in revenue for AVIC Avionics and AVIC Electromechanical from 2019 to 2021, with a compound annual growth rate of 8.78% and 8.81%, respectively. As a result, in order to meet the increasing orders from customers, AVIC Avionics and AVIC Electromechanical had to purchase more raw materials for production and expand storage and budgets, resulting in the continuous growth of inventories. For the three years ended 31 December 2021, the inventories of AVIC Avionics amounted to RMB3,962 million, RMB4,747 million and RMB6,112 million, and the inventories of AVIC Electromechanical amounted to RMB4,489 million, RMB5,277 million and RMB6,228 million, respectively. With the increase in inventories and accounts receivable alongside with the increase in revenue of AVIC Avionics and AVIC Electromechanical, there will be an increase in demand for the working capital of the Enlarged Group so as to maintain its cashflow position.

Therefore, in order to support the long-term development of AVIC Avionics and the Enlarged Group, the Board is of the view that there is an imminent need to perform the fund raising after the Completion, so as to provide capital for the enhancement of the production capacity and supplement working capital of the Enlarged Group to ensure the stable development of the Enlarged Group and cope with the national industrial policies and industry development trends.

Considering:

- (i) the restriction on the size of the offering under Offering Regulation Q&A – Regulatory Requirements for Guiding and Regulating the Financing Conduct of Listed Companies (Revision) (2020)* (發行監管問答-關於引導規範上市公司融資行為的監管要求(修訂版)), which states that if a listed company applies for a non-public offering of shares, for the purposes of equity fundraising (including subscription of shares) the number of shares to be issued shall not exceed 30% of the total shares before the offering. As at 31 May 2022, the total number of AVIC Avionics A Shares in issue was 1,928 million. Therefore, the maximum number of shares to be issued in connection with the Subscription will be 578 million and assuming the Subscription Price is RMB18.32 (for details of the basis of determination, please refer to the paragraph headed "Subscription Price" below), the maximum size of the Subscription amount will be approximately RMB10,589 million. The aforementioned regulatory requirement is not applicable to the Share Swap and Absorption as the relevant issuance of shares was not for the purpose of equity fundraising.
- (ii) as disclosed in the section headed "Use of Proceeds" in this circular, it is estimated that the Company would require approximately RMB2,106 million for expansion of production facilities of the Group;

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- (iii) the expected working capital amount of RMB3,147 million required for AVIC Avionics from 2022 to 2024 after absorbing AVIC Electromechanical calculated based on the percentage of current assets and current liabilities to operating income of AVIC Avionics and AVIC Electromechanical for the year ended 31 December 2021; and
- (iv) the prevailing A shares market situation in the PRC and the long term development of the Enlarged Group,

the Board is of the view that the Subscription amount of RMB5,000 million will be a feasible fundraising amount that complies with the relevant laws and regulations in the PRC and fulfills the needs of the Company at the same time. Therefore, the Board is of the view that the total amount of fund raising is fair and reasonable.

Subscription Price

The Subscription Price will be determined by the underwriters for the Subscription and the board of directors of AVIC Avionics after:

1. CSRC has approved the Subscription;
2. the board of directors of AVIC Avionics have obtained the authorisation from the shareholders' meeting of AVIC Avionics in accordance to the relevant laws and regulations; and
3. considering the price quotation provided by the Subscribers during the price consultation process.

In any event, the Subscription Price shall not be lower than 80% of the average trading price (the “**Average Trading Price**”) of AVIC Avionics A Shares for the 20 trading days prior to the price determination date of the Subscription (being the first day of the Subscription), with ex-rights and ex-dividend events adjustment. The Average Trading Price was determined based on the regulations under the Administrative Measures, pursuant to which the issue price of any non-public issued shares shall not be lower than 80% of the average trading price of the shares for the 20 trading days prior to the price determination date.

Considering:

- (i) the Subscription Price determination mechanism as mentioned above, in particular the Subscription Price will be determined based on the price quotation provided by the Subscribers during the price consultation process;
- (ii) the Subscription Price determination mechanism complies with the relevant laws and regulations in the PRC, such as the Administrative Measures, the Detailed Implementation Rules for the Non-Public Offering of Stocks of Listed Companies (2020 Revision)* (上市公司非公开发售股票实施细则) and the Material Asset Restructuring Measures; and

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- (iii) assuming 10 June 2022 (being the date of the Share Swap and Absorption and Subscription announcement of the Company) is the first day of the Subscription, the low-end of the Subscription Price, being 80% of the Average Trading Price (as adjusted by AVIC Avionics' 2021 profit distribution plan), is RMB14.65 per share and it is higher than the net asset value per AVIC Avionics A Shares of RMB5.83 per share as at 31 December 2021,

the Board considers that the Subscription Price is fair and reasonable.

The Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry will not participate in the price consultation process of the Subscription. However, they will accept the results of the price consultation process and subscribe for AVIC Avionics A Shares with the Subscription Price. If the Subscription Price is not determined by the price consultation process, the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry will subscribe AVIC Avionics A Shares at 80% of the Average Trading Price.

If any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital and allotment of shares, occurs on any of the 20 trading days (including both the starting and the end date) prior to the first day of the Subscription, the trading price on the date prior to the occurrence of such ex-rights and ex-dividend event shall be adjusted as the trading price after the ex-rights and ex-dividend event. If any of the abovementioned ex-rights and ex-dividend events occur between the first date of the Subscription and the last date of the Subscription (including both days), the Subscription Price will be adjusted according to the relevant regulations of CSRC and the Shanghai Stock Exchange.

The AVIC Subscribers will use their own capital to finance the Subscription. They shall pay the total Subscription amount to the designated bank account for Subscription opened by the underwriter after the effective date of the Subscription Agreement and receipt of the payment notice issued by the underwriter.

Lock-up Period

The AVIC Subscribers undertake not to transfer any of their subscribed AVIC Avionics A Shares within 18 months after the Subscription. For Subscribers other than the AVIC Subscribers, they will undertake not to transfer any of their subscriber AVIC Avionics A Shares within 6 months after the Subscription.

The lock-up period is determined with reference to the regulations under the Administrative Measures, pursuant to which the lock-up period for any non-public issued shares of a listed company subscribed by: (i) independent subscribers shall be 6 months, and (ii) controlling shareholder, actual controller or a corporation controlled by the controlling shareholder or actual controller of a listed company shall be 18 months. As AVIC is the actual controller of AVIC Avionics and AVIC Subscribers are companies controlled by AVIC, the lock-up period for AVIC Subscribers is therefore 18 months.

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Conditions precedent

The Subscription Agreements shall take effect upon the satisfaction of the following conditions:

- 1) the Subscription Agreements having been duly signed by AVIC Avionics, the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry;
- 2) the Subscription having obtained all effective approvals from the board of directors and shareholders pursuant to the articles and associations of AVIC Avionics and AVIC Electromechanical;
- 3) the Share Swap and Absorption Agreement having become effective;
- 4) the Subscription having obtained all effective approvals from (i) the Board and Shareholders pursuant to the articles and associations of the Company; (ii) the internal investment decision making body of AVIC Aviation Industry Investment; (iii) the board of directors and shareholders pursuant to the articles and associations of AVIC Shenfei; and (iv) the internal investment decision making body of Chengdu Aircraft Industry;
- 5) the Subscription having completed all the regulatory procedures of the Stock Exchange; and
- 6) the Subscription having obtained approvals from SASTIND, SASAC and CSRC.

Other fundraising alternatives

Based on the Exchange Ratio of 1: 0.6647, the total AVIC Avionics A Shares is estimated to be 4,510 million after the Completion. Assuming that the total amount of proceeds from the Subscription is RMB5,000 million and the Subscription Price is RMB18.32 per share, the number of shares the original shareholders of AVIC Avionics to be issued in connection with the Subscription will be 273 million. Accordingly, should the original shareholders of AVIC Avionics decide not to participate in the Subscription, the shareholding of AVIC Avionics A Shares held by the original shareholders of AVIC Avionics will be diluted by 5.71% after the completion of the Subscription.

The Company has considered other alternative fundraising methods, such as debt financing. However, despite the dilution effect mention above, the Company considers that compare to debt financing, the Subscription is currently the most feasible fundraising method to the Company during to the following reason:

- debt financing may incur interest burden on the Group and will increase the ongoing interest expenses of the Group which may in turn affect the gearing ratio and profitability of the Company. As at 31 May 2022, the asset-liability ratios of AVIC Avionics and AVIC Electromechanical were 55.38% and 50.51% respectively, which were higher than other comparable A share listed companies in the Shenwan Aviation Equipment II Index (801742.SI) which had an average gearing ratio of 37.94% as at 31

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December 2021. As debt financing may incur interest and burden on the Group, it will increase the ongoing interest expenses of the Group affect the asset-liability ratio and profitability of the Company. On the other hand, the fund raised from Subscription may decrease the asset-liability ratio of the AVIC Avionics and enhance its financial stability. Assuming the funds raised from the Subscription is RMB5,000 million, it is expected that the pro forma asset-liability ratio of the AVIC Avionics as at 31 May 2022 will reduce from 52.46% to 48.49%, which makes the asset-liability ratio of the AVIC Avionics more comparable to that of its peer companies;

- In the situation of the Subscription, assuming that (i) the Subscription Price is RMB18.32 per share (being the average trading price of AVIC Avionics A Shares for the 20 trading days prior to the price determination date of the Subscription adjusted with ex-rights and ex-dividend events); and (ii) the proceeds from the Subscription is RMB5,000 million, the number of AVIC Avionics A Shares will increase from 4,510 million to 4,783 million. In the situation of a debt financing, the number of AVIC Avionics A Shares remains at 4,510 million, but additional financial costs for issuing bonds will be involved. According to WIND statistics, the average interest rate of corporate bonds issued from 1 January 2022 to 17 August 2022 is 3.43%. Assuming that the interest rate of the debts issued by AVIC Avionics is also 3.43% and the income tax rate is 15%, the annual after-tax finance costs will increase by approximately RMB146 million based on the amount of RMB5,000 million of bonds issued. Considering the above, the earning per share of AVIC Avionics after Share Swap and Absorption and debt financing is expected to be RMB0.4329 and RMB0.4267, respectively. Therefore, the earning per share of AVIC Avionics after completion of the Subscription is higher than that of after completion of debt financing; and
- debt financing may also be subject to lengthy due diligence and negotiations with the banks, which may be relatively uncertain and time-consuming. On the other hand, the time required for Subscription is relatively shorter compared to that of debt financing.

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Use of Proceeds

The total amount of proceeds from the Subscription will not exceed RMB5,000 million (inclusive). Net proceeds after deducting the relevant tax expenses and fees for agencies shall be applied in the following items:

No.	Project	Investment amount	Proposed use of proceeds	<i>Unit: RMB million</i> Expected timeline for the use of the proceeds
1	Expanding production capacity of air bleed subsystem	739.80	721.10	36 months
2	Expanding production capacity of hydraulic actuating system	200.00	200.00	36 months
3	Expanding production capacity of aviation power system	190.49	190.49	36 months
4	Expanding production capacity of fuel measuring and controlling system	175.00	175.00	36 months
5	Expanding production capacity of suspension and launching system	154.00	154.00	36 months
6	Expanding production capacity of actuating cylinder and locking device	152.00	152.00	36 months
7	Improving core capability of solenoid valve	150.00	150.00	36 months
8	Expanding production capacity of air refueling receptacle	145.00	145.00	36 months
9	Improving R&D and production capability of thunderbolt igniter	136.00	136.00	36 months
10	Special development for aviation pipeline	97.50	82.50	24 months
11	Supplemental working capital	<u>2,893.91</u>	<u>2,893.91</u>	<i>Note 1</i>
Total		<u><u>5,033.70</u></u>	<u><u>5,000.00</u></u>	

Note 1

The Group intends to use this portion of proceeds to supplement working capital for the daily operation of AVIC Avionics. Detailed plans for the use of proceeds will be determined based on the capital needs of AVIC Avionics for daily operation and production in the next three years.

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In the event the proceeds raised from the Subscription is less than RMB5,000 million, the Group will decide the sequence of the use of the proceeds and the amount of proceeds to be used in the above projects based on, including but not limited to, the investment amounts and urgency of needs of capital of the projects. The Group will prioritise projects that are more urgent and require less funds.

D. ENTRUSTED VOTING ARRANGEMENT AGREEMENT

On 10 June 2022, the Company has entered into the Entrusted Voting Arrangement Agreement with AVIC Airborne Systems, which as at the date of this circular, owns approximately 16.42% equity interest in AVIC Avionics A Shares. Pursuant to the Entrusted Voting Arrangement Agreement, AVIC Airborne Systems will entrust the Company to exercise the voting rights of the Entrusted AVIC Avionics A Shares (including the original AVIC Avionics A Shares held by AVIC Airborne Systems, the AVIC Avionics A Shares obtained as a result of the Share Swap and Absorption from the original AVIC Electromechanical A Shares held by AVIC Airborne Systems and all new AVIC Avionics A Shares to be acquired by AVIC Airborne Systems subsequent to the signing of the Entrusted Voting Arrangement Agreement under any transfer, allotment or placing of AVIC Avionics A Shares by AVIC Avionics) held by AVIC Airborne Systems for an indefinite period until such arrangement is terminated by the Company and AVIC Airborne Systems by mutual agreement.

As disclosed in the section headed “H. Effect of The Share Swap and Absorption and the Subscription on The Shareholding Structure of AVIC Avionics” below, after the Entrusted Voting Arrangement becoming effective, the Company will be able to exercise approximately 47.54% voting right in AVIC Avionics (comprising the approximately 42.45% voting right in AVIC Avionics held by the Company and AVIC Airborne Systems and approximately 5.10% voting right in AVIC Airborne Systems held by AVIC and Hanzhong Aviation Industry (Group) Co., Ltd.* (漢中航空工業(集團)有限公司)(“**Hanzhong Aviation Industry**”) pursuant to the acting in concert agreement entered into AVIC, Hanzhong Aviation Industry and AVIC Airborne Systems), which is higher than the original voting rights of AVIC Avionics held by the Company. AVIC Avionics will continue to be a subsidiary of the Company and consolidated in the financial statements of the Company after Completion and completion of the Subscription.

Shareholders should note that there is no notifiable transaction or connected transaction implications under the Listing Rules in relation to the Entrusted Voting Arrangement. However, the Entrusted Voting Arrangement will allow the Company to exercise approximately 47.54% voting right in AVIC Avionics and continue to consolidate AVIC Avionics in the financial statements of the Company. Therefore, the Board decided to also disclose the Entrusted Voting Arrangement in this circular as it will allow Shareholders to understand the Company's shareholding in AVIC Avionics after Completion and completion of the Subscription.

For further details of the Entrusted Voting Arrangement, please refer to the announcement published by the Company on 10 June 2022.

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E. INFORMATION OF THE COMPANY, AVIC, AVIC AVIATION INDUSTRY INVESTMENT, AVIC SHENFEI, CHENGDU AIRCRAFT INDUSTRY AND AVIC AIRBORNE SYSTEMS

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

AVIC is 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 62.30% equity interest in the Company directly and indirectly as at the date of this circular.

AVIC Aviation Industry Investment is a limited liability company established in the PRC. It is an indirectly non-wholly owned subsidiary of AVIC. It is primarily engaged in strategic investments and merger and acquisitions in aviation-related and science and technology innovation-related businesses.

AVIC Shenfei is a joint stock limited company established in the PRC with its shares listed on the Shanghai Stock Exchange. As at the date of this circular, AVIC Shenfei is a non-wholly owned subsidiary of AVIC which owns 66.10% equity interest directly and 3.07% equity interest indirectly in AVIC Shenfei. AVIC Shenfei is principally engaged in aviation products manufacturing, including products such as aviation defence equipment and civil aviation products.

Chengdu Aircraft Industry is a limited liability company established in the PRC. It is a wholly-owned subsidiary of AVIC. It is primarily engaged in development, production and export of aviation weapons and equipment and manufacture of civil aircraft components.

AVIC Airborne Systems is a limited liability company established in the PRC and a wholly-owned subsidiary of AVIC. AVIC Airborne Systems is mainly engaged in investment and management of the development, production and sales of airborne electromechanical systems and equipment supporting various types of aircraft and engines.

F. INFORMATION OF AVIC AVIONICS

AVIC Avionics is a joint stock limited liability company established in the PRC, whose A shares are listed on the Shanghai Stock Exchange. As at the date of this circular, the Company owns 39.43% equity interest in AVIC Avionics and it is a non-wholly owned subsidiary of the Company. It is mainly engaged in the manufacture of avionics products and related accessories.

Financial information of AVIC Avionics

Set out below is a summary of the consolidated financial information of AVIC Avionics for the three years ended 31 December 2021 and five months ended 31 May 2022, prepared in accordance with the China Accounting Standards for Business Enterprises:

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	For the year ended 31 December			for the five months ended 31 May 2022
	2019	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i> (unaudited)
Revenue	8,352.19	8,746.61	9,839.30	3,722.10
Net Profit before tax	631.11	719.48	881.09	340.50
Net Profit after tax	578.61	655.34	817.72	319.02
				As at
				31 May
				2022
				<i>RMB</i>
				<i>(million)</i> (unaudited)
Net assets attributable to owners	7,840.42	10,626.33	11,236.85	11,394.28

Please refer to Appendix II of this circular for the financial information of AVIC Avionics.

G. INFORMATION OF AVIC ELECTROMECHANICAL

AVIC Electromechanical is a joint stock limited liability company established in the PRC on 5 December 2000 with its shares listed on the Shenzhen Stock Exchange. AVIC Electromechanical is mainly engaged in development, production, sales and service of airborne electromechanical systems and equipment for all types of aircraft and engines. As at the date of this circular, AVIC Electromechanical is a connected person of the Company by virtue of being owned as to 51.97% by AVIC (i.e. the controlling shareholder of the Company), directly and indirectly through several of its subsidiaries. The Company has no interest in AVIC Electromechanical as at the date of this circular. At the time of establishment of AVIC Electromechanical, Life Saving Research Institute subscribed for 25.30 million shares at a consideration of RMB38.5 million for 84.33% of equity interest in AVIC Electromechanical. At the time of establishment of AVIC Electromechanical, Life Saving Research Institute was controlled by China Aviation Industry Corporation I (中國航空工業第一集團). In 2008, China Aviation Industry Corporation I merged with China Aviation Industry Corporation II (中國航空工業第二集團) to form AVIC and AVIC has since become the actual controller of Life Saving Research Institute.

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Financial information of AVIC Electromechanical and its subsidiaries

Set out below is a summary of the consolidated financial information of AVIC Electromechanical and its subsidiaries for the three years ended 31 December 2021 and five months ended 31 May 2022, respectively, prepared in accordance with the China Accounting Standards for Business Enterprises:

	For the year ended 31 December			For the five months ended 31 May 2022
	2019	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>
Revenue	12,131.38	12,224.10	14,992.20	6,712.69
Net Profit before tax	1,244.38	1,346.58	1,529.35	631.70
Net Profit after tax	1,058.42	1,143.80	1,351.83	550.27
				As at 31 May 2022
				2022
				<i>RMB</i>
				<i>(million)</i>
Net assets attributable to owners	9,749.62	12,913.06	13,991.10	13,983.45

Please refer to Appendix IV of this circular for the accountants' report of AVIC Electromechanical and its subsidiaries.

H. EFFECT OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION ON THE SHAREHOLDING STRUCTURE OF AVIC AVIONICS

Assuming: (i) no Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders have exercised their Appraisal Rights; (ii) the Subscription Price is RMB18.32 per share (being the average trading price of AVIC Avionics A Shares for the 20 trading days prior to the price determination date of the Subscription adjusted with ex-rights and ex-dividend events); and (iii) the proceeds from the Subscription is RMB5,000 million, of which the total subscription amount of the AVIC Subscribers (as defined below) is RMB1.16 billion, the shareholding of AVIC Avionics after the Share Swap and Absorption and the Subscription will be as follows:

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Name of shareholders	Before the Share Swap and Absorption and the Subscription		After the Share Swap and Absorption but before the Subscription		After the Share Swap and Absorption and the Subscription	
	<i>Number of shares</i>	<i>Percentage of shareholding</i>	<i>Number of shares</i>	<i>Percentage of shareholding</i>	<i>Number of shares</i>	<i>Percentage of shareholding</i>
	<i>('million)</i>	<i>(%)</i>	<i>('million)</i>	<i>(%)</i>	<i>('million)</i>	<i>(%)</i>
the Company	760.32	39.43	760.32	16.86	787.61	16.47
AVIC Airborne Systems	316.51	16.41	1,242.77	27.55	1,242.77	25.98
AVIC	142.29	7.38	184.01	4.08	184.01	3.85
Hanzhong Aviation Industry ¹	59.63	3.09	59.63	1.32	59.63	1.25
China Aviation Industry Supply and Marketing Co., Ltd.* (中國航空工業供銷有限公司) ²	1.19	0.06	1.19	0.03	1.19	0.02
China Aviation Life Saving Research Institute* (中國航空救生研究所) (“Life Saving Research Institute”)	-	-	267.80	5.94	267.80	5.60
AVIC Aviation Industry Investment	-	-	77.46	1.72	93.84	1.96
AVIC Investment Holdings Co., Ltd.* (中航投資 控股有限公司)	-	-	22.68	0.50	22.68	0.47
Guizhou Gaike Aviation Electromechanical Co., Ltd.* (貴州蓋克航空機電有限責任公司)	-	-	6.15	0.14	6.15	0.13
AVIC Shenfei	-	-	-	-	9.83	0.21
Chengdu Aircraft Industry	-	-	-	-	9.83	0.21
Other independent shareholders	648.27	33.62	1,888.45	41.87	2,098.06	43.86
Total:	1,928.21	100	4,510.46	100	4,783.38	100

Notes:

- Hanzhong Aviation Industry is an indirect non-wholly-owned subsidiary of AVIC.
- China Aviation Industry Supply and Marketing Co., Ltd. is an indirect non-wholly-owned subsidiary of AVIC.
- Life Saving Research Institute is a national defence science and technology institute initiated by AVIC.
- AVIC Investment Holdings Co., Ltd. is an indirect non-wholly-owned subsidiary of AVIC.
- Guizhou Gaike Aviation Electromechanical Co., Ltd. is an indirect non-wholly-owned subsidiary of AVIC.

I. FINANCIAL EFFECTS OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION

Upon Completion and completion of the Subscription, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical and its subsidiaries, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration. Furthermore, upon completion of the Subscription and the Entrusted Voting Arrangement becomes effective, the Company will hold approximately 47.54% voting right in AVIC Avionics and AVIC Avionics will continue to be a subsidiary of the Company.

LETTER FROM THE BOARD

It is expected that the total revenue, assets and liabilities of the Group will increase. Based on the current information available, it is also expected that upon Completion and the completion of the Subscription, the earnings attributable to owners of the Company contributed by AVIC Avionics will increase slightly.

Revenue

For the year ended 31 December 2021, the revenue of the Group was approximately RMB60,296 million. Assuming the Share Swap and Absorption and the Subscription was completed on 1 January 2021, the revenue of the Enlarged Group would increase by approximately 23.07% to approximately RMB74,207 million. For further details, please refer to Appendix V of this circular for the unaudited pro forma financial information of the Enlarged Group.

Assets and liabilities

The assets and liabilities of the Group are estimated to be increased by approximately RMB36,251.88 million and increased by approximately RMB16,100.86 million respectively after the Completion and the completion of the Subscription. The estimated increase in assets and increase in liabilities of the Group after the Completion and the completion of the Subscription are arrived at by inclusion of the assets and liabilities of AVIC Electromechanical and its subsidiaries as at 31 May 2022, assuming the Share Swap and Absorption and the Subscription took place on 30 June 2022.

For details, please refer to note 4-note 7 of the pro forma adjustments set out from page 439 of the Appendix V to this circular.

Earnings

For the year ended 31 December 2021, the Group recorded net profit attributable to owners of approximately RMB2,369 million and earnings per Share of approximately RMB0.307. Based on Appendix V to the circular, it is estimated that upon the Completion and the completion of the Subscription, the net profit attributable to owners of the Enlarged Group would be approximately RMB2,435 million, representing an increase of approximately 2.78% as compared to the net profit attributable to owners of the Group for the year ended 31 December 2021, and earnings per Share would be approximately RMB0.316, representing an increase of approximately 2.93% as compared to the earning per Share of the Group for the year ended 31 December 2021.

Shareholders should note that the financial effects are shown for reference only and the actual amount of gain or loss as a result of the Share Swap and Absorption and the Subscription will be assessed based on the financial position of the Company as at Completion and completion of the Subscription, which will be audited, and eventually be recognised in the consolidated financial statements of the Company.

LETTER FROM THE BOARD

J. REASONS FOR AND BENEFITS OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION

The Share Swap and Absorption and the Subscription will help the Company to expand the scale, optimise the aviation industry chain and enhance the market value of the Company and its subsidiaries in accordance with the established strategy of optimising the industrial structure, promote the investment and integration of aviation ancillary systems. Pursuant to the Outline of the Fourteenth Five-Year Plan for the National Economic and Social Development and the Long-Range Objectives Through the Year 2035” (國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要), the new generation of aviation equipment has become a key development direction of the PRC, which also drives the development of aviation equipment industry chain. As an important part of the aviation equipment industry and the core area of aviation equipment upgrading, airborne systems have ushered in a good opportunity for development. As the main supplier and leading enterprise in the avionics system and aviation electromechanical market, the integration of AVIC Avionics and AVIC Electromechanical will realise the professional integration of avionics systems and electromechanical systems, which is conducive to improving the efficiency of resource allocation, and laying a good foundation for the systemisation, integration and intelligentisation development of the aviation and airborne industry, thereby further improve the professional level and core competitiveness of the Group to build an aviation and airborne industry with international competitiveness. Furthermore, the integration of AVIC Avionics and AVIC Electromechanical could generate product, customer and market and technology, research and development synergies, illustrated as follows:

Product synergy

From a global perspective, the aviation airborne industry has shown a development trend of systematisation, integration and intelligentisation, and some of the major players in the international aviation industry have formed a specialised airborne research and production system. In recent years, AVIC Avionics and AVIC Electromechanical have carried out the professional integration of their respective segments through capital injections and trusteeships. The Board believes that the Share Swap and Absorption and the Subscription will realise the deep integration of avionics system and electromechanical system at the level of airborne industry, which is in line with the global trend and will further enhance the overall strength of the Group’s airborne system.

Customer and market synergy

The major market of China's avionics and aviation electromechanical industries include the Aviation OEMs manufacturers in the aviation field, defense field. The major customers of AVIC Avionics and AVIC Electromechanical are similar. After the Completion and completion of the Subscription, the Enlarged Group may fully integrate internal sales channel resources, share customers and enhance aviation airborne system solutions for customers, which is conducive to further market expansion.

Technology, research and development synergy

The Share Swap and Absorption and the Subscription is in line with the global aviation airborne industry trend and sets a good example to the integration model of aviation industry. After the Completion and completion of the Subscription, the Enlarged Group may develop digitalised

LETTER FROM THE BOARD

system research and development, build a collaborative research and development cloud, congregate research and development resources and realise technology, research and development synergy, which will help to improve the overall development level and strength of China's airborne systems, accelerate major breakthroughs in the key technology areas of airborne systems, enhance our ability to undertake major national airborne tasks, and ensure our supply capacity to downstream enterprises in the aviation industry chain in order to promote the development of aviation industry.

Furthermore, the Subscription would allow AVIC Avionics to improve its capital structure and financial situation. Assuming the completion of the Subscription took place in early 2021, as at 31 May 2022 the assets to liabilities ratio of AVIC Avionics would decrease from 52.46% before the Subscription to 48.49% after the Subscription.

Furthermore, the project constructions and the general working capital will further the business development of AVIC Avionics and provide the Enlarged Group with capital support for the research and production, improve research and production capability and enhance its productivity, thereby improving the competitiveness of products and expanding the market share and enhancing the profitability.

The Directors (excluding the independent non-executive Directors who will form their view after considering the advice of the Independent Financial Adviser) consider that the terms under the Share Swap and Absorption Agreement and the Subscription Agreements which are negotiated on an arm's length basis are on normal commercial terms or better, and the Share Swap and Absorption and the Subscription by the Company are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Furthermore, the Directors (including the independent non-executive Directors) consider that the Subscription by AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

K. LISTING RULES IMPLICATIONS

Acquisition of AVIC Electromechanical and Deemed Disposal

As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the acquisition of AVIC Electromechanical under the Share Swap and Absorption exceeds 100%, the Share Swap and Absorption, if materialised, will constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules.

Furthermore, upon Completion, the shareholding of the Company in AVIC Avionics will reduce from 39.43% to 16.86%. Therefore, the Share Swap and Absorption will also constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Deemed Disposal exceeds 75%, the Deemed Disposal of AVIC Avionics will constitute a very substantial disposal for the Company under Chapter 14 of the Listing Rules.

As at the date of this circular, AVIC Electromechanical is a connected person of the Company by virtue of being owned as to 51.97% by AVIC (i.e. the controlling shareholder of the Company), directly and indirectly through its subsidiaries. The Company has no interest in AVIC Electromechanical as at the date of this circular. Therefore, the Share Swap and Absorption

LETTER FROM THE BOARD

constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the relevant reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Subscription of AVIC Avionics A Shares by the Company

Upon completion of the Subscription, the shareholding the Company in AVIC Avionics will reduce from 16.86% to 16.47%. Therefore, the Subscription by the Company will constitute a Deemed Disposal of AVIC Avionics under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Subscription by the Company exceeds 5% but below 25%, the Subscription, if materialised, will constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, AVIC Avionics is a subsidiary of the Company. Furthermore, it is also a connected subsidiary of the Company by virtue of being owned as to 16.41% by AVIC Airborne Systems, a wholly-owned subsidiary of AVIC. Therefore, the Subscription of AVIC Avionics A Shares by the Company, if materialised, will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratio (other than the profits ratio) in respect of the Subscription of AVIC Avionics A Shares by the Company exceeds 5%, the Subscription of AVIC Avionics A Shares by the Company is subject to the relevant reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Share Swap and Absorption and Subscription were approved by the Board. Mr. Zhang Minsheng, an executive Director and chairman of the Board, who is a chief accountant of AVIC, and Mr. Li Xichuan, a non-executive Director, who is a deputy department chief of AVIC Industry-Finance Holdings Co., Ltd.* (中航工業產融控股股份有限公司), which is a non-wholly owned subsidiary of AVIC, had abstained from voting on the relevant Board resolution approving the Share Swap and Absorption and Subscription in accordance with the Company Law of the PRC and the Listing Rules.

Save as disclosed above, none of the other Directors has or is deemed to have a material interest in such transactions.

L. PROPOSED CHANGE OF DIRECTOR

The Resignation

The Board hereby announces that, due to change in work arrangement, Mr. Li Xichuan ("Mr. Li") applied to the Board for resignation from his position as the non-executive Director and the member of Development and Strategy Committee with effect upon the appointment of the candidate for new Director has been approved at the EGM of the Company. Mr. Li has confirmed that he has no disagreement with the Board and there is no matter that needs to be brought to the attention of the Board and the Shareholders in respect of the resignation.

LETTER FROM THE BOARD

The Company would like to express its sincere gratitude to Mr. Li for his valuable contributions to the Company during his term of service.

Proposed appointment of director

The Board is pleased to announce that at the Board meeting held on 30 August 2022, Mr. Liu Bingjun (“**Mr. Liu**”) has been nominated as the candidate for non-executive Director with a term of office commencing from the date on which his proposed appointment is approved at the EGM until the date on which the resolution relating to the election of the Board will be considered at the annual general meeting to be convened in 2024. The salary of Mr. Liu will be determined by the Remuneration Committee of the Company by reference to his qualifications, experience and the prevailing market conditions, subject to the authorization of the EGM. As at the date of this circular, no director service contract has been entered into between Mr. Liu and the Company. Details of the remuneration of Directors will be disclosed in the Company’s annual reports.

The biographical details of Mr. Liu are set out as follows:

Mr. Liu Bingjun (劉秉鈞), 46, a master degree holder. Mr. Liu has served as the director of Asset Enterprise Management Department of China Aviation Industry Corporation II (中國航空工業第二集團公司); senior business manager of Capital Operation Department of AVIC; director of Listing Office and vice director of Securities Affairs Department of AVIC Helicopter; vice director of Planning and Development Department, vice president and board secretary of AVICOPTER; and vice director of Compliance and Risk Control Department of the Company. Since April 2022, Mr. Liu has served as vice director of the Capital Operation Department of AVIC.

As far as the Directors are aware, save as disclosed above, as at the date of this circular, Mr. Liu does not hold any directorships in other public listed companies. Mr. Liu does not have any relationship with any Director, supervisors, senior management or substantial or controlling Shareholders, and does not have any interests or short positions within the meaning of Part XV of the Securities and Futures Ordinance in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Save as disclosed above, there is no other information that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules nor are there any matters that need to be brought to the attention of the Shareholders in relation to the proposed appointment of Mr. Liu.

M. EGM

The EGM will be held at 9 a.m. on Wednesday, 26 October 2022 at 6/F, Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the People’s Republic of China. The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM are also enclosed. 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

LETTER FROM THE BOARD

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 3,553,069,569 H Shares and 1,250,899,906 domestic shares in the Company, representing 62.30% equity interest in the Company. AVIC and its associates will abstain from voting at the EGM in respect of the ordinary resolutions to be proposed in relation to the Share Swap and Absorption Agreement and Subscription Agreements and the transactions contemplated thereunder.

To the best knowledge of the Directors after having made all reasonable enquiries, apart from AVIC and its associates, holding 3,553,069,569 H Shares and 1,250,899,906 domestic shares in the Company, no other Shareholder has a material interest in the transactions contemplated under the Share Swap and Absorption Agreement, Subscription Agreements and the proposed appointment of Director and therefore no other Shareholder will be required to abstain from voting at the EGM in respect of the ordinary resolutions to be proposed in relation to the Share Swap and Absorption Agreement, Subscription Agreements, the transactions contemplated thereunder and the proposed appointment of Director.

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.

N. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 33 of this circular which contains the recommendation of the Independent Board Committee containing its opinion and recommendations on the Share Swap and Absorption Agreement and Subscription Agreements and the transactions contemplated thereunder; (ii) the letter from Maxa Capital, the Independent Financial Adviser, set out on pages 34 to 57 of this circular which contains its advice on the connected transactions contemplated under the Share Swap and Absorption Agreement and Subscription Agreements to the Independent Board Committee and the Independent Shareholders; and (iii) additional information set out in the appendices to this circular.

The Directors (including the independent non-executive Directors) consider that the proposed appointment of Mr. Liu as the non-executive Director is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the ordinary resolution to approve the proposed appointment of Mr. Liu as the non-executive Director at the EGM.

The Directors and the Independent Board Committee, having taken into account the advice of Maxa Capital, consider that the ordinary resolutions as set out in the notice of the EGM, in relation to the Share Swap and Absorption Agreement and Subscription Agreements and the transactions contemplated thereunder is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Share Swap and Absorption Agreement and the Subscription Agreements and the transactions contemplated thereunder to be proposed at the EGM.

LETTER FROM THE BOARD

As the completion of the Share Swap and Absorption and Subscription is subject to the fulfilment of conditions precedent of the Share Swap and Absorption Agreement and Subscription Agreements, 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*
Xu Bin
Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

29 September 2022

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) of the Company dated 29 September 2022 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 Share Swap and Absorption Agreement and the Subscription Agreements and the transactions contemplated thereunder, though not in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Maxa Capital 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 6 to 32 of the Circular and the letter from Maxa Capital set out on pages 34 to 57 of the Circular.

Having considered the advice given by Maxa Capital, we are of the opinion that the Share Swap and Absorption Agreement and the Subscription Agreements and the transactions contemplated thereunder 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. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Share Swap and Absorption Agreement and the Subscription Agreements and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee
AviChina Industry & Technology Company Limited*

Liu Weiwu

Mao Fugen

Lin Guiping

Independent Non-executive Directors

* For identification purpose only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



Unit 1908, Harbour Center
25 Harbour Road
Wan Chai
Hong Kong

29 September 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

- (1) CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY
INTEREST IN AVIC ELECTROMECHANICAL;
(2) CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL
IN RELATION TO THE DEEMED DISPOSAL OF THE
EQUITY INTEREST IN AVIC AVIONICS; AND
(3) CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION
IN RELATION TO THE SUBSCRIPTION AND DEEMED DISPOSAL OF
AVIC AVIONICS A SHARES BY THE COMPANY**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board of Committee and the Independent Shareholders in relation to the Share Swap and Absorption and the Subscription, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 29 September 2022 issued by the Company (“the **Circular**”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 10 June 2022 (after trading hours), AVIC Avionics and AVIC Electromechanical entered into the Share Swap and Absorption Agreement, pursuant to which AVIC Avionics has agreed to issue AVIC Avionics A Shares to the Share Swap participating shareholders of AVIC Electromechanical as at the Share Swap Date in exchange for the AVIC Electromechanical A Shares held by them at an exchange ratio of 1 AVIC Electromechanical A Shares to 0.6647 AVIC Avionics A Share. Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration. The Exchange Shares will be listed and circulated on the main board of the Shanghai Stock Exchange.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conditional upon the Share Swap and Absorption Agreement becoming effective, AVIC Avionics also intended to place AVIC Avionics A Shares to not more than 35 designated investors (including the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry) to raise fund at a total amount not exceeding RMB5,000 million. On 10 June, 2022 (after trading hours), AVIC Avionics has entered into the Subscription Agreements with the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, respectively. Pursuant to the Subscription Agreements, subject to the Completion, (i) the Company has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB500 million in cash; (ii) AVIC Aviation Industry Investment agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB300 million in cash; (iii) AVIC Shenfei has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash; and (iv) Chengdu Aircraft Industry has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash.

On 10 June 2022 (after trading hours), the Company and AVIC Airborne Systems entered into the Entrusted Voting Arrangement Agreement, pursuant to which AVIC Airborne Systems will entrust the Company to exercise the voting rights of the AVIC Avionics A Shares held by AVIC Airborne Systems for an indefinite period until such arrangement is terminated by the Company and AVIC Airborne Systems by mutual agreement. No consideration is payable under the Entrusted Voting Arrangement Agreement.

Based on the shareholding of AVIC Avionics after the Share Swap and Absorption and the Subscription as disclosed in the section headed “H. EFFECT OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION ON THE SHAREHOLDING STRUCTURE OF AVIC AVIONICS” in the Letter from the Board, after the Entrusted Voting Arrangement becoming effective, the Company will be able to exercise approximately 47.54% voting right in AVIC Avionics. AVIC Avionics will continue to be a subsidiary of the Company and consolidated in the consolidated financial statements of the Company.

As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the acquisition of AVIC Electromechanical under the Share Swap and Absorption exceeds 100%, the Share Swap and Absorption, if materialised, will constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Furthermore, upon completion of the Share Swap and Absorption, the shareholding the Company in AVIC Avionics will reduce from 39.43% to 16.86%. Therefore, the Share Swap and Absorption will also constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Deemed Disposal exceeds 75%, the Deemed Disposal of AVIC Avionics will constitute a very substantial disposal for the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, AVIC Electromechanical is a connected person of the Company by virtue of being owned as to 51.97% by AVIC (i.e. the controlling shareholder of the Company), directly and indirectly through several of its subsidiaries. Therefore, the Share Swap and Absorption constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the relevant reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Upon completion of the Subscription, the shareholding of the Company in AVIC Avionics will reduce from 16.86% to 16.47%. Therefore, the Subscription of AVIC Avionics A Shares by the Company will constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. As the highest applicable

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Subscription of AVIC Avionics A Shares by the Company exceeds 5% but below 25%, the Subscription, if materialised, will constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, AVIC Avionics is a subsidiary of the Company and a connected subsidiary of the Company by virtue of being owned as to 16.42% by AVIC Airborne Systems, a wholly-owned subsidiary of AVIC. Therefore, the Subscription of AVIC Avionics A Shares by the Company, if materialised, will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratio (other than the profits ratio) in respect of the Subscription of AVIC Avionics A Shares by the Company exceeds 5%, the Subscription of AVIC Avionics A Shares by the Company is subject to the relevant reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise and provide recommendations to the Independent Shareholders in respect of the Share Swap and Absorption and the Subscription. We, Maxa Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Share Swap and Absorption and the Subscription.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company in accordance with Rule 13.84 of the Listing Rules and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Share Swap and Absorption and the Subscription. Save for this appointment as the Independent Financial Adviser, there was no other engagement between the Company and us in the last two years. Apart from the normal advisory fee payable to us in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company (the "**Management**"). We have reviewed, inter alia, the statements, the information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the EGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company confirmed that they have, at our request, provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representation and opinions expressed by the Company, its advisers, the Directors and the Management. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Company, AVIC Avionics, AVIC Electromechanical and each of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

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

Set out below is the summarised financial information of the Group for (i) the year ended 31 December 2019 (“FY2019”), prepared in accordance with the International Financial Reporting Standards; and (ii) the two years ended 31 December 2021 respectively and six months ended 30 June 2022, prepared in accordance with the China Accounting Standards for Business Enterprises, as extracted from the 2022 interim results announcement, 2021 annual report and 2020 annual report of the Company:

	For the year ended 31 December			For six months ended	
	2019 (restated) <i>RMB (million)</i>	2020 (restated) <i>RMB (million)</i>	2021 (audited) <i>RMB (million)</i>	30 June 2021 (unaudited) <i>RMB (million)</i>	2022 (unaudited) <i>RMB (million)</i>
Revenue	43,831.76	50,929.90	60,296.28	27,897.39	25,812.63
Net profit attributable to owners	1,347.17	1,932.99	2,369.28	1,199.15	1,153.51

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	(restated)	(restated)	(audited)	(unaudited)
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
Total assets	107,816.13	115,648.59	133,889.14	134,498.20
Total liabilities	67,975.36	69,498.58	79,122.63	78,286.31
Total equity	39,840.77	46,150.00	54,766.50	56,211.88

As shown in the table above, the Group recorded steady growth in the revenue during the three years ended 31 December 2021. For the year ended 31 December 2021 (“FY2021”), the Group’s revenue amounted to approximately RMB60,296.28 million, representing an increase of approximately 18.39% as compared to that for the year ended 31 December 2020 (“FY2020”), and it is mainly attributable to the increase in revenue of the Group’s aviation entire aircraft business of approximately 6.97% and the increase in revenue of the Group’s aviation ancillary system and related business of approximately 30.00%. For FY2020, the Group recorded a revenue of approximately RMB50,929.90 million, representing an increase of approximately 16.19% as compared to that for FY2019, and it is mainly attributable to the increase of sales volume of helicopter products and connector products. The Group recorded profit attributable to owners of approximately RMB2,369.28 million in FY2021, representing an increase of approximately 22.57% as compared to that for FY2020, and it is mainly attributable to the increase of revenue and the growth of gross profit. The Group’s profit attributable to owners for FY2020 amounted approximately RMB1,932.99 million, representing an increase of approximately 43.49% as compared to that for FY2019, and it is mainly attributable to the increase of operating profit and decrease in the finance cost. For six months ended 30 June 2022, the Group recorded decrease in revenue and net profit attributable to owners of approximately 7.47% and 3.81% respectively as compared to that for the same period of 2021, mainly due to the decrease in sales volume of certain helicopters affected by the adjustment of helicopter products structure.

The Group’s net assets have been increasing stably during FY2019, FY2020 and FY2021. The Group’s net asset as at 31 December 2021 increased by approximately 18.67% as compared to that as at 31 December 2020. The Group’s net asset value as at 31 December 2020 increased by approximately 15.84% as compared to that as at 31 December 2019. As at 30 June 2022, the Group’s net assets recorded a growth of approximately 2.64% as compared to that as at 31 December 2021.

2. Background information of AVIC Avionics

AVIC Avionics is a joint stock limited liability company established in the PRC, whose A shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, the Company owns 39.43% equity interest in AVIC Avionics and it is a non-wholly-owned subsidiary of the Company. It is mainly engaged in the manufacture of avionics products and related accessories.

Set out below is the summarised unaudited financial information of AVIC Avionics prepared in accordance with the China Accounting Standards for Business Enterprises for FY2019, FY2020, FY2021 and five months ended 31 May 2022, respectively as extracted from the Appendix II to the Circular:

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	For the year ended			For five months ended	
	31 December			31 May	
	2019	2020	2021	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>
Revenue	8,352.19	8,746.61	9,839.30	3,360.65	3,722.10
Net profit attributable to owners	556.02	630.78	798.70	261.59	309.63
	As at 31 December			As at 31 May	
	2019	2020	2021	2022	
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	
Total assets	22,696.70	24,719.90	26,262.65	26,463.29	
Total liabilities	14,474.42	13,691.59	14,610.62	14,655.86	
Total equity	8,222.28	11,028.31	11,652.03	11,807.43	

As shown in the table above, AVIC Avionics recorded stable growth on both revenue and profit. For FY2021 and FY2020, AVIC Avionics recorded a growth in revenue of approximately 12.49% and 4.72% as compared to that of the previous year, respectively. For FY2021 and FY2020, AVIC Avionics recorded a growth in net profit attributable to owners of approximately 26.62% and 13.45% as compared to that of the previous year, respectively. For five months ended 31 May 2022, AVIC Avionics recorded growth in revenue and net profit attributable to owners of approximately 10.86% and 18.36% respectively as compared to that as at 31 May 2021.

As at 31 December 2021 and 2020, AVIC Avionics' net assets recorded a growth of approximately 5.66% and 34.13% as compared to that as at 31 December 2020 and 2019, respectively. As at 31 May 2022, AVIC Avionics' net assets recorded a growth of approximately 1.33% as compared to that as 31 December 2021.

3. Background information of AVIC Electromechanical

AVIC Electromechanical is a joint stock limited liability company established in the PRC on 5 December 2000 with its shares listed on the Shenzhen Stock Exchange. AVIC Electromechanical is mainly engaged in development, production, sales and service of airborne electromechanical systems and equipment for all types of aircraft and engines. As at the Latest Practicable Date, AVIC Electromechanical is a connected person of the Company by virtue of being owned as to 51.97% by AVIC (i.e. the controlling shareholder of the Company), directly and indirectly through several of its subsidiaries. The Company has no interest in AVIC Electromechanical as at the Latest Practicable Date. At the time of establishment of AVIC Electromechanical, Life Saving Research Institute subscribed for 25.30 million shares at a consideration of RMB38.5 million for 84.33% of equity interest in AVIC Electromechanical. At the time of establishment of AVIC Electromechanical, Life Saving Research Institute was controlled by China Aviation

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Industry Corporation I (中國航空工業第一集團). In 2008, China Aviation Industry Corporation I merged with China Aviation Industry Corporation II (中國航空工業第二集團) to form AVIC and AVIC has since become the actual controller of Life Saving Research Institute.

Set out below is the summarised financial information of AVIC Electromechanical prepared in accordance with the China Accounting Standards for Business Enterprises for FY2019, FY2020, FY2021 and five months ended 31 May 2022, respectively, as extracted from the Appendix IV to the Circular:

	For the year ended			For five months ended	
	31 December			31 May	
	2019	2020	2021	2021	2022
	(audited)	(audited)	(audited)	(unaudited)	(audited)
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>
Revenue	12,131.38	12,224.10	14,992.20	6,310.70	6,712.69
Net profit attributable to owners	960.48	1,073.76	1,271.88	509.81	540.21

	As at 31 December			As at 31 May
	2019	2020	2021	2022
	(audited)	(audited)	(audited)	(audited)
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
Total assets	28,757.96	30,506.12	34,893.01	34,815.59
Total liabilities	16,073.22	14,503.36	17,658.14	17,583.88
Total equity	12,684.74	16,002.75	17,234.87	17,231.72

As shown in the table above, AVIC Electromechanical recorded stable growth on both revenue and profit. For FY2021 and FY2020, AVIC Electromechanical recorded a growth in revenue of approximately 22.64% and 0.76% as compared to that of the previous year, respectively. For FY2021 and FY2020, AVIC Electromechanical recorded a growth in net profit attributable to owners of approximately 18.45% and 11.79% as compared to that of the previous year, respectively. For five months ended 31 May 2022, AVIC Electromechanical recorded growth in revenue and net profit attributable to owners of approximately 6.37% and 5.96% respectively as compared to that as at 31 May 2021.

As at 31 December 2021 and 2020, AVIC Electromechanical's net assets recorded a growth of approximately 7.70% and 26.16% as compared to that as at 31 December 2020 and 2019, respectively. As at 31 May 2022, AVIC Avionics' net assets recorded a slight decrease of approximately 0.02% as compared to that as 31 December 2021.

4. Reasons for and benefits of the Share Swap and Absorption and the Subscription

As mentioned in the Letter from the Board, the Share Swap and Absorption and the Subscription will help the Company to expand the scale, optimise the aviation industry chain and enhance the market value of the Company and its subsidiaries in accordance with the established strategy of optimising the industrial

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structure, promote the investment and integration of aviation ancillary systems. Pursuant to the Outline of the Fourteenth Five-Year Plan for the National Economic and Social Development and the Long-Range Objectives Through the Year 2035” (國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要), the new generation of aviation equipment has become a key development direction of the PRC, which also drives the development of aviation equipment industry chain. As an important part of the aviation equipment industry and the core area of aviation equipment upgrading, airborne systems have ushered in a good opportunity for development. As the main supplier and leading enterprise in the avionics system and aviation electromechanical market, the integration of AVIC Avionics and AVIC Electromechanical will realise the professional integration of avionics systems and electromechanical systems, which is conducive to improving the efficiency of resource allocation, exerting synergistic effects, and laying a good foundation for the systemisation, integration and intelligentisation development of the aviation and airborne industry, thereby further improve the professional level and core competitiveness of the Group to build an aviation and airborne industry with international competitiveness. Furthermore, the integration of AVIC Avionics and AVIC Electromechanical could generate synergies in respect of products, customers and markets, as well as technology, research and development. In addition, the Subscription would allow AVIC Avionics to improve its capital structure and financial situation. The project constructions and the general working capital will further the business development of AVIC Avionics and provide the Enlarged Group with capital support for the research and production, improve research and production capability and enhance its productivity, thereby improving the competitiveness of products and expanding the market share and enhancing the profitability. For further details in this regard, please refer to the section headed “J. REASONS FOR AND BENEFITS OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION” in the Letter from the Board.

The Company has considered other alternative fundraising methods such as debt financing. However, should the original shareholders of AVIC Avionics decide not to participate in the Subscription, their shareholdings of AVIC Avionics A Shares will be diluted after the completion of the Subscription. The Company considered that debt financing may incur interest burden on the Group and will increase the ongoing interest expenses of the Group which may in turn affect the gearing ratio and profitability of the Company. Besides, debt financing may also be subject to lengthy due diligence and negotiations with the banks, which may be relatively uncertain and time-consuming. On the other hand, the Board considers that the Subscription would allow the Company to strengthen its balance sheet by raising fund without the need for payment of interest and repayment, which is of a lower financial cost as compared to that of debt financing. Furthermore, the time required for the Subscription is relatively shorter compared to that of debt financing. Therefore, the Company considers that the Subscription is currently the most feasible fundraising method to the Company. For further details in this regard, please refer to the section headed “Other fundraising alternatives” in the Letter from the Board.

Based on the above and our further analysis in the section headed “9. Financial effects of the Share Swap and Absorption and the Subscription on the Group” below in our letter, we concur with the Directors that the Share Swap and Absorption and the Subscription by the Company are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the Share Swap and Absorption

AVIC Avionics has entered into the Share Swap and Absorption Agreement with AVIC Electromechanical, the principal terms of which are summarised as follows:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date

10 June 2022

Parties to the Share Swap and Absorption Agreement

- 1) AVIC Avionics; and
- 2) AVIC Electromechanical

Subject Matter

AVIC Avionics has agreed to issue AVIC Avionics A Shares to the Share Swap participating shareholders of AVIC Electromechanical in exchange for the entire AVIC Electromechanical A Shares held by them as at the Share Swap Date. Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration. Application will be made by AVIC Avionics to the Shanghai Stock Exchange for approval for the listing of, and permission to deal in, the Exchange Shares.

The Exchange Price and the Exchange Ratio

The Exchange Ratio is determined with reference to the exchange price of AVIC Avionics A Shares (the “**AVIC Avionics Exchange Price**”) and the exchange price of AVIC Electromechanical A Shares (the “**AVIC Electromechanical Exchange Price**”). Each of the AVIC Electromechanical Exchange Price and the AVIC Avionics Exchange Price is determined with reference to the average trading price of AVIC Electromechanical A Shares and AVIC Avionics A Shares, respectively, for the 120 trading days prior to the Price Determination Date. Based on the above formula, AVIC Electromechanical Exchange Price is RMB12.59 per share (as adjusted by its 2021 profit distribution plan) and AVIC Avionics Exchange Price is RMB18.94 per share (as adjusted by its 2021 profit distribution plan). Therefore, the Exchange Ratio equals to 1: 0.6647, which means that one AVIC Electromechanical A Share can exchange for 0.6647 AVIC Avionics A Share.

The Exchange Ratio was arrived at with reference to, among other things, (i) the rules and regulations under the Material Asset Restructuring Measures (《上市公司重大資產重組管理辦法》) and the Companies Law of the PRC; (ii) the valuation value of AVIC Electromechanical and AVIC Avionics in the past; and (iii) the usual practice and operation of share swap and absorption in other comparable cases in the market. Furthermore, the Company considers that the 120 days average trading prices of AVIC Avionics A Shares and AVIC Electromechanical A Shares can better reflect the fair value of AVIC Avionics and AVIC Electromechanical given the recent huge short-term fluctuation of the A-shares stock market.

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Number of Exchange Shares to be issued

As at the Latest Practicable Date, the total issued share capital of AVIC Electromechanical is 3,884,824,789 AVIC Electromechanical A Shares, which will all participate in the Share Swap and Absorption. Based on the Exchange Ratio, it is estimated that a total of 582,243,037 AVIC Avionics A Shares (representing approximately 133.92% of the AVIC Avionics A Shares in issue as at the Latest Practicable Date) will be issued as Exchange Shares to the shareholders of AVIC Electromechanical. Upon Completion, the total number of issued shares of AVIC Avionics will be 4,510.46 million.

If any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital, allotment of shares and cancellation of treasury shares occurs on AVIC Avionics or AVIC Electromechanical between the Price Determination Date to the implementation date of Share Swap and Absorption, the number of Exchange Shares will be adjusted accordingly.

The number of AVIC Avionics A Shares to be acquired by the AVIC Electromechanical shareholders shall be an integer. If the number of AVIC Electromechanical A Shares held by them is not an integer after multiplying the Exchange Ratio, the AVIC Electromechanical shareholders shall be sorted according to the size of the mantissa after the decimal point and one AVIC Avionics A Share will be issue to these shareholders in turn until the actual number of swapped AVIC Avionics A Shares equals to the number of AVIC Avionics A Shares intended to be issued for the Share Swap and Absorption.

Upon completion of the Share Swap and Absorption, the shareholding of the Company in AVIC Avionics will reduce from 39.43% to 16.86%. Therefore, the Share Swap and Absorption will also constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. According to the Entrusted Voting Arrangement as disclosed in the Letter from the Board, AVIC Avionics will continue to be a subsidiary of the Company upon the completion of the Share Swap and Absorption and the Subscription.

Listing of the Exchange Shares

The Exchange Shares will be listed and circulated on the main board of the Shanghai Stock Exchange.

Appraisal Right of the Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders

Pursuant to the Share Swap and Absorption Agreement, the Company has agreed to grant the AVIC Avionics Appraisal Right to the shareholders of AVIC Avionics and the AVIC Electromechanical Appraisal Right to the shareholders of AVIC Electromechanical. The AVIC Avionics Appraisal Right and the AVIC Electromechanical Appraisal Right are exercisable on the Appraisal Right Execution Date, pursuant to which the Opposing AVIC Avionics Shareholders can request the Company to purchase the AVIC Avionics A Shares at the AVIC Avionics Appraisal Right

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Exercise Price and the Opposing AVIC Electromechanical Shareholders can request the Company to purchase the AVIC Electromechanical A Shares at the AVIC Electromechanical Appraisal Right Exercise Price.

The AVIC Avionics Appraisal Right Exercise Price equals to RMB18.32 per share (as adjusted by its 2021 profit distribution plan), which is determined with reference to the its average trading price for the 20 trading days of AVIC Avionics prior to the Price Determination Date. The AVIC Avionic Appraisal Right Exercise Price was arrived at with reference to the usual practice and operation of share Swap and absorption in 20 other comparable cases (the “Comparable Cases”) in the market (including but not limited to the share swap and absorption of : (i) Beijing Capital Retailing Group Co., Ltd.* (北京首商集團股份有限公司) by Wangfujing Group Co., Ltd.* (王府井集團股份有限公司); (ii) Yingkou Port Liability Co., Ltd.* (營口港務股份有限公司) by Liaoning Port Co., Ltd. (遼寧港口股份有限公司); (iii) China CNR Corporation Limited* (中國北車股份有限公司) by CSR Corporation Limited* (中國南車股份有限公司); (iv) Chongqing Titanium Industry Co., Ltd of Pangang Group* (攀鋼集團重慶鈦業有限公司) by Panzhihua New Steel & Vanadium Co., Ltd.* (攀枝花新鋼鈞股份有限公司); and (v) Shanghai Airlines Co., Ltd.* (上海航空股份有限公司) by China Eastern Airlines Corporation Limited* (中國東方航空股份有限公司), which the appraisal right exercise price is set as the average trading price for the 20 trading days of the listed company prior to the announcement date of the board approval of the share swap and absorption. Considering: (i) the AVIC Avionics Appraisal Right Exercise Price has no premium over the average trading price for the 20 trading days of AVIC Avionics prior to the Price Determination Date, which is in line with the market practice and is the same as the 1st quartile, median and 3rd quartile of the premium rate of the appraisal right exercise price of the dissenting shareholders in the Comparable Cases; and (ii) the shares of AVIC Avionics is freely transferable in the secondary market and the use of the average trading price of AVIC Avionics can better reflect the value of shares AVIC Avionics, the Directors are of the view that the AVIC Avionics Appraisal Right Exercise Price is fair and reasonable.

The AVIC Electromechanical Appraisal Right Exercise Price equals to RMB10.33 per share (as adjusted by its 2021 profit distribution plan), which is determined with reference to the average trading price of AVIC Electromechanical for the 20 trading days prior to the Price Determination Date. The AVIC Electromechanical Appraisal Right Exercise Price was arrived at with reference to the usual practice and operation of share swap and absorption in other comparable cases in the market, which the appraisal right exercise price is set as the average trading price for the 20 trading days of the listed company prior to the announcement date of the board approval of the share swap and absorption.

For further details in this regard, please refer to the section headed “Appraisal Right of the Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders” in the Letter from the Board.

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Arrangement for the Rollover of the Undistributed Profits of AVIC Avionics and AVIC Electromechanical

In addition to the profit distribution plan approved by the respective shareholders' meetings of AVIC Avionics and AVIC Electromechanical, the accumulated undistributed profits of AVIC Avionics and AVIC Electromechanical as at the Share Swap Date shall be shared by the old and new shareholders of AVIC Avionics in proportion to their shareholdings.

Conditions precedent

The Share Swap and Absorption Agreement shall take effect upon the satisfaction of the following conditions:

- 1) the Share Swap and Absorption Agreement having been duly signed by AVIC Avionics and AVIC Electromechanical;
- 2) AVIC Avionics, AVIC Electromechanical and the Company having obtained all effective approvals in respect of the Share Swap and Absorption from its board of directors and shareholders pursuant to their respective articles and associations;
- 3) the Share Swap and Absorption having completed all the regulatory procedures of the Stock Exchange; and
- 4) the Share Swap and Absorption having obtained approvals from SASTIND, SASAC and CSRC.

Completion

The date of Completion shall be the date of completion of the transfer of all business operation, assets and liabilities of AVIC Electromechanical to AVIC Avionics. Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration.

6. Principal terms of the Subscription

Conditional upon the Share Swap and Absorption Agreement becoming effective, AVIC Avionics also intended to place AVIC Avionics A Shares to not more than 35 designated investors (including the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, the "Subscribers") to raise fund at a total amount not exceeding RMB5,000 million. AVIC Avionics has also entered into the Subscription Agreements with the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, the principal terms of which are summarised as follows:

Date

10 June 2022

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Parties to the Subscription Agreements

- 1) AVIC Avionics;
- 2) the Company;
- 3) AVIC Aviation Industry Investment;
- 4) AVIC Shenfei; and
- 5) Chengdu Aircraft Industry (the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, collectively the “**AVIC Subscribers**”)

Subject Matter

Conditional upon the approval of the Share Swap and Absorption, (i) the Company has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB500 million in cash; (ii) AVIC Aviation Industry Investment agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB300 million in cash; (iii) AVIC Shenfei has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash; and (iv) Chengdu Aircraft Industry has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash. If the number of issued shares of AVIC Avionics is less than one share, the AVIC Subscribers agree to round off the non-integer part. If the balance of the subscription amount is insufficient to convert into one share, such balance shall be converted into the capital reserve of AVIC Avionics.

The final subscription amount and the number of subscribed AVIC Avionics A Shares shall be in accordance with the payment notice as issued to the AVIC Subscribers by the underwriter of AVIC Avionics.

The aviation and airborne equipment manufacturing industry is a typically high-tech, high-value added and high-risk strategic industry which is knowledge, technology and capital-intensive. The aviation industry in China is experiencing a rapid growth, and puts high requirements on research and development and modification of airborne equipment, which requires a large amount of funds investment.

In order to cope with the national industrial policies and industry development trends, the Group will require capital to improve its production capacity and facilities so as to enhance its production efficiency and product competitiveness and expand its market shares, so that the production tasks can be successfully completed. Although AVIC Avionics and AVIC Electromechanical have issued convertible corporate bonds to raise approximately RMB2,400 million and RMB2,100 million in 2017 and 2018 respectively, AVIC Avionics has fully utilised and AVIC Electromechanical has utilised most of the proceeds raised from the issue of the convertible corporate bonds.

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Furthermore, with the increase in market demand, there was continuous increase in revenue for AVIC Avionics and AVIC Electromechanical from 2019 to 2021, with a compound annual growth rate of 8.78% and 8.81%, respectively. As a result, in order to meet the increasing orders from customers, AVIC Avionics and AVIC Electromechanical had to purchase more raw materials for production and expand storage and budgets, resulting in the continuous growth of inventories. For the three years ended 31 December 2021, the inventories of AVIC Avionics amounted to RMB3,962 million, RMB4,746 million and RMB6,112 million, and the inventories of AVIC Electromechanical amounted to RMB4,489 million, RMB5,277 million and RMB6,228 million, respectively. With the increase in inventories and accounts receivable alongside with the increase in revenue of AVIC Avionics and AVIC Electromechanical, there will be an increase in demand for working capital of the Enlarged Group so as to maintain its cashflow position.

Therefore, in order to support the long-term development of AVIC Avionics and the Enlarged Group, the Board is of the view that there is an imminent need to perform the fund raising after the Completion, so as to provide capital for the enhancement of the production capacity and supplement working capital of the Enlarged Group to ensure the stable development of the Enlarged Group and cope with the national industrial policies and industry development trends.

Use of Proceeds

Upon completion of the Subscription, it is estimated that the maximum amount of fund raised by AVIC Avionics will be RMB5,000 million. The proceeds from the Subscription will be used to expand production capacity, improve R&D and production capability and supplement the working capital of AVIC Avionics, repay the debt of AVIC Avionics. In the event the proceeds raised from the Subscription is less than RMB5,000 million, the Group will decide the sequence of the use of the proceeds and the amount of proceeds to be used in the above projects based on, including but not limited to, the investment amounts and urgency of needs of capital of the projects. The Group will prioritise projects that are more urgent and require less funds. For details of the use of proceeds from the Subscription and the corresponding amount, please refer to the sub-section headed "Use of Proceeds" in the Letter from the Board.

Subscription Price

The Subscription Price will be determined by the underwriters for the Subscription and the board of directors of AVIC Avionics after:

- 1) CSRC has approved the Subscription;
- 2) the board of directors of AVIC Avionics have obtained the authorisation from the shareholders' meeting of AVIC Avionics in accordance to the relevant laws and regulations; and
- 3) considering the price quotation provided by the Subscribers during the price consultation process.

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In any event, the Subscription Price shall not be lower than 80% of the average trading price (the “**Average Trading Price**”) of AVIC Avionics A Shares for the 20 trading days prior to the price determination date of the Subscription (being the first day of the Subscription), with ex-rights and ex-dividend events adjustment. The Average Trading Price was determined based on the regulations under the Administrative Measures, pursuant to which the issue price of any non-public issued shares shall not be lower than 80% of the average trading price of the shares for the 20 trading days prior to the price determination date.

The Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry will not participate in the price consultation process of the Subscription. However, they will accept the results of the price consultation process and subscribe for AVIC Avionics A Shares with the Subscription Price. If the Subscription Price is not determined by the price consultation process, the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry will subscribe AVIC Avionics A Shares at the Average Trading Price.

If any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital and allotment of shares, occurs on any of the 20 trading days (including both the starting and the end date) prior to the first day of the Subscription, the trading price on the date prior to the occurrence of such ex-rights and ex-dividend event shall be adjusted as the trading price after the ex-rights and ex-dividend event. If any of the abovementioned ex-rights and ex-dividend events occur between the first date of the Subscription and the last date of the Subscription (including both days), the Subscription Price will be adjusted according to the relevant regulations of CSRC and the Shanghai Stock Exchange.

The AVIC Subscribers will use their own capital to finance the Subscription. They shall pay the total Subscription amount to the designated bank account for Subscription opened by the underwriter after the effective date of the Subscription Agreement and receipt of the payment notice issued by the underwriter.

Lock-up Period

The AVIC Subscribers undertake not to transfer any of their subscribed AVIC Avionics A Shares within 18 months after the Subscription. For Subscribers other than the AVIC Subscribers, they will undertake not to transfer any of their subscriber AVIC Avionics A Shares within 6 months after the Subscription.

The lock-up period is determined with reference to the regulations under the Administrative Measures, pursuant to which the lock-up period for any non-public issued shares of a listed company subscribed by: (i) independent subscribers shall be 6 months, and (ii) controlling shareholder, actual controller or a corporation controlled by the controlling shareholder or actual controller of a listed company shall be 18 months. As AVIC is the actual controller of AVIC Avionics and AVIC Subscribers are companies controlled by AVIC, the lock-up period for AVIC Subscribers is therefore 18 months.

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Conditions precedent

The Subscription Agreements shall take effect upon the satisfaction of the following conditions:

- 1) the Subscription Agreements having been duly signed by AVIC Avionics, the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry;
- 2) the Subscription having obtained all effective approvals from the board of directors and shareholders pursuant to the articles and associations of AVIC Avionics and AVIC Electromechanical;
- 3) the Share Swap and Absorption Agreement having become effective;
- 4) the Subscription having obtained all effective approvals from (i) the Board and Shareholders pursuant to the articles and associations of the Company; (ii) the internal investment decision making body of AVIC Aviation Industry Investment; (iii) the board of directors and shareholders pursuant to the articles and associations of AVIC Shenfei; and (iv) the internal investment decision making body of Chengdu Aircraft Industry;
- 5) the Subscription having completed all the regulatory procedures of the Stock Exchange; and
- 6) the Subscription having obtained approvals from SASTIND, SASAC and CSRC.

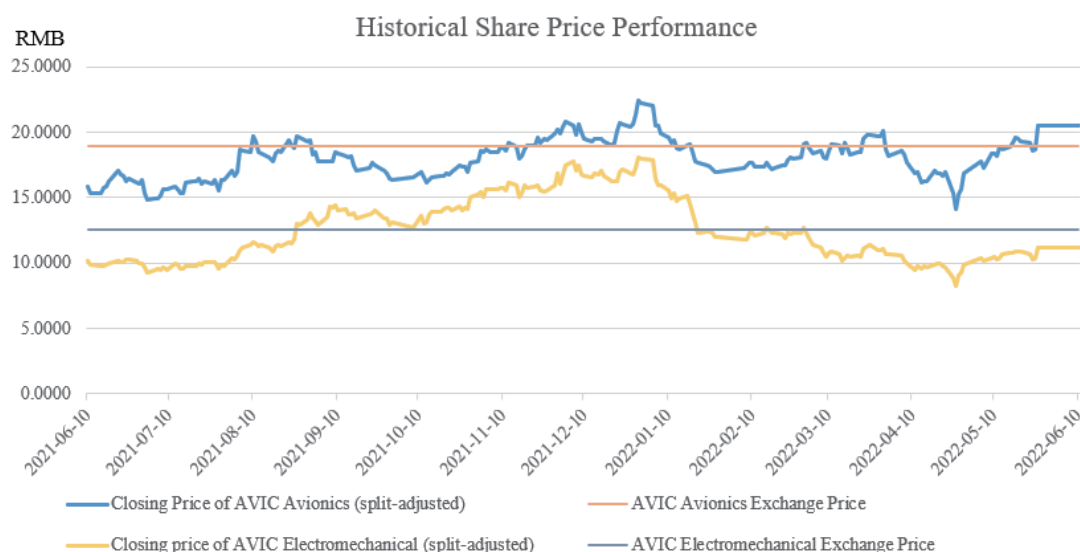
7. Assessment of the terms of the Share Swap and Absorption and the Subscription

7.1 Historical share performance

In order to assess the fairness and reasonableness of the Exchange Ratio, which is determined by the AVIC Avionics Exchange Price and the AVIC Electromechanical Exchange Price, we have reviewed the closing price performance of the AVIC Avionics A Shares and the AVIC Electromechanical A Shares as quoted on the Shanghai Stock Exchange and the Shenzhen Stock Exchange from 10 June 2021, being the 12 months period prior to the date of the Announcement (“**Announcement Date**”) (the “**Review Period**”). We consider that the Review Period is appropriate as it covers the period of the recent annual and interim financial result publications of AVIC Avionics and AVIC Electromechanical prior to the Announcement Date and represents a reasonable period to provide a general overview of the recent trend of the share prices of both AVIC Avionics and AVIC

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Electromechanical. The following chart illustrates the closing price performances of the AVIC Avionics A Shares and the AVIC Electromechanical A Shares during the Review Period, as adjusted for all applicable splits and dividend distributions:



As shown in the chart above, the closing price of the AVIC Avionics A Shares and the AVIC Electromechanical A Shares fluctuated during the Review Period and represent similar trend. During the Review Period, the closing price of the AVIC Avionics A Shares is within the range from RMB14.12 to RMB22.46 with an average price of RMB18.12, while the closing price of the AVIC Electromechanical A Shares is within the range from RMB8.27 to RMB18.13 with an average price of RMB12.51. The exchange prices of AVIC Avionics A Shares and the AVIC Electromechanical A Shares are within their respective price range and close to their respective average price during the Review Period. Based on the above analysis, we consider that the AVIC Avionics Exchange Price and the AVIC Electromechanical Exchange Price are fair and reasonable, given both of them are determined with reference to the average trading price for the same period, being 120 trading days prior to the Price Determination Date.

7.2 Comparable company analysis

In order to assess the fairness and reasonableness of the AVIC Electromechanical Exchange Price and the AVIC Avionics Exchange Price, we have adopted the price-to-earnings multiple (the “**P/E Ratio**”) analysis and price-to-book multiple (the “**P/B Ratio**”) analysis, which are the most widely used and accepted methods for valuing a business. We have conducted a comparable analysis through identifying listed companies (i) whose A shares are listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange; (ii) whose 50% or more of the total revenue is generated from the manufacturing and sales of aviation or aviation related parts and products; (iii) which recorded net profit in FY2021; and (iv) with market capitalisation over RMB10 billion as at the Latest Practicable Date given the market capitalisation of AVIC Electromechanical and the AVIC Avionics were approximately RMB47.36 billion and RMB37.43 billion, respectively, as at the Latest Practicable Date. Nine comparable companies (“**Comparable Companies**”) have been identified based on the

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abovementioned criteria, which is an exhaustive list and forms a representative sample to provide us with the recent market sentiment on valuation of the relevant companies. Set out below is the summary of the market capitalisation, P/E Ratio and P/B Ratio of the Comparable Companies:

Stock code	Company name	Market Capitalisation as at the Latest Practicable Date	P/E Ratio ¹	P/B Ratio ²
		(RMB billion)	(times)	(times)
600760.SH	AVIC Shenyang Aircraft Company Limited	130.00	76.67	11.12
600893.SH	AECC Aviation Power Co, Ltd	124.22	104.59	3.29
000768.SZ	AVIC Xi'an aircraft industry Group Company Ltd.	82.59	126.49	5.16
600765.SH	AVIC Heavy Machinery Co., Ltd.	47.97	53.86	4.92
000738.SZ	AECC Aero-Engine Control Co., Ltd.	36.76	75.39	3.37
600038.SH	Avicopter Plc.	26.78	29.32	2.85
600316.SH	Jiangxi Hongdu Aviation Industry Co., Ltd.	18.14	119.78	3.48
300775.SZ	Xi'an Triangle Defense Co., Ltd	20.33	49.30	7.94
688239.SH	Guizhou Aviation Technical Development Co., Ltd.	11.62	83.63	10.44
Minimum			29.32	2.85
Average			79.89	5.84
Maximum			126.49	11.12
600372.SH	AVIC Avionics³	37.43	45.72	3.21
002013.SZ	AVIC Electromechanical⁴	47.36	38.45	3.50

Notes:

1. The P/E Ratios of Comparable Companies are calculated based on their respective market capitalisation on the Latest Practicable Date and net profit attributable to shareholders for FY2021.
2. The P/B Ratios of Comparable Companies are calculated based on their respective market capitalisation on the Latest Practicable Date and net asset value attributable to shareholders as at 30 June 2022.
3. The implied P/E Ratio and the implied P/B Ratio of AVIC Avionics are calculated based on AVIC Avionics Exchange Price of RMB18.94 per share, its net profit attributable to owners for FY2021 and its net asset attributable to owners as at 31 May 2022.
4. The implied P/E Ratio and the implied P/B Ratio of AVIC Electromechanical are calculated based on AVIC Electromechanical Exchange Price of RMB12.59 per share, its net profit attributable to owners for FY2021 and its net asset attributable to owners as at 31 May 2022.

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As shown in table above, the P/E Ratios of the Comparable Companies ranged from approximately 29.32 times to approximately 126.49 times, with an average of approximately 79.89 times, and the P/B Ratios of the Comparable Companies ranged from approximately 2.85 times to approximately 11.12 times, with an average of approximately 5.84 times.

Based on the profit attributable to owners of AVIC Avionics for FY2021, the net assets attributable to owners of AVIC Avionics as at 31 May 2022, the total number of issued shares of AVIC Avionics of 1,928,214,265 as at the Latest Practicable Date and the AVIC Avionics Exchange Price of RMB18.94 per share, the implied P/E Ratio of AVIC Avionics would be approximately 45.72 times which falls within the range of the P/E Ratios of the Comparable Companies and below the average P/E Ratio of the Comparable Companies; and the implied P/B Ratio of AVIC Avionics would be approximately 3.21 times which also falls within the range of the P/B Ratios of the Comparable Companies and below the average P/B Ratio of the Comparable Companies.

Based on the profit attributable owners of AVIC Electromechanical for FY2021, the net assets attributable to owners of AVIC Electromechanical as at 31 May 2022, the total number of issued shares of AVIC Electromechanical of 3,884,824,789 as at the Latest Practicable Date and the AVIC Electromechanical Exchange Price of RMB12.59 per share, the implied P/E Ratio of AVIC Electromechanical would be approximately 38.45 times which falls within the range of the P/E Ratios of the Comparable Companies, below the average P/E Ratio of the Comparable Companies and below the implied P/E Ratio of AVIC Avionics; and the implied P/B Ratio of AVIC Electromechanical would be approximately 3.50 times which also falls within the range of the P/B Ratios of the Comparable Companies, below the average P/B Ratio of the Comparable Companies and comparable to the implied P/B Ratio of AVIC Avionics.

Having considered (i) the implied P/E Ratios and the implied P/B Ratios of AVIC Avionics and AVIC Electromechanical fall within the range of Comparable Companies; (ii) the implied P/E Ratio of AVIC Avionics is higher than that of AVIC Electromechanical, which is more favourable to the Group due to a better valuation of AVIC Avionics, being a non-wholly-owned subsidiary of Company, and (iii) the implied P/B Ratio of AVIC Avionics is comparable to that of AVIC Electromechanical, we consider that the AVIC Avionics Exchange Price and the AVIC Electromechanical Exchange Price are fair and reasonable as far as the Independent Shareholders are concerned.

7.3 Comparable precedents analysis

To assess the terms of the Share Swap and Absorption and the Subscription, we have conducted an analysis through identifying companies (i) whose A shares listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange; (ii) which had involved in a merger of another company whose A shares also listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange by similar share swap and absorption arrangements which had not been terminated; and (iii) which announced the subscription of new A shares of the absorbing company together with such share swap and absorption (the “**Comparable Precedents**”) since 10 June 2020, being two years prior to the Announcement Date and up to the Latest Practicable Date.

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Three Comparable Precedents were identified based on the above criteria, which is an exhaustive list and forms a representative sample to provide us with the information on latest market practice and transactions features for the Share Swap and Absorption and the Subscription. Set out below is the summary of the Comparable Precedents.

Date	Absorbing company	Absorbed company	Exchange price of the shares of the absorbing company	Exchange price of the shares of the absorbed company	Appraisal right exercise price	Subscription Price
22/1/24 (Date of the revised proposal)	City Development Environment Co., Ltd. (000885.SZ)	Tus Environmental Science and Technology Development Co., Ltd. (000826.SZ)	Average trading price of the shares for the 120 trading days prior to the price determination date	10% premium over the average trading price of the shares for the 120 trading days prior to the price determination date	Average trading price of the shares for the 120 trading days prior to the price determination date	Shall not be lower than 80% of the average trading price of the shares for the 20 days prior to the price determination date
21/9/3 (Date of the final transaction report)	Wangfujing Group Co., Ltd. (600859.SH)	Beijing Capital Retailing Group Co., Ltd. (600723.SH)	Average trading price of the shares for the 20 trading days prior to the price determination date	20% premium over the average trading price of the shares for the 20 trading days prior to the price determination date	Average trading price of the shares for the 20 trading days prior to the price determination date	Shall not be lower than 80% of the average trading price of the shares for the 20 days prior to the price determination date
21/1/7 (Date of the final transaction report)	Liaoning Port Co., Ltd. (2880.HK/ 601880.SH)	Yingkou Port Liability Co., Ltd (600317.SH)	Average trading price of A shares for the 20 trading days prior to the price determination date	20% premium over the average trading price of the shares for the 20 trading days prior to the price determination date	Average trading price of the shares for the 20 trading days prior to the price determination date	Shall not be lower than 80% of the average trading price of the A shares for the 20 days prior to the price determination date

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7.3.1 Exchange price of the shares of the absorbing company

As shown in the table above, the exchange price of the absorbing company in one of the Comparable Precedents was set as the average trading price of the shares for the 120 days prior to the price determination date, and the exchange price of the shares of the absorbing company in two out of three of the Comparable Precedents was set as the average trading price of the shares for the 20 days prior to the price determination date. Therefore, we consider the AVIC Avionics Exchange Price, which will be determined with reference to the average trading price for the same period as that to determine the AVIC Electromechanical Exchange Price, is in line with the market practice, fair and reasonable.

7.3.2 Exchange price of the shares of the absorbed company

As shown in the table above, the exchange price of the shares of the absorbed company in one of the Comparable Precedents was set as at premium over the average trading price of the shares for the 120 days prior to the price determination date; the exchange price of the shares of the absorbed company in two out of three of the Comparable Precedents was set as at a premium over the average trading price of the shares of the absorbed company for the 20 days prior to the price determination date; and in each of the Comparable Precedents, the period for calculating the average trading price to determine the exchange price of the shares of the absorbing company and the absorbed company are the same. Therefore, we consider the AVIC Electromechanical Exchange Price, which will be determined with reference to the average trading price for the same period as that to determine the AVIC Avionics Exchange Price but with no premium, is fair and reasonable and on better commercial terms as far as the Independent Shareholders are concerned.

7.3.3 Appraisal right exercise price

As shown in the table above, the appraisal right exercise price in one of the Comparable Precedents is set as the average trading price of the shares for the 120 trading days prior to the price determination date; the appraisal right exercise price in two out of three of the Comparable Precedents is set as the average trading price for the 20 trading days of the listed company prior to the price determination date; and in each of the Comparable Precedents, the period for calculating the average trading price to determine the appraisal right exercise price of the absorbing company and the absorbed company are the same. In addition, we noted that in all of the Comparable Precedents, the exchange prices of the shares of the absorbing companies are the same as the appraisal right exercise prices to the shareholders of the absorbing companies, while the exchange prices of the shares of the absorbed companies represent a premium of 10% to 20% over the appraisal right exercise prices to the shareholders of the absorbed companies. Given that (i) the Company provides Opposing AVIC Avionics Shareholders and the Opposing AVIC Electromechanical Shareholders a cash out opportunity as in the Comparable Precedents; (ii) the AVIC Avionics Appraisal Right Exercise Price and the AVIC Electromechanical Appraisal Right Exercise Price are both determined with reference to the average trading price for the same period of time; (iii) AVIC Avionics Exchange Price represents a premium of 3.38% over the AVIC Avionics Appraisal Right Exercise Price, which is within the premium range of 0 to 20% in the Comparable Precedents;

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and (iv) AVIC Electromechanical Exchange Price represents a premium of 21.88% over the AVIC Electromechanical Appraisal Right Exercise Price, which is merely slightly higher than the premium range in the Comparable Precedents, while both the AVIC Electromechanical Exchange Price and the AVIC Electromechanical Appraisal Right Exercise Price are determined with reference to the historical average trading price of AVIC Electromechanical A Shares, we consider that the AVIC Avionics Appraisal Right Exercise Price and the AVIC Electromechanical Appraisal Right Exercise Price are in line with the market practice, fair and reasonable so far as the Independent Shareholders are concerned.

7.3.4 Subscription price

As shown in the table above, the subscription price in all of the Comparable Precedents was set as not lower than 80% of the average trading price of the shares for the 20 days prior to the price determination date.

Given the Subscription Price determination mechanism (i) is in line with recent market practice; (ii) complies with the relevant laws and regulations in the PRC, and (iii) will take into account the price quotation provided by the Subscribers during the price consultation process, and the Subscription Price will be the same for all Subscribers, no matter AVIC Subscribers or independent Subscribers, we concur with the Board that the Subscription Price is fair and reasonable.

8. Effects on the shareholding structure of AVIC Avionics

Assuming: (i) no Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders have exercised their Appraisal Rights; (ii) the Subscription Price is RMB18.32 per share (being the average trading price of AVIC Avionics A Shares for the 20 trading days prior to the price determination date of the Subscription adjusted with ex-rights and ex-dividend events); and (iii) the proceeds from the Subscription is RMB5,000 million, of which the total subscription amount of the AVIC Subscribers is RMB1.16 billion, upon completion of the Share Swap and Absorption, the shareholding the Company in AVIC Avionics would reduce from 39.43% to 16.86%, while the shareholding of public shareholders in AVIC Avionics would increase from 33.62% to 41.87%; and after the completion to the Share Swap and Absorption and the Subscription, the shareholding the Company in AVIC Avionics would reduce further to 16.47% while the shareholding of public shareholders in AVIC Avionics would increase further to 43.86%. For further details in this regard, please refer to the section headed “H. EFFECT OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION ON THE SHAREHOLDING STRUCTURE OF AVIC AVIONICS” in the Letter from the Board.

9. Financial effects of the Share Swap and Absorption and the Subscription on the Group

After completion of the Share Swap and Absorption and the Subscription and the Entrusted Voting Arrangement becoming effective, the Company will be able to exercise approximately 47.54% voting right in AVIC Avionics. AVIC Avionics will continue to be a subsidiary of the Company and consolidated in the consolidated financial statements of the Company.

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Set out below the financial effects of the Share Swap and Absorption and the Subscription on the Group based on the unaudited pro forma financial information of the Enlarged Group, as set out in the Appendix V to the Circular, which has been prepared for illustration purposes and because of its hypothetical nature, may not give a true picture of the financial position or results of the Group had the Share Swap and Absorption and the Subscription been completed as at the specified dates or any future date.

9.1 Effects on earnings

For FY2021, the Group recorded net profit attributable to owners of approximately RMB2.37 billion and earnings per Share of approximately RMB0.307. Based on Appendix V to the Circular, the net profit attributable to owners of the Enlarged Group would be approximately RMB2.44 billion, representing an increase of approximately 2.78% as compared to the net profit attributable to owners of the Group for FY2021, and earnings per Share would be approximately RMB0.316.

9.2 Effects on net assets

As at 30 June 2022, the Group had net assets attributable to owners approximately RMB27.14 billion, with net assets per Share of approximately RMB3.520. Based on the Appendix V to the Circular, the net assets attributable to owners of the Enlarged Group would be approximately RMB26.52 billion, representing a decrease of approximately 2.28% as compared to the net assets attributable to owners of the Group as at 30 June 2022; and net assets per Share would be approximately RMB3.439.

9.3 Effects on liabilities

As at 30 June 2022, the Group had total liabilities of approximately RMB78.29 billion. Based on the Appendix V to the Circular, the total liabilities of the Enlarged Group would be approximately RMB94.39 billion, representing an increase of approximately 20.57% as compared to the total liabilities of the Group as at 30 June 2022.

9.4 Effects on monetary funds and working capital

As at 30 June 2022, the Group had monetary funds of approximately RMB16.02 billion and working capital of approximately RMB36.58 billion. The total consideration of the Subscription of AVIC Avionics A Shares by the Company is RMB500 million, representing approximately 3.12% of the monetary funds of the Group as at 30 June 2022. Based on the Appendix V to the Circular, the monetary funds of the Enlarged Group would be approximately RMB26.41 billion, representing an increase of approximately 64.87% as compared to the monetary funds of the Group as at 30 June 2022; and the working capital of the Enlarged Group would be approximately RMB49.12 billion, representing an increase of approximately 34.29% as compared to the working capital of the Group as at 30 June 2022.

Based on the above, we are of the view that the Share Swap and Absorption and the Subscription have overall positive financial effects on the Group and are in the interest of the Independent Shareholders.

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OPINION AND RECOMMENDATION

Taking into account of the above factors and reasons, we are of the view that (i) the terms of the Share Swap and Absorption Agreement and the Subscription Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Share Swap and Absorption and the Subscription, though not in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Share Swap and Absorption and the Subscription.

Yours faithfully,
For and on behalf of
Maxa Capital Limited
Dian Deng
Managing Director

Ms. Dian Deng is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 14 years of experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE COMPANY

The audited consolidated financial statements of the Company for the three years ended 31 December 2021 and the six months 30 June 2022 together with the relevant notes to the financial statements of the Company can be found on and page 17 to 90 of the interim report of the Company for the six months ended 30 June 2022, pages 125 to 340 of the annual report of the Company for the year ended 31 December 2021, pages 109 to 256 of the annual report of the Company for the year ended 31 December 2020 and pages 100 to 244 of the annual report of the Company for the year ended 31 December 2019.

Please also see below the hyperlinks to the interim report for the six months ended 30 June 2022 and the annual reports for the three years ended 31 December 2021 and interim report for the six months ended 30 June 2022, respectively.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0922/2022092200389.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042500665.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042701542.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0420/2020042000329.pdf>

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at 31 July 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group's outstanding borrowings after expansion are approximately RMB16,385,831,181, including secured and guaranteed borrowings of approximately RMB1,359,415,057 and unsecured and unguaranteed borrowings of approximately RMB15,026,416,124. Among the outstanding secured and guaranteed borrowings, the borrowings of approximately RMB722,089,507 are guaranteed by credit guarantee, RMB251,466,392, RMB334,922,734 and RMB50,936,424 are respectively secured by accounts receivable, future collection rights, building and machinery equipment of expanded group subsidiaries.

Lease liabilities

As at 31 July 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group's outstanding lease liabilities are approximately RMB911,233,727. All of the lease liabilities are unsecured and unguaranteed.

Contingent liabilities and guarantee

As at 31 July 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group has no contingent liabilities.

As at 31 July 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group has no external guarantee.

Pledge of assets

As at 31 July 2022, the guaranteed bank loans and other borrowings, lease liabilities and bank credit of the Enlarged Group were secured by the pledge of accounts receivable, collection rights, buildings and equity of the Enlarged Group.

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 Share Swap and Absorption and Subscription, 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. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Upon the Completion, completion of the Subscription and the Entrusted Voting Arrangement becomes effective, the Company will hold approximately 47.54% voting right in AVIC Avionics and AVIC Avionics will continue to be a subsidiary of the Company. Set out below is the management discussion and analysis of the Group for each of the six months ended 30 June 2022 and the three years ended 31 December 2019, 2020 and 2021 extracted from the 2019 annual report, 2020 annual report, 2021 annual report and the 2022 interim report, respectively.

Segmental information

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

*The Aviation Entire Aircraft Business**For the year ended 31 December 2019*

The Group's revenue derived from the aviation entire aircraft business for the year ended 31 December 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 ended 31 December 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.

The gross profit margin of the Group's aviation entire aircraft business for the year ended 31 December 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.

For the year ended 31 December 2020

The Group's revenue derived from the aviation entire aircraft business for the year ended 31 December 2020 was RMB19,059 million, representing an increase of 12.39% 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 RMB16,999 million, representing an increase of RMB2,585 million or 17.93% as compared with that in the corresponding period of the preceding year, and accounted for 89.19% 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 RMB2,024 million, representing a decrease of RMB416 million or 17.04% as compared with that in the corresponding period of the preceding year, and accounted for 10.61% of the total revenue of the aviation entire aircraft business; (3) the revenue derived from the general purpose aircraft business, which amounted to RMB36 million, representing a decrease of RMB68 million or 65.38% as compared with that in the corresponding period of the preceding year, and accounted for 0.20% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group for the year ended 31 December 2020 accounted for 38.03% of the Group's total revenue, representing a decrease of 0.66 percentage point as compared with that in the corresponding period of the preceding year.

The gross profit margin of the Group's aviation entire aircraft business for the year ended 31 December 2020 was 9.16%, 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 product mix of the entire aircraft products.

For the year ended 31 December 2021

The Group's revenue derived from the aviation entire aircraft business for the year ended 31 December 2021 was RMB20,388 million, representing an increase of 6.97% 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 RMB17,666 million, representing an increase of RMB667 million or 3.92% as compared with that in the corresponding period of the preceding year, and accounted for 86.65% 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 RMB2,381 million, representing an increase of RMB357 million or 17.64% as compared with that in the corresponding period of the preceding year, and accounted for 11.68% of the total revenue of the aviation entire aircraft business; (3) the revenue derived from the general purpose aircraft business, which amounted to RMB341 million, representing an increase of RMB305 million or 856.66% as compared with that in the corresponding period of the preceding year, and accounted for 1.67% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group for the year ended 31 December 2021 accounted for 33.81% of the Group's total revenue, representing a decrease of 3.61 percentage points as compared with that in the corresponding period of the preceding year.

The gross profit margin of the Group's aviation entire aircraft business for the year ended 31 December 2021 was 6.98%, representing a decrease of 2.09 percentage points as compared with that in the corresponding period of the preceding year. Such decrease was mainly attributable to the change in the product mix of the entire aircraft products.

For the six months ended 30 June 2022

The revenue of the aviation entire aircraft segment of the Group amounted to RMB6,237 million, representing a decrease of 36.06% as compared with that in the corresponding period of last year, which was mainly attributable to the decrease in sales volume of certain helicopters during the reporting period affected by the adjustment of helicopter products structure. The revenue of the aviation entire aircraft segment accounted for 24.16% of the total revenue of the Group.

The segment profit of the aviation entire aircraft segment of the Group amounted to RMB93 million, representing a decrease of RMB636 million or 87.24% as compared with that of RMB729 million in the corresponding period of last year. The decrease was mainly attributable to the decrease in sales volume of certain helicopters during the reporting period affected by the adjustment of helicopter products structure, and the decrease in gross profit contribution.

The Aviation Parts and Components Business

For the year ended 31 December 2019

The Group's revenue derived from the aviation parts and components business for the year ended 31 December 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 ended 31 December 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.

The gross profit margin of the Group's aviation parts and components business for the year ended 31 December 2019 was 31.59%, representing an increase of 1.35 percentage points as compared with that in the corresponding period of the preceding year.

For the year ended 31 December 2020

The Group's revenue derived from the aviation ancillary system and related business for the year ended 31 December 2020 was RMB24,924 million, representing an increase of 18.97% as compared with that in the corresponding period of the preceding year. Among the above revenue, the revenue derived from connectors amounted to RMB10,171 million, representing an increase of RMB1,141 million or 12.64% as compared with that in the corresponding period of the preceding year, and accounted for 40.81% of the total revenue of the aviation ancillary system and related business.

The revenue derived from the aviation ancillary system and related business for the year ended 31 December 2020 accounted for 49.73% of the Group's total revenue, representing an increase of 1.93 percentage points as compared with that in the corresponding period of the preceding year.

The gross profit margin of the Group's aviation ancillary system and related business for the year ended 31 December 2020 was 31.17%, representing a decrease of 1.57 percentage points as compared with that in the corresponding period of the preceding year.

For the year ended 31 December 2021

The Group's revenue derived from the aviation ancillary system and related business for the year ended 31 December 2021 was RMB33,181 million, representing an increase of 30.00% as compared with that in the corresponding period of the preceding year. Among the above revenue, the revenue derived from avionics business amounted to RMB21,547 million, representing an increase of RMB3,545 million or 19.69% as compared with that in the corresponding period of the preceding year, and accounted for 64.94% of the total revenue of the aviation ancillary system and related business.

The revenue derived from the aviation ancillary system and related business for the year ended 31 December 2021 accounted for 55.03% of the Group's total revenue, representing an increase of 4.92 percentage points as compared with that in the corresponding period of the preceding year.

The gross profit margin of the Group's aviation ancillary system and related business for the year ended 31 December 2021 was 30.87%, representing an increase of 0.36 percentage point as compared with that in the corresponding period of the preceding year.

For the six months ended 30 June 2022

The revenue of the aviation ancillary system and related business segment of the Group amounted to RMB15,956 million, representing an increase of 9.93% as compared with that in the corresponding period of last year, which was mainly attributable to the increase in revenue of avionics products. The revenue of the aviation ancillary system and related business segment accounted for 61.82% of the total revenue of the Group.

The segment profit of the aviation ancillary system and related business segment of the Group amounted to RMB3,186 million, representing an increase of RMB707 million or 28.52% as compared with that of RMB2,479 million in the corresponding period of last year, which was mainly attributable to increase of gross profit driven by the increase of revenue from the avionics business.

The Aviation Engineering Services Business

For the year ended 31 December 2019

The Group's revenue derived from the aviation engineering services business for the year ended 31 December 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 the year ended 31 December 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.

The gross profit margin of the Group's aviation engineering services business for the year ended 31 December 2019 was 15.39%, representing a decrease of 0.64 percentage point as compared with that in the corresponding period of the preceding year.

For the year ended 31 December 2020

The Group's revenue derived from the aviation engineering services business for the year ended 31 December 2020 was RMB6,135 million, representing an increase of 3.56% as compared with that in the corresponding period of the preceding year.

The revenue derived from the aviation engineering services business in the year ended 31 December 2020 accounted for 12.24% of the Group's total revenue, representing a decrease of 1.27 percentage points as compared with that in the corresponding period of the preceding year.

The gross profit margin of the Group's aviation engineering services business for the year ended 31 December 2020 was 15.46%, which was basically the same as that in the corresponding period of the preceding year.

For the year ended 31 December 2021

The Group's revenue derived from the aviation engineering services business for the year ended 31 December 2021 was RMB6,727 million, representing an increase of 5.97% as compared with that in the corresponding period of the preceding year, which was mainly attributable to the increase in sales from engineering projects.

The revenue derived from the aviation engineering services business in the year ended 31 December 2021 accounted for 11.16% of the Group's total revenue, representing a decrease of 1.31 percentage points as compared with that in the corresponding period of the preceding year.

The gross profit margin of the Group's aviation engineering services business for the year ended 31 December 2021 was 15.36%, representing an increase of 0.86 percentage point as compared with that in the corresponding period of the preceding year.

For the six months ended 30 June 2022

The revenue of the aviation engineering services segment of the Group amounted to RMB3,620 million, representing a decrease of 0.19% as compared with that in the corresponding period of last year. The revenue of the aviation engineering services segment accounted for 14.02% of the total revenue of the Group.

The segment profit of the aviation engineering services segment of the Group amounted to RMB177 million, representing an increase of RMB20 million or 12.74% as compared with that of RMB157 million in the corresponding period of last year, the main reason was that the gross profit margin of consulting and design products has increased as compared with that in the corresponding period of last year.

Liquidity, financial resources and capital commitments

As at 31 December 2019

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: (i) cash and bank deposits at the beginning of the year; and (ii) funds generated from its operations.

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 were 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
	<hr/>
Total:	<u><u>4,434</u></u>

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.

As at 31 December 2020

As at 31 December 2020, the Group's cash and cash equivalents amounted to RMB22,809 million, which was mainly derived from the following sources: (i) cash and bank deposits at the beginning of the year; and (ii) funds generated from its operations.

As at 31 December 2020, the Group's total borrowings amounted to RMB11,667 million, of which the short-term borrowings, the current portion of long-term borrowings and the non-current portion of long-term borrowings amounted to RMB4,973 million, RMB1,460 million and RMB5,234 million, respectively.

The Group's long-term borrowings were repayable as follows:

Maturity	<i>RMB million</i>
Within one year	1,460
In the second year	2,041
In the third to fifth year	2,377
After the fifth year	<u>816</u>
 Total:	 <u><u>6,694</u></u>

As at 31 December 2020, the Group's bank borrowings amounted to RMB4,901 million with a weighted average interest rate of 4% per annum, accounting for 42.01% of the total borrowings. Other borrowings amounted to RMB6,766 million with a weighted average interest rate of 3% per annum, accounting for 57.99% of the total borrowings.

As at 31 December 2020, there was no significant balance of borrowings denominated in foreign currencies.

As at 31 December 2021

As at 31 December 2021, the Group's cash and cash equivalents amounted to RMB23,539 million, which was mainly derived from the following sources: (i) cash and bank deposits at the beginning of the year; (ii) funds generated from its operations; and (iii) funds generated from non-public issuance of A shares by a subsidiary.

As at 31 December 2021, the Group's total borrowings amounted to RMB10,579 million, of which the short and medium-term borrowings, the current portion of long-term borrowings and the non-current portion of long-term borrowings amounted to RMB3,315 million, RMB1,124 million and RMB6,140 million, respectively.

The Group's long-term borrowings were repayable as follows:

Maturity	<i>RMB million</i>
Within one year	1,124
In the second year	2,968
In the third to fifth year	2,305
After the fifth year	<u>867</u>
 Total:	 <u><u>7,264</u></u>

As at 31 December 2021, the Group's bank borrowings amounted to RMB4,266 million with a weighted average interest rate of 4% per annum, accounting for 40.33% of the total borrowings. Other borrowings amounted to RMB6,313 million with a weighted average interest rate of 3% per annum, accounting for 59.67% of the total borrowings.

As at 31 December 2021, there was no significant balance of borrowings denominated in foreign currencies.

As at 30 June 2022

As at 30 June 2022, the cash and cash equivalents of the Group amounted to RMB14,496 million, which were mainly derived from cash and bank deposits at the beginning of 2022 and proceeds generated from business operations during the reporting period.

As at 30 June 2022, the total borrowings of the Group amounted to RMB12,480 million, of which short-term borrowings amounted to RMB4,921 million, current portion of long-term borrowings amounted to RMB2,057 million, and non-current portion of long-term borrowings amounted to RMB5,502 million.

As at 30 June 2022, the bank borrowings of the Group amounted to RMB5,873 million with an average interest rate of 4% per annum, representing an increase of RMB1,607 million as compared with that at the beginning of the reporting period; and other borrowings amounted to RMB6,607 million with an average interest rate of 3% per annum, representing an increase of RMB294 million as compared with that at the beginning of the reporting period.

Seasonal influence on the Group's borrowings demand was relatively insignificant.

Funding and treasury policies

The objective of the treasury policies of the Group is to minimise risks. The 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.

The Group closely monitors the impact of exchange rate changes on the Group. The Group does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposures when necessary.

Employees and remuneration policy

As at 31 December 2019, 2020, 2021 and 30 June 2022, the Group employed approximately 44,910, 45,268, 46,428 and 46,905 employees, respectively. The Group has provided appropriate emoluments, benefits and trainings to its employees. The remuneration of the employees of the Group (including Directors) is determined on the fair and reasonable basis and with reference to comparable market standards. Such remuneration comprises basic salary, contribution to a public housing fund, and contributions to pension schemes. The Group will also, at its discretion, pay year-end bonus to

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

Guaranteed and secured loans

For the year ended 31 December 2019

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.

For the year ended 31 December 2020

As at 31 December 2020, the Group's total secured borrowings amounted to RMB441million, of which RMB12 million was secured by notes receivables with a net book value of approximately RMB12 million; RMB429 million was secured by future receivable rights.

Borrowings placed under guarantees amounted to RMB828 million, of which RMB823 million represented guarantees amongst the members of the Group and RMB5 million represented guarantees provided by non-connected parties.

For the year ended 31 December 2021

As at 31 December 2021, the Group's total secured borrowings amounted to RMB524 million, of which RMB68 million was secured by house buildings with a net book value of RMB8 million; RMB105 million was secured by notes receivables and accounts receivables with a net book value of RMB218 million; RMB351 million was secured by future receivable rights.

Borrowings placed under guarantees amounted to RMB511 million, of which RMB464 million represented guarantees amongst the members of the Group, RMB42 million represented guarantees provided by fellow subsidiaries and RMB5 million represented guarantees provided by non-connected parties.

For the six months ended 30 June 2022

As at 30 June 2022, the Group's total secured borrowings amounted to RMB770 million, among which RMB67 million was secured by house buildings with a net book value of RMB8 million; RMB128 million was secured by notes receivable and accounts receivable with a net book value of RMB165 million; borrowings of RMB575 million was secured by future collecting rights.

Future plans for material investments, material acquisitions and disposals

For the year ended 31 December 2019, 2020, 2021 and the six months ended 30 June 2022, the Group had no future plan for material investments, material acquisitions and disposals.

Gearing ratios

The gearing ratio was arrived at by dividing the total borrowings by the total assets of the Group. As at 31 December 2019, 2020, 2021 and 30 June 2022, the gearing ratio of the Group was 11.15%, 10.09%, 7.90% and 9.28%, respectively.

Exchange rate risks

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

Contingent liabilities

As at 31 December 2019, 2020, 2021 and 30 June 2022, the Group had no significant contingent liabilities.

Significant investments

For the years ended 31 December 2019, 2020, 2021 and the six months ended 30 June 2022, the Group had no significant investments.

Material acquisitions and disposals

For the year ended 31 December 2019

On 31 May 2019, Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司) (“**Hongdu Aviation**”), a non-wholly owned subsidiary of the Company, 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**”), a wholly-owned subsidiary of AVIC, entered into the Asset Swap Agreement, pursuant to which Hongdu Aviation agreed to (i) acquire the Acquisition assets (the “**Acquisition Assets**”) from Hongdu Group (the “**Acquisition**”); and (ii) dispose of the Disposal Assets to Hongdu Group (the

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

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

On 4 December 2019, AVIC Airborne Systems entered into the Equity Transfer Agreement with AVIC Avionics, pursuant to which, AVIC Avionics agreed to sell and AVIC Airborne Systems agreed to acquire, 100% of the equity interest in Shaanxi Baocheng 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.

For the year ended 31 December 2020

On 18 February 2020, AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司) (“**AviChina Intelligent**”) entered into the Equity Transfer Agreements to dispose of its existing equity interest in AVIC Jincheng Unmanned System Co., Ltd.* (中航金城無人系統有限公司) (“**AVIC Jincheng Unmanned**”), namely, (1) the Equity Transfer Agreement I with the Company in relation to the transfer of 19.19% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB43,763,072; (2) the Equity Transfer Agreement II with Tianjin Aviation in relation to the transfer of 2.47% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB5,626,681; (3) the Equity Transfer Agreement III with Shanghai Aviation Electronics in relation to the transfer of 5.48% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB12,503,735; and (4) the Equity Transfer Agreement IV with AVIC Jincheng Nanjing Mechanicselectronics-hydraulics Research Center* (中國航空工業集團公司金城南京機電液壓工程研究中心) (“**Nanjing Jincheng**”) in relation to the transfer of 2.06% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB4,688,901. Upon completion of the aforesaid equity transfers, AVIC Jincheng Unmanned has been owned as to 19.19% by the Company, 2.47% by Tianjin Aviation, 5.48% by Shanghai Aviation Electronics, 46% by Jincheng Group Limited* (金城集團有限公司), 2.06% by Jincheng Nanjing, 14.80% by AviChina Intelligent and 10% by Nanjing Tianyue Investment Partnership (Limited Partnership)* (南京天躍投資合夥企業(有限合夥)). As at the date of the Equity Transfer Agreements, AVIC is the controlling shareholder of the Company. AviChina Intelligent is a subsidiary of the Company with over 10% equity interest indirectly held by the AVIC, thus is a connected subsidiary of the Company. Tianjin Aviation is a wholly-owned subsidiary of the Company. Each of Shanghai Aviation Electronics and Jincheng Nanjing is a subsidiary of AVIC and is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The acquisition of 21.66% equity interest in AVIC Jincheng Unmanned by the Company and Tianjin Aviation from AviChina Intelligent contemplated under the Equity Transfer Agreement I and the Equity Transfer Agreement II constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules as AviChina Intelligent is a connected subsidiary of the Company. The disposal of 7.54% equity interest in AVIC Jincheng Unmanned by AviChina Intelligent to Shanghai Aviation Electronics and Jincheng Nanjing contemplated under the Equity Transfer Agreement III and the Equity Transfer Agreement IV also

constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules as Shanghai Aviation Electronics and Jincheng Nanjing are connected persons of the Company. For details, please refer to the announcement of the Company dated 18 February 2020.

For the year ended 31 December 2021

On 10 May 2021, 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 CAPDI**”), a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with AVIC Construction and Development (Beijing) Technology Co., Ltd.* (中航建發(北京)科技有限公司) (“**AVIC Construction and Development Technology**”), pursuant to which, AVIC Construction and Development Technology agreed to sell, and AVIC CAPDI agreed to acquire, 100% equity interest in Beijing Yinyan at the consideration of RMB68,361,300 (the final consideration shall be in accordance with the valuation result as filed with and approved by the State-owned Asset Administration Department). Upon completion of the Transfer, AVIC CAPDI will hold 100% equity interest in Beijing Yinyan and AVIC Construction and Development Technology will no longer hold any equity interest in Beijing Yinyan. As at the date of the Equity Transfer Agreement, AVIC CAPDI is a wholly-owned subsidiary of the Company and AVIC is the controlling Shareholder of the Company. AVIC Construction and Development Technology is a wholly-owned subsidiary of AVIC and is therefore a connected person of the Company. The acquisition of 100% equity interest in Beijing Yinyan by AVIC CAPDI from AVIC Construction and Development contemplated under the Equity Transfer Agreement 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 10 May 2021.

For the six months ended 30 June 2022

On 22 April 2022, AVIC and AVIC CAPDI have entered into the Equity Transfer Agreement with (i) Beijing Xuneng Development Technology Co., Ltd.* (北京旭能發展科技有限責任公司) (“**Xuneng Development**”); (ii) Jilin Zhongkai New Energy Development and Utilization Co., Ltd.* (吉林省中愷新能源開發利用有限責任公司) (“**Jilin Zhongkai**”); and (iii) Anhui Zhongcheng Dadi Energy Development Co., Ltd.* (安徽中城大地能源發展有限公司) (“**Anhui Zhongcheng**”), pursuant to which AVIC agreed to transfer its 30.70% equity interest in AVIC Renewable Energy Investment Co., Ltd.* (中國航空工業新能源投資有限公司) (“**AVIC Renewable Energy**”) at a consideration of approximately RMB226.64 million, and AVIC CAPDI agreed to transfer its 21.30% equity interest in AVIC Renewable Energy at a consideration of approximately RMB157.25 million (the “**Consideration**”). Upon completion of the Equity Transfer Agreement, AVIC Renewable Energy will remain as a subsidiary of the Company and will be owned as to: (i) approximately 48.0% by AVIC CAPDI; (ii) approximately 36.40% by Xuneng Development; (iii) approximately 10.40% by Jilin Zhongkai; and (iv) approximately 5.20% by Anhui Zhongcheng, respectively. Xuneng Development is a company owned as to 50% by AVIC Trust Co., Ltd.* (中航信託股份有限公司) (“**AVIC Trust**”) and 50% by Anhui Zhongcheng, respectively. AVIC Trust is owned as to approximately 73.56% by AVIC Industry-Finance, which is a non-wholly owned subsidiary of AVIC, a controlling shareholder of the Company. Therefore, Xuneng Development is a connected person to the Company pursuant to Chapter 14A of the Listing Rules and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. For details, please refer to the announcements of the Company dated 21 March and 22 April 2022.

On 15 June 2022, AVIC Renewable Energy has succeeded in the public tender at Beijing Property and Equity Exchange to acquire the 100% equity interests in AVIC Construction Energy Technology Jiangsu Co., Ltd.* (中航建投能源科技江蘇有限公司) (“**Jiangsu Energy**”), Jilin AVIC Construction Energy Technology Co., Ltd.* (吉林中航建投能源科技有限公司) (“**Jilin Energy**”), Shaanxi AVIC Construction Energy Technology Co., Ltd.* (陝西中航建投能源科技有限公司) (“**Shaanxi Energy**”) and Shanghai AVIC Construction Energy Technology Co., Ltd.* (上海中航建投能源科技有限公司) (“**Shanghai Energy**”), Jilin Energy Debt and Shaanxi Energy Debt (“**Target Equity Interests (Public Tender Companies)**”) at a total consideration of approximately RMB27.44 million. In this regard, AVIC International Construction Co., Ltd.* (中國航空國際建設投資有限公司) (“**AVIC Construction**”) will enter into property transfer agreement(s), pursuant to which AVIC Construction will sell, and AVIC Renewable Energy will acquire, the Target Equity Interests (Public Tender Companies) at the Bidding Price. The final consideration is approximately RMB27.44 million in aggregate which is determined with reference to: (i) the net assets value of the relevant Target Companies as at 30 September 2021 as determined by an independent and qualified PRC valuer using the asset based approach in its valuation report; and (ii) the value of Jilin Energy Debt and Shaanxi Energy Debt. Upon Completion, the Company will continue to hold indirect interest in Jiangsu Energy, Shanghai Energy, Jilin Energy and Shaanxi Energy and these Target Companies will remain as subsidiaries of the Company. As at the date of this Circular, AVIC Construction is a wholly-owned subsidiary of the Company. AVIC Renewable Energy is a connected subsidiary of the Company by virtue of being owned as to over 10% by AVIC indirectly through its indirect non-wholly-owned subsidiary, i.e., Xuneng Development. Therefore, the Disposals constitute connected transactions under Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 15 June 2022.

5. FINANCIAL AND BUSINESS PROSPECTS OF THE ENLARGED GROUP

The Share Swap and Absorption and the Subscription will help the Company to expand its scale of operation, optimise the aviation industry chain and enhance the market value of the Company and its subsidiaries in accordance with the established strategy of optimising the industrial structure, promote the investment and integration of aviation ancillary systems. Pursuant to the “Outline of the Fourteenth Five-Year Plan for the National Economic and Social Development and the Long-Range Objectives Through the Year 2035” (國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要), the new generation of aviation equipment has become a key development direction of the PRC, which also drives the development of aviation equipment industry chain. As an important part of the aviation equipment industry and the core area of aviation equipment upgrading, airborne systems have ushered in a good opportunity for development. As the main supplier and leading enterprise in the avionics system and aviation electromechanical market, the integration of AVIC Avionics and AVIC Electromechanical will realise the professional integration of avionics systems and electromechanical systems, which is conducive to improving the efficiency of resource allocation, exerting synergistic effects, and laying a good foundation for the systemisation, integration and intelligentisation development of the aviation and airborne industry, thereby further improve the professional level and core competitiveness of the Group to build an aviation and airborne industry with international competitiveness. Furthermore, the Subscription would allow AVIC Avionics to improve its capital structure and financial situation, and for the enhancement of key technology in relation to the productivity and quality of airborne systems products after the absorption of AVIC Electromechanical.

6. MATERIAL ADVERSE CHANGE

The Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2021 (being the date to which the latest published accounts of the Company were made up) up to and including the Latest Practicable Date.

UNAUDITED FINANCIAL INFORMATION OF CHINA AVIONICS

Set out below is the financial information of China Avionics Systems Co., Ltd. (hereinafter referred to as “AVIC Avionics”), which comprises the unaudited consolidated balance sheets of China Avionics as at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, the related unaudited consolidated income statements, the consolidated statements of changes in equity, consolidated statements of cash flows for the years ended 31 December 2019, 31 December 2020, 31 December 2021 and for the five months ended 31 May 2022, and the explanatory notes (collectively referred to as the “Unaudited Consolidated Financial Information”). The Unaudited Consolidated Financial Information has been prepared on the basis set out in Note 2 to the Unaudited Consolidated Financial Information below and prepared in accordance with paragraph 68(2)(a)(1) of Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The auditor of AviChina Industry & Technology Company Limited (the “Company”), Da Hua Certified Public Accountants (Special General Partnership), was engaged to review the Unaudited Consolidated Financial Information of AVIC Avionics in accordance with “China Certified Public Accountants Review Standards No. 2101 Review of Financial Statements”, and with reference to Practice Note 750 “Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal” issued by the Hong Kong Institute of Certified Public Accountants.

A review is substantially less in scope than an audit conducted in accordance with China Certified Public Accountants Review Standards and consequently does not enable the auditors to obtain assurance that the auditors would become aware of all significant matters that might be identified in an audit. Accordingly, the auditors do not express an audit opinion.

Based on the auditors’ review, nothing has come to their attention that causes them to believe that the Unaudited Combined Financial Information is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 below.

Consolidated Balance Sheet

(The amounts are presented in RMB)

Assets	2022.05.31	2021.12.31	2020.12.31	2019.12.31
Current assets:				
Monetary funds	2,123,614,227.03	3,940,252,497.35	3,946,787,821.80	3,349,690,773.43
Financial assets held for trading				
Derivative financial assets				
Notes receivable	1,523,743,179.18	2,132,985,933.25	1,549,733,154.21	1,810,048,813.08
Accounts receivable	8,540,837,406.07	6,488,292,687.39	7,504,301,282.38	6,854,616,411.68
Receivables financing				
Prepayments	346,459,083.68	389,106,882.66	360,151,142.21	379,160,205.57
Other receivables	140,312,380.24	79,293,592.99	74,123,072.43	387,001,055.51
Inventories	6,810,042,511.07	6,111,989,504.06	4,746,822,781.90	3,961,812,707.33
Contract assets				
Held-for-sale assets				
Non-current assets due within one year				
Other current assets	277,622,308.79	270,502,674.59	244,222,300.90	245,507,347.51
Total current assets	19,762,631,096.06	19,412,423,772.29	18,426,141,555.83	16,987,837,314.11
Non-current assets:				
Debt investments				
Other debt investments				
Long-term receivables				
Long-term equity investments	27,253,997.82	30,052,506.27	32,880,005.76	31,640,985.27
Other equity instrument investments	255,106,618.03	260,791,564.98	262,185,527.04	253,533,680.66
Other non-current financial assets				
Investment properties	181,953,354.85	184,114,705.86	171,201,255.76	173,305,927.93
Fixed assets	4,231,405,733.13	4,136,173,619.97	3,472,456,521.04	2,903,522,206.83
Construction-in-progress	1,014,323,569.67	1,202,297,293.12	1,414,760,141.48	1,457,560,984.89
Bearer biological assets				
Oil and gas assets				
Right-of-use assets	13,014,760.65	15,439,428.74	11,428,626.97	11,663,304.95
Intangible assets	739,804,431.32	772,040,975.61	719,106,923.67	680,026,701.46
Development expenditure				
Goodwill				
Long-term deferred expenses	10,950,495.90	12,190,471.73	11,549,837.02	6,161,558.12
Deferred income tax assets	90,029,418.01	86,909,944.76	81,023,632.69	84,025,857.65
Other non-current assets	136,819,531.45	150,214,421.69	117,162,641.20	107,422,199.91
Total non-current assets	6,700,661,910.83	6,850,224,932.73	6,293,755,112.63	5,708,863,407.67
Total assets	26,463,293,006.89	26,262,648,705.02	24,719,896,668.46	22,696,700,721.78

Consolidated Balance Sheet (Continued)

(The amounts are presented in RMB)

Liabilities and Shareholders' Equity	2022.5.31	2021.12.31	2020.12.31	2019.12.31
Current Liabilities:				
Short-term borrowings	2,181,059,987.94	2,372,098,230.89	3,015,262,056.78	4,196,831,241.03
Financial liabilities held for trading				
Derivative financial liabilities				
Notes payable	1,789,394,319.02	2,167,808,396.54	2,086,785,278.17	1,738,904,891.90
Accounts payable	5,628,105,226.50	4,812,752,043.00	4,598,891,697.38	4,151,274,717.65
Advances	2,962,960.00	5,966,050.86		
Contract liabilities	1,008,290,657.31	1,426,306,453.15	120,170,757.49	73,084,967.70
Employee compensation payable	225,483,120.05	214,887,006.60	172,321,551.92	203,000,700.47
Tax payable	88,245,350.82	116,354,031.42	128,097,597.89	122,705,713.06
Other payables	508,456,049.21	228,892,900.93	241,100,485.35	266,346,314.90
Held-for-sale liabilities				
Non-current liabilities due within one year	1,270,365,964.51	474,924,578.34	158,029,496.86	79,067,834.80
Other current liabilities	238,407,676.95	235,145,018.78	594,159,938.56	530,000,000.00
Total current liabilities	12,940,771,312.31	12,055,134,710.51	11,114,818,860.40	11,361,216,381.51
Non-current liabilities:				
Long-term borrowings	1,350,191,254.25	1,549,678,635.77	680,240,000.00	338,323,160.64
Bonds payable				2,128,958,644.02
Lease liabilities	9,170,749.65	9,699,787.68	3,870,009.65	2,838,411.11
Long-term payables	-751,148,159.13	-570,965,391.29	-267,547,398.02	-209,050,470.10
Long-term employee compensation payable	42,944,161.39	45,044,414.99	51,162,770.93	58,665,929.24
Provisions				
Deferred income	455,693,061.15	457,018,777.15	454,159,600.75	471,897,217.81
Deferred income tax liabilities	10,841,528.82	18,130,671.62	21,468,806.64	11,381,400.93
Other non-current liabilities	597,398,790.63	1,046,876,248.99	1,633,412,590.24	310,193,882.74
Total non-current liabilities	1,715,091,386.76	2,555,483,144.91	2,576,766,380.19	3,113,208,176.39
Total liabilities	14,655,862,699.07	14,610,617,855.42	13,691,585,240.59	14,474,424,557.90
Shareholders' equity:				
Share capital	1,928,214,265.00	1,928,214,265.00	1,928,214,265.00	1,759,522,904.00
Other equity instruments				444,465,406.90
Capital reserves	4,176,038,747.04	4,066,074,556.85	4,065,961,896.98	1,545,661,115.07
Less: treasury shares	150,735,168.02	150,735,168.02	150,735,168.02	150,735,168.02
Other comprehensive income	-137,655,317.28	-101,184,845.01	-88,908,820.96	-96,564,869.59
Special reserves	183,457,513.22	169,526,357.90	152,960,921.61	144,308,739.42
Surplus reserves	487,872,485.06	487,872,485.06	456,453,633.22	435,876,797.35
Retained earnings	4,907,084,138.27	4,837,078,642.76	4,262,383,855.98	3,757,880,877.18
Total shareholders' equity attributable to parent company	11,394,276,663.29	11,236,846,294.54	10,626,330,583.81	7,840,415,802.31
Minority equity	413,153,644.53	415,184,555.06	401,980,844.06	381,860,361.57
Total shareholders' equity	11,807,430,307.82	11,652,030,849.60	11,028,311,427.87	8,222,276,163.88
Total liabilities and shareholders' equity	26,463,293,006.89	26,262,648,705.02	24,719,896,668.46	22,696,700,721.78

Consolidated Income Statement

(The amounts are presented in RMB)

Items	January to May 2022	January to May 2021	2021	2020	2019
I. Operating revenue	3,722,097,888.04	3,360,646,947.92	9,839,298,853.60	8,746,614,181.92	8,352,187,741.64
Less: Operating cost	2,654,741,060.89	2,426,662,484.51	6,977,009,785.92	6,178,468,538.26	5,774,102,225.27
Taxes and surcharges	15,899,512.21	14,967,958.21	35,027,329.64	22,867,813.25	38,465,077.03
Selling expenses	32,583,919.52	38,049,538.33	103,159,139.95	114,270,340.87	141,807,523.59
Administrative expenses	355,993,218.23	309,598,820.51	924,302,604.68	802,666,220.62	914,123,487.04
Research and development expenses	294,024,312.42	228,747,285.43	827,134,387.49	647,417,717.73	580,056,829.78
Finance costs	57,260,216.24	57,110,772.58	99,943,837.89	253,907,263.06	300,946,244.98
Including: Interest expense	74,376,174.61	64,515,794.28	132,269,986.46	271,015,920.70	318,643,189.89
Interest income	13,292,563.05	7,680,955.24	28,495,127.32	32,425,218.87	24,067,586.62
Add: Other income	20,885,015.97	14,472,367.66	68,475,247.53	75,608,788.91	63,465,220.84
Investment income	17,461,861.31	371,415.18	-2,216,617.61	-5,778,852.16	198,177,614.57
Including: Income from investment in associates and joint ventures	389,845.49	1,032,169.59	1,005,591.90	2,822,340.40	2,011,578.18
Derecognition income of financial assets at amortised cost	-272,014.53	-660,754.41	-7,003,759.50	-12,776,436.81	-9,432,336.89
Net exposure hedging income					
Income from changes in fair value					
Credit impairment loss	-12,502,185.49	-11,680,646.13	5,302,472.26	-29,357,051.29	-123,202,147.57
Asset impairment loss			-65,600,819.86	-36,319,243.95	-141,115,392.48
Income from assets disposal	2,622,162.18	472,779.73	3,020,513.78	268,199.51	7,212,150.14
II. Operating profit (loss to be listed with "-")	340,062,502.50	289,146,004.79	881,702,564.13	731,438,129.15	607,223,799.45
Add: Non-operating income	2,068,104.24	2,707,813.16	6,005,526.24	8,001,558.86	35,584,517.74
Less: Non-operating expenses	1,633,365.21	794,999.51	6,619,180.57	19,959,451.61	11,695,286.03
III. Profit before tax (loss to be listed with "-")	340,497,241.53	291,058,818.44	881,088,909.80	719,480,236.40	631,113,031.16
Less: income tax expenses	21,478,756.30	22,834,324.86	63,366,446.75	64,140,835.91	52,506,621.66
IV. Net profit (net loss to be listed with "-")	319,018,485.23	268,224,493.58	817,722,463.05	655,339,400.49	578,606,409.50
(I) Classified according to operating continuity					
Net profit from continuing operations (net loss to be listed with "-")	319,018,485.23	268,224,493.58	817,722,463.05	656,743,398.69	578,606,409.50
Net profit from discontinuing operations (net loss to be listed with "-")				-1,403,998.20	
(II) Classified according to attribution of the ownership					
Net profit attributable to the owners of the parent company (net loss to be listed with "-")	309,625,510.73	261,592,160.64	798,697,071.26	630,777,488.79	556,020,333.42
Minority profit and loss (net loss to be listed with "-")	9,392,974.50	6,632,332.94	19,025,391.79	24,561,911.70	22,586,076.08

APPENDIX II
FINANCIAL INFORMATION OF AVIC AVIONICS

Items	January to May 2022	January to May 2021	2021	2020	2019
V. Net of tax of other comprehensive income	-41,302,913.10	-29,758,038.28	-13,233,553.59	8,372,464.75	80,043,708.74
Net of tax of other comprehensive income attributable to the owner of the parent company	-36,470,472.27	-26,276,347.80	-12,276,024.05	7,656,048.63	75,677,954.02
(I) Other comprehensive income that cannot be reclassified into profit or loss	-36,470,472.27	-26,276,347.80	-12,276,024.05	7,656,048.63	75,677,954.02
1. Changes arising from re-measurement of the defined benefit plan			-11,229,785.84	1,162,405.31	-1,975,660.00
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method					
3. Changes in fair value of other equity instrument investments	-36,470,472.27	-26,276,347.80	-1,046,238.21	6,493,643.32	30,253,920.84
4. Changes in fair value of the enterprise's credit risk					
5. Others					47,399,693.18
(II) Other comprehensive income that can be reclassified into profit or loss					
1. Other comprehensive income that can be reclassified into profit or loss under the equity method					
2. Changes in fair value of other debt investments					
3. Amount charged into other comprehensive income arising from reclassification of financial assets					
4. Provision for credit impairment of other debt investments					
5. Reserves for cash flow hedge (effective parts of cash flow hedge profit or loss)					
6. Translation difference of foreign currency financial statements					
Net of tax of other comprehensive income attributable to minority shareholders	-4,832,440.83	-3,481,690.48	-957,529.54	716,416.12	4,365,754.72
VI. Total comprehensive income	282,548,012.96	241,948,145.78	805,446,439.00	662,995,449.12	654,284,363.52
Total comprehensive income attributable to shareholders of the parent company	273,155,038.46	235,315,812.84	786,421,047.21	638,433,537.42	631,698,287.44
Total comprehensive income attributable to minority shareholders	4,560,533.67	3,150,642.46	18,067,862.25	25,278,327.82	26,951,830.80
VII. Earnings per share:					
(I) Basic earnings per share (RMB/share)	0.1614	0.1364	0.4165	0.3501	0.3160
(II) Diluted earnings per share (RMB/share)	0.1614	0.1364	0.4165	0.3501	0.3160

Consolidated Cash Flow Statement

(The amounts are presented in RMB.)

Items	January to May 2022	January to May 2021	2021	2020	2019
I. Cash flow from operating activities:					
Cash received from sales of goods or rendering of services	1,475,903,492.14	3,551,223,674.22	10,923,596,735.53	7,678,632,738.80	7,114,224,821.56
Refund of taxes and surcharges	23,563,124.19	28,440,084.72	41,732,626.71	39,010,102.83	57,271,439.65
Other cash received relating to operating activities	118,731,857.61	261,094,545.67	435,792,755.69	367,168,209.99	485,680,969.03
Subtotal of cash inflows from operating activities	1,618,198,473.94	3,840,758,304.61	11,401,122,117.93	8,084,811,051.62	7,657,177,230.24
Cash paid for purchase of goods and receipt of services	1,836,775,581.90	1,939,372,066.91	6,001,452,511.20	3,918,285,683.07	3,553,320,187.56
Cash paid to and for employees	998,925,128.28	893,484,234.22	2,656,511,302.79	2,341,119,749.31	2,432,917,763.09
Taxes and surcharges cash payments	91,190,475.80	117,098,647.98	176,919,257.78	192,333,764.87	219,136,770.11
Other cash paid relating to operating activities	258,450,882.45	384,465,148.37	1,016,405,682.44	823,499,358.67	716,161,541.09
Subtotal of cash outflow from operating activities	3,185,342,068.43	3,334,420,097.48	9,851,288,754.21	7,275,238,555.92	6,921,536,261.85
Net cash flow from operating activities	-1,567,143,594.49	506,338,207.13	1,549,833,363.72	809,572,495.70	735,640,968.39
II. Cash flows from investing activities:					
Cash received from return of investment		200,000.00	2,684,400.00	1,360,000.00	36,933,200.00
Cash received from investment income	3,147,799.21	3,729,849.64	8,532,287.94	5,604,316.68	71,498,409.69
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	194,504.42	713,975.20	2,868,359.00	7,174,379.44	15,571,543.32
Net cash received from disposal of subsidiaries and other business entities				240,990,508.02	1,098,266.11
Other cash received relating to investing activities				10,207,424.28	50,000,000.00
Subtotal of cash inflows from investing activities	3,342,303.63	4,643,824.84	14,085,246.94	265,336,628.42	175,101,419.12
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	162,437,595.28	283,054,700.46	820,386,331.21	880,718,760.15	783,246,519.51
Cash paid to acquire investments			33,474,689.41		
Net cash paid for acquisition of subsidiaries and other business entities					
Other cash paid relating to investing activities					34,239,060.92
Subtotal of cash outflows from investing activities	162,437,595.28	283,054,700.46	853,861,020.62	880,718,760.15	817,485,580.43
Net cash flows from investing activities	-159,095,291.65	-278,410,875.62	-839,775,773.68	-615,382,131.73	-642,384,161.31

APPENDIX II
FINANCIAL INFORMATION OF AVIC AVIONICS

Items	January to May 2022	January to May 2021	2021	2020	2019
III. Cash flows from financing activities:					
Cash received from absorbing investment				19,668,280.00	4,908,394.00
Including: Cash received from minority shareholders' investment in subsidiaries				19,668,280.00	1,100,000.00
Cash received from borrowings	1,355,758,022.00	1,384,116,822.60	3,360,585,457.37	4,716,637,826.00	6,070,953,276.91
Other cash received relating to financing activities	34,123,457.15	33,442,821.88	477,595,038.24	2,141,958,929.92	1,113,212,167.80
Subtotal of cash inflow from financing activities	1,389,881,479.15	1,417,559,644.48	3,838,180,495.61	6,878,265,035.92	7,189,073,838.71
Cash paid for repayments of debts	1,414,250,000.00	1,867,789,652.78	3,488,736,821.60	5,473,245,495.67	5,622,954,872.24
Cash paid for distribution of dividends, profits or interest repayment	66,671,291.74	59,104,373.74	382,729,693.92	333,582,112.27	342,194,590.83
Including: Dividends and profits paid to minority shareholders by subsidiaries		480,000.00	6,293,587.27	3,653,062.86	5,852,690.56
Other cash paid relating to financing activities	1,666,347.76	514,995,933.66	683,248,802.75	662,384,042.58	449,025,837.52
Subtotal of cash outflow from financing activities	1,482,587,639.50	2,441,889,960.18	4,554,715,318.27	6,469,211,650.52	6,414,175,300.59
Net cash flow from financing activities	-92,706,160.35	-1,024,330,315.70	-716,534,822.66	409,053,385.40	774,898,538.12
IV. Effect of foreign exchange rate changes on cash and cash equivalents	137,476.17	-254,035.57	-58,091.83	-671,038.49	-885,348.71
V. Net increase in cash and cash equivalents	-1,818,807,570.32	-796,657,019.76	-6,535,324.45	602,572,710.88	867,269,996.49
Add: Opening balance of cash and cash equivalents	3,940,252,497.35	3,946,787,821.80	3,946,787,821.80	3,344,215,110.92	2,476,945,114.43
VI. Closing balance of cash and cash equivalents	2,121,444,927.03	3,150,130,802.04	3,940,252,497.35	3,946,787,821.80	3,344,215,110.92

Consolidated Statement of Changes in Shareholders' Equity

(The amounts are presented in RMB.)

Items	2019										Total shareholders' equity	
	Equity attributable to shareholders of the parent company											Minority equity
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings				
I. Closing balance of the previous year	1,759,182,006.00	445,352,853.20	1,590,547,930.21		-171,953,517.97	138,790,441.18	435,876,797.35	3,363,850,534.21	351,825,095.31	7,913,472,139.49		
Add: Changes in accounting policies					-289,305.64			-329,471.90		-618,777.54		
Error correction of previous period												
Business combination under common control												
Others												
II. Opening balance of the current year	1,759,182,006.00	445,352,853.20	1,590,547,930.21		-172,242,823.61	138,790,441.18	435,876,797.35	3,363,521,062.31	351,825,095.31	7,912,853,361.95		
III. Change in increase or decrease of the current year	340,898.00	-887,446.30	-44,886,815.14	150,735,168.02	75,677,954.02	5,518,298.24		394,359,814.87	30,035,266.26	309,422,801.95		
(I) Total comprehensive income					32,890,895.01			524,998,882.14	26,951,830.80	584,841,607.95		
(II) Capital invested and decreased by shareholders	340,898.00	-887,446.30	-44,886,815.14	150,735,168.02					7,088,333.70	-189,080,197.76		
1. Ordinary shares invested by shareholders			-153,759.92							-153,759.92		
2. Capital invested by other equity instrument holders	340,898.00	-887,446.30	4,583,709.51							4,037,161.21		
3. Amount of share-based payment recognized as shareholders' equity												
4. Others			-49,316,764.73	150,735,168.02				-87,697,482.85	7,088,333.70	-192,963,599.05		
(III) Profit distribution									-5,537,225.62	-93,234,708.47		
1. Appropriation to surplus reserves												
2. Distribution to shareholders												
3. Others									-5,537,225.62	-93,234,708.47		
(IV) Internal carry-over in shareholders' equity					42,787,059.01			-42,941,584.42	154,525.41			

Continued:

Items	2019										Total shareholders' equity
	Equity attributable to shareholders of the parent company						Minority equity				
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Minority equity		Total shareholders' equity
1. Transfer from capital reserves to share capital											
2. Transfer from surplus reserves to share capital											
3. Recovery of losses by surplus reserves											
4. Retained earnings carried over from changes in defined benefit plans											
5. Retained earnings carried over from other comprehensive income					42,787,059.01			-42,941,584.42		154,525.41	
6. Others											
(V) Special reserves											
1. Appropriation in the current period						6,551,751.28				1,377,801.97	7,929,553.25
2. Use in the current period						48,943,486.59				2,396,305.43	51,339,792.02
(VI) Others											
2. Use in the current period						-42,391,735.31				-1,018,503.46	-43,410,238.77
(VI) Others											
						-1,033,453.04					-1,033,453.04
IV. Closing balance of the current year	1,759,522,904.00	444,465,406.90	1,545,661,115.07	150,735,168.02	-96,564,869.59	144,308,739.42	435,876,797.35	3,757,880,877.18	381,860,361.57	8,222,276,163.88	

Continued:

Items

2020

Items	Equity attributable to shareholders of the parent company							Minority equity	Total shareholders' equity	
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves			Retained earnings
I. Closing balance of the previous year	1,759,522,904.00	444,465,406.90	1,545,661,115.07	150,735,168.02	-96,564,869.59	144,308,739.42	435,876,797.35	3,757,880,877.18	381,860,361.57	8,222,276,163.88
Add: Changes in accounting policies										
Error correction of previous period										
Business combination under common control										
Others										
II. Opening balance of the current year	1,759,522,904.00	444,465,406.90	1,545,661,115.07	150,735,168.02	-96,564,869.59	144,308,739.42	435,876,797.35	3,757,880,877.18	381,860,361.57	8,222,276,163.88
III. Change in increase or decrease of the current year	168,691,361.00	444,465,406.90	2,320,300,781.91		7,656,048.63	8,652,182.19	20,576,835.87	504,502,978.80	201,201,482.49	2,806,035,263.99
(I) Total comprehensive income					7,656,048.63			630,777,488.79	25,278,327.82	665,711,865.24
(II) Capital invested and decreased by shareholders	168,691,361.00	444,465,406.90	2,320,300,781.91						16,946,348.36	2,261,490,384.37
1. Ordinary shares invested by shareholders										
2. Capital invested by other equity instrument holders	168,691,361.00	444,465,406.90	2,471,670,019.37						16,946,324.00	16,946,324.00
3. Amount of share-based payment recognized as shareholders' equity										
4. Others			48,630,762.54						17,324.36	48,648,086.90
(III) Profit distribution							20,576,835.87	-126,274,509.99	-22,479,337.36	-128,177,011.48
1. Appropriation to surplus reserves							20,576,835.87			
2. Distribution to shareholders								-20,576,835.87		
3. Others										
(IV) Internal carry-over in shareholders' equity								-105,697,674.12	-22,479,337.36	-128,177,011.48
1. Transfer from capital reserves to share capital										
2. Transfer from surplus reserves to share capital										
3. Recovery of losses by surplus reserves										
4. Retained earnings carried over from changes in defined benefit plans										

Continued: Items	2020									
	Equity attributable to shareholders of the parent company							Minority equity	Total shareholders' equity	
	Share capital	Other equity instrument	Capital reserve	Less treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings		
5. Retained earnings carried over from other comprehensive income										
6. Others										
(V) Special reserves						8,652,182.19			357,643.67	9,009,825.86
1. Appropriation in the current period						45,170,123.40			1,452,954.62	46,623,078.02
2. Use in the current period						-36,517,941.21			-1,095,310.95	-37,613,252.16
(VI) Others										
IV. Closing balance of the current year	1,928,214,265.00		4,065,961,896.98	150,755,168.02	-89,908,820.96	152,960,921.61	456,453,653.22	4,262,383,855.98	401,980,844.06	11,028,311,427.87

Items	2021							Total shareholders' equity		
	Shareholders' equity attributable to parent company									
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Minority equity	
I. Closing balance of the previous year	1,928,214,265.00		4,065,961,896.98	150,755,168.02	-88,908,820.96	152,960,921.61	456,453,653.22	4,262,383,855.98	401,980,844.06	11,028,311,427.87
Add: Changes in accounting policies										
Error correction of previous period										
Business combination under common control										
Others										
II. Opening balance of the current year	1,928,214,265.00		4,065,961,896.98	150,755,168.02	-88,908,820.96	152,960,921.61	456,453,653.22	4,262,383,855.98	401,980,844.06	11,028,311,427.87
III. Change in increase or decrease of the current year			112,659.87		-12,276,024.05	16,565,456.29	31,418,851.84	574,694,786.78	13,203,711.00	623,719,421.73
(I) Total comprehensive income			112,659.87		-12,276,024.05			798,697,071.26	18,067,862.25	804,488,909.46
(II) Capital invested and decreased by shareholders								-778,058.77	-8,569.28	-673,968.18
1. Ordinary shares invested by shareholders										
2. Capital invested by other equity instrument holders										
3. Amount of share-based payment recognized as shareholders' equity										
4. Others										
(III) Profit distribution										
1. Appropriation to surplus reserves							31,418,851.84	-223,224,225.71	-6,293,587.27	-198,098,961.14
2. Distribution to shareholders							31,418,851.84	-31,418,851.84		
3. Others										
(IV) Internal carry-over in shareholders' equity										
1. Transfer from capital reserves to share capital										
2. Transfer from surplus reserves to share capital										
3. Recovery of losses by surplus reserves										
4. Retained earnings carried over from changes in defined benefit plans										

Continued:

Items	January to May 2021							Total shareholders' equity		
	Shareholders' equity attributable to parent company									
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Minority equity	
I. Closing balance of the previous year	1,928,214,265.00		4,065,961,896.98	150,755,168.02	-88,908,820.96	152,960,921.61	456,453,653.22	4,262,383,855.98	401,980,844.06	11,028,311,427.87
Add: Changes in accounting policies										
Error correction of previous period										
Business combination under common control										
Others										
II. Opening balance of the current year	1,928,214,265.00		4,065,961,896.98	150,755,168.02	-88,908,820.96	152,960,921.61	456,453,653.22	4,262,383,855.98	401,980,844.06	11,028,311,427.87
III. Change in increase or decrease of the current year			-18,351.94		-26,276,347.80	3,212,875.07		261,592,160.64	3,127,871.49	241,638,007.46
(I) Total comprehensive income			-18,351.94		-26,276,347.80			261,592,160.64	3,150,642.46	238,466,455.30
(II) Capital invested and decreased by shareholders									-2,458.18	-2,100.12
1. Ordinary shares invested by shareholders									-480,000.00	-480,000.00
2. Capital invested by other equity instrument holders									-480,000.00	-480,000.00
3. Amount of share-based payment recognized as shareholders' equity										
4. Others										
(III) Profit distribution										
1. Appropriation to surplus reserves										
2. Distribution to shareholders										
3. Others										
(IV) Internal carry-over in shareholders' equity										
1. Transfer from capital reserves to share capital										
2. Transfer from surplus reserves to share capital										
3. Recovery of losses by surplus reserves										
4. Retained earnings carried over from changes in defined benefit plans										

NOTES TO THE FINANCIAL INFORMATION OF AVIC AVIONICS**(Expressed in Renminbi unless otherwise indicated)****1. GENERAL INFORMATION**

China Avionics Systems Co., Ltd. (hereinafter referred to as “AVIC Avionics”) was established on 26 November 1999. The address of its registered office is Building 8, No. 29 Jinghai 2nd Road, Beijing Economic-Technological Development Area and the address of its headquarter is Building 20, No. 5 Shuguang Xili Jia, Chaoyang District, Beijing.

The parent company of AVIC Avionics is AviChina Industry & Technology Company Limited, and its ultimate controlling party is Aviation Industry Corporation of China, Ltd.

AVIC Avionics mainly engages in the research and development, production and sales of avionics products in the aviation manufacturing industry. Its main products include mechatronics, avionics, automatic control, instrumentation, inertial navigation, electronic information, radar and fire control systems and basic components in the fields of aviation, aerospace, ships and weapons.

2. BASIS OF PREPARATION AND PRESENTATION

The Unaudited Consolidated Financial Information of AVIC Avionics comprising the unaudited consolidated balance sheets as at 31 December 2019, 31 December 2020, 31 December 2021 and, 31 May 2022, the unaudited consolidated income statements, the unaudited consolidated statements of changes in equity, the unaudited consolidated statements of cash flows for the years ended 31 December 2019, 31 December 2020, 31 December 2021, and for the five months ended 31 May 2021 and 2022, and explanatory notes (the “Unaudited Consolidated Financial Information”) has been prepared in accordance with paragraph 68(2)(a)(1) of Chapter 14 of the Listing Rules solely for the purpose of inclusion in the Circular to be issued by the Company in connection with the deemed disposal of the equity interest of AVIC Avionics.

The Unaudited Consolidated Financial Information is prepared by AVIC Avionics on a going concern basis.

The Unaudited Consolidated Financial Information has been prepared in accordance with the same accounting policies as those adopted by the Company in preparation of the consolidated financial statements of the Company for those respective years. The consolidated financial statements of AVIC Avionics have been prepared in accordance with the Basic Standard of the Accounting Standards for Business Enterprises issued by the Ministry of Finance.

The Unaudited Consolidated Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in “Accounting Standard for Business Enterprises No.30 – Presentation of financial statements” and “Accounting Standard for Business Enterprises No. 32 – Interim financial reporting”. The information should be read in connection with the annual report issued by AVIC Avionics for the relevant period.

MANAGEMENT DISCUSSION AND ANALYSIS ON AVIC ELECTROMECHANICAL

Set out below is the management discussion and analysis on AVIC Electromechanical (and its subsidiaries, the “Target Group”) for each of the three years ended 31 December 2021, 2020 and 2019 and the five months ended 31 May 2022 (the “Reporting Period”). The following financial information is based on the accountants’ report of AVIC Electromechanical as set out in Appendix IV to this circular.

A. OVERVIEW

AVIC Electromechanical is a joint stock limited liability company incorporated in the PRC with its shares listed on the Shenzhen Stock Exchange (stock code: 002013). AVIC Electromechanical is mainly engaged in development, production, sales and service of airborne electromechanical systems and equipment for all types of aircraft and engines. As at the date of this circular, AVIC Electromechanical is a connected person of the Company by virtue of being owned as to 51.97% by AVIC (i.e. the controlling shareholder of the Company), directly and indirectly through several of its subsidiaries.

The Target Group mainly engages in businesses related to aviation electromechanical systems and its products cover hydraulic system, fuel system, environment controlling system, aviation power system, highlift system, weapon and suspension launching system as well as non-aviation products developed based on core technologies of aviation electromechanical system, such as automobile seat system, air conditioning compressor, hyperbaric oxygen chamber and isostatic pressing machine.

B. OPERATING RESULTS OF THE TARGET GROUP**B.1 Revenue**

The operating revenue of the Target Group is contributed by three kind of products, namely aviation products, non-aviation products, modern service industry and others, of which the main revenue comes from aviation products.

(i) The Target Group achieved operating revenue of RMB12,131 million, RMB12,224 million, RMB14,992 million, RMB6,311 million, and RMB6,713 million, for the three years ended 31 December 2021 and the five months ended 31 May 2021 and 31 May 2022, respectively.

The Target Group achieved a compound growth rate of 11.17% in operating revenue from 2019 to 2021. The operating revenue of the Target Group increased slightly by 0.77% from 2019 to 2020, mainly due to the combined effect of: (i) the increase in the revenue from aviation products; (ii) decrease in revenue from non-aviation products, modern service industry and others recorded due to impact of the epidemic. Non-aviation products include auto parts (such as seat systems, slide rails and recliners, etc.) and refrigeration equipment (such as air-conditioning compressors). The revenue from non-aviation products in 2020 decreased as compared to that of 2019 was mainly due to reduction in orders for auto parts and refrigeration equipment and delay in production schedule due to the epidemic. Modern service industry and other products include technical services (such as professional testing), leasing and sales of raw materials, etc. The revenue from modern services and other products in 2020 decreased as compared to that of 2019, which was mainly due reduction in technical service

income due to postponement of several cooperation projects as a result of the epidemic. The operating revenue of 2021 increased by 22.64% as compared with that of 2020, which was mainly due to an increase in orders for aviation products, and improvement in deliveries and production efficiency of AVIC Electromechanical in 2021.

The operating revenue increased by 6.37% for the five months ended 31 May 2022 as compared with that of the corresponding period in 2021, which was mainly due to increases in sales from aviation products, non-aviation products, modern service industry and others.

(ii) The aviation products of the Target Group include flight control subsystem, airborne suspension and launch control system, airborne power supply subsystem, airborne fuel measurement system, airborne hydraulic actuator, engine ignition system and device, UAV launch system, etc. The operating revenue generated from aviation products was RMB8,377 million, RMB9,014million, RMB11,163 million, RMB4,978 million, and RMB5,216 million, for the three years ended 31 December 2021 and the five months ended 31 May 2021 and 31 May 2022, respectively, which accounted for 69.05%,73.74%,74.46%, 78.88% and 77.70% of the total revenue for the corresponding periods.

The compound growth rate of revenue from aviation products from 2019 to 2021 reached 15.44%. The revenue increased by 7.60% for the year ended 31 December 2020 compared with the corresponding period in 2019, mainly due to a stable growth in orders of aviation products despite the negative impact of COVID-19 on certain production arrangement and deliveries. The revenue increased by 23.84% in 2021 was mainly due to an increase in orders and improvement of production efficiency.

The revenue increased by 4.78% for the five months ended 31 May 2022 compared with the corresponding period in 2021, mainly due to stable growth in orders for aviation products.

B.2 Operating costs

The operating costs of the Target Group mainly include raw material costs, labor costs and depreciation.

The Target Group recorded operating costs of RMB8,904 million, RMB8,955 million and RMB11,332 million, RMB4,978 million and RMB5,117 million for the three years ended 31 December 2021 and the five months ended 31 May 2021 and 31 May 2022, respectively.

The compound growth rate in operating costs of the Target Group was 12.81% from 2019 to 2021, slightly higher than the compound growth rate of operating revenue in the same period, which was mainly attributable to the increase in labour costs, changes in product mix and the increase in raw material costs.

The growth rate in operating costs of the Target Group was 2.79% from the five months ended 31 May 2021 to the five months ended 31 May 2022, which was lower than the growth rate of sales in the same period and mainly attributable to changes in product mix.

B.3 Changes in gross profit and gross profit margin

The Target Group achieved gross profit of RMB3,227 million, RMB3,269 million, RMB3,660 million, RMB1,333 million, and RMB1,596 million for the three years ended 31 December 2021 and the five months ended 31 May 2021 and 31 May 2022, respectively.

The gross profit margin of the Target Group in 2020 was 26.74%, which was stable and increased by 0.14 percentage point compared with that in 2019. The gross profit margin of the Target Group was 24.41% in 2021 and decreased by 2.33 percentage points compared with that of 2020, which was mainly attributable to a decrease in gross margin of aviation products, the major contributor to revenue, as affected by increase of labor costs, changes in product mix and increase in raw material costs in the period.

The gross profit margin of the Target Group in the five months ended 31 May 2022 was 23.77% and increased by 2.65 percentage points as compared with the corresponding period in 2021, which was mainly attributable to changes in product mix.

B.4 Expenses

Unit: RMB million

Expenses	For the year ended		For the five months ended		
	31 December		31 May		
	2019	2020	2021	2021	2022
Selling expenses	109	88	112	44	51
Administrative expenses	1,179	1,284	1,313	444	506
Financial expenses	206	172	20	31	(34)
Research & Development expenses	550	593	776	228	460

- (i) The selling expenses of the Target Group in 2020 decreased by 19.27% as compared with that of 2019, mainly attributable to decreases in both labour costs of selling personnel and selling service expenses because of the impact of the epidemic. The selling expenses of the Target Group in 2021 increased by 27.27% over that of 2020, mainly attributable to large growths in maintenance expenses and selling service expenses of certain new products.

The selling expenses of the Target Group for the five months ended 31 May 2022 increased by 15.91% compared with the corresponding period in 2021. The main reason was attributable to increase in labour cost of sales person and sales service fee, and increases in the consumption of certain sample and products.

- (ii) The administrative expenses of the Target Group in 2020 increased by 8.91% over that of 2019, mainly attributable to an increase in labor costs, such as settlement fees for retirees. The administrative expenses of the Target Group in 2021 increased by 2.26% over that of 2020, mainly attributable to growth in daily operating expenses, such as travelling expenses.

The administrative expenses of the Target Group for the five months ended 31 May 2022 increased by 13.96% compared with the corresponding period in 2021. The main reason was due to the increase in remuneration of the employees.

- (iii) The financial expenses of the Target Group in 2020 decreased by 16.50% as compared with that of 2019, which was mainly due to a decrease in interest payment as AVIC Electromechanical exercised the redemption of Electromechanical Convertible Bonds (as defined below) in September 2020. The financial expenses of the Target Group in 2021 decreased by 88.37% as compared with that of 2020, which was mainly due to the repayment of loan with the funds from the payment recovery of goods and increase in contract payments received in advance.

The financial expenses of the Target Group for the five months ended 31 May 2022 was RMB-34 million, which was mainly attributable to the increase in interest income as the average balance of monetary capital increased and decrease in payment of interest as the average balance of borrowings decreased.

- (iv) The research & development expenses increased by 7.82% in 2020 compared with that in 2019 and the research & development expenses in 2021 compared with 2020 increased by 30.86% over that of 2020, both of which were due to increases in investment on research and development by the Target Group.

The research & development expenses of the Target Group for the five months ended 31 May 2022 increased by 101.75% compared with the corresponding period in 2021. The main reason was that the Target Group approved more research & development programmes and increased its investments in research & development.

B.5 Profitability

The Target Group achieved operating profits of RMB1,228 million, RMB1,338 million, RMB1,533 million, RMB603 million and RMB633 million for the three years ended 31 December 2021 and the five months ended 31 May 2021 and 2022, respectively.

The net profits attributable to the owners of the Target Group were RMB960 million, RMB1,074 million, RMB1,272 million, RMB510 million and RMB540 million for the three years ended 31 December 2021 and the five months ended 31 May 2021 and 2022, respectively. The net profit attributable to the owners of the Target Group increased steadily, mainly due to the year-on-year increase in revenue and in profit contribution.

The profitability of the Target Group had been improved steadily in past years. The increase of profit in 2020 was mainly attributable to increases in gross profit and subsidies from government on special items and on keeping payroll stable. The increase of profit in 2021 was mainly attributable to increase in gross profit following the growth in revenue, and decrease in financial costs as paying back a large amount of short-term borrowings in this period.

The increase of profit for the five months ended 31 May 2022 as compared with that of the corresponding period in 2021 was mainly attributable to the increase in gross profit following the growth in revenue, and increase in interest income.

C. LIQUIDITY, FINANCIAL SOURCES AND CAPITAL STRUCTURE

C.1 Current assets and current liabilities

Unit: RMB million

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 31 May 2022
Main assets				
Total current assets	18,689	19,798	24,092	24,185
Including:				
Monetary capital	4,917	4,837	8,513	6,182
Inventory	4,489	5,277	6,228	6,572
Notes receivable	1,666	1,660	1,969	1,790
Accounts receivable	6,932	7,280	6,410	8,613
Total current liabilities	12,745	11,888	13,456	15,296
Including:				
Short term loans	2,854	1,754	420	516
Notes payable	2,123	2,847	3,131	2,774
Accounts payable	4,966	5,203	5,504	6,909
Contract liabilities	169	318	2,499	2,608
Total Assets	<u>28,758</u>	<u>30,506</u>	<u>34,893</u>	<u>34,816</u>

- (i) The book value of current assets of the Target Group was RMB18,689 million, RMB19,798 million, RMB24,092 million and RMB24,185 million, which accounted for 64.99%, 64.90%, 69.05% and 69.47% of total assets as at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, respectively.
- (ii) The book value of current liabilities of the Target Group was RMB12,745 million, RMB11,888 million, RMB13,456 million and RMB15,296 million, with current ratios of 1.47, 1.67, 1.79 and 1.58, as at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, respectively.

The main liquidity needs of the Target Group are to finance working capital, pay interest and principal on maturing debt, and fund for capital expenditure and business growth and expansion.

C.2 Borrowings

Unit: RMB million

Types of borrowings	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 31 May 2022
(1) Short-term borrowings	2,854	1,754	420	516
Including:				
Pledge borrowings	459	36	5	67
(2) Long term borrowings due within one year	387	5	34	210
Including:				
Mortgage borrowings	7	–	–	–
(3) Long term borrowings	844	1,651	858	728
Including:				
Mortgage borrowings	24	24	24	24
(4) Capital Lending (within one year)	4	–	19	277
(5) Capital Lending (more than one year)	104	836	1,042	936
(6) debt to be transferred to equity borrowings	84	84	84	84
(7) Bonds payable	1,851	–	–	–
Total	<u>6,128</u>	<u>4,330</u>	<u>2,457</u>	<u>2,751</u>

The cash flow and long-term and short-term borrowings of the Target Group's daily operations are used to supplement and meet its liquidity needs. All borrowings of the Target Group are denominated in RMB.

- (i) The total borrowings and bonds payable of the Target Group as at 31 December 2019 were RMB6,128 million, including short-term borrowings (including capital lending within one year) of RMB2,858 million, the long term borrowings due within one year of RMB387 million and RMB2,883 million for the non-current portion of the long term borrowings (including capital lending more than one year and debt to be transferred to equity borrowings) and bonds payable.

The total borrowings of the Target Group as at 31 December 2020 were RMB4,330 million, including short-term borrowings (including capital lending within one year) of RMB1,754 million, the current portion of the long term borrowings of RMB5 million

and RMB2,571 million for the non-current portion of the long-term borrowings (including capital lending more than one year and debt to be transferred to equity borrowings).

The total borrowings of the Target Group as at 31 December 2021 were RMB2,457 million, including short-term borrowings (including capital lending within one year) of RMB420 million, the current portion of the long term borrowings of RMB53 million and RMB1,984 million for the non-current portion of the long-term borrowings (including capital lending more than one year and debt to be transferred to equity borrowings).

The total borrowings of the Target Group as at 31 May 2022 were RMB2,751 million, including short-term borrowings(including capital lending within one year) of RMB516 million, the current portion of the long-term borrowings of RMB487 million and RMB1,748 million for the non-current portion of the long-term borrowings(including capital lending more than one year and debt to be transferred to equity borrowings).

As at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, the maturity of long-term borrowings (including capital lending more than one year and debt to be transferred to equity borrowings) and bonds payable of the Target Group is shown in the following table:

Unit: RMB million

Maturity	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 31 May 2022
Within 1 year	387	5	53	487
1-2 years	124	1,182	1,069	1,317
2-5 years	2,616	1,231	756	323
More than 5 years	143	158	158	108
Total	<u>3,270</u>	<u>2,576</u>	<u>2,037</u>	<u>2,235</u>

The short-term borrowings of the Target Group are repaid on schedule, without overdue repayment or outstanding matters, and no large foreign currency borrowings.

- (ii) The gearing ratios of the Target Group were 21.25%, 14.17%, 7.04% and 7.90% as of 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, respectively. The gearing ratio is arrived at by dividing the total borrowings and bonds payable by the total assets of the Target Group.

- (iii) As at 31 December 2019, of the Target Group had bank borrowings of RMB1,529 million with a weighted average interest rate of 4% per annum, accounting for 35.75% of the total borrowings. Other borrowings amounted to RMB2,748million with a weighted average interest rate of 4% per annum, accounting for 64.25% of the total borrowings.

As at 31 December 2020, the Target Group had bank borrowings of RMB1,274 million with a weighted average interest rate of 4% per annum, accounting for 29.42% of the total borrowings. Other borrowings amounted to RMB3,056 million with a weighted average interest rate of 2% per annum, accounting for 70.58% of the total borrowings.

As at 31 December 2021, the Target Group had bank borrowings of RMB569 million with a weighted average interest rate of 3% per annum, accounting for 23.16% of the total borrowings. Other borrowings amounted to RMB1,888 million with a weighted average interest rate of 2% per annum, accounting for 76.84% of the total borrowings.

As at 31 May 2022, the Target Group had bank borrowings of RMB760 million, accounting for 27.63% of the total borrowings with a weighted average interest rate of 3% per annum. Other borrowings amounted to RMB1,991 million with a weighted average interest rate of 3% per annum, accounting for 72.37% of the total borrowings.

- (iv) AVIC Electromechanical issued convertible bonds (the “**Electromechanical Convertible Bonds**”) on 27 August 2018, with a bond term of six years. The bonds payable as at 31 December 2019 were RMB1,851 million, and the repayment period was divided into 2-5 years.

The conversion period of Electromechanical Convertible Bonds is from the first trading day after the expiration of six months from the date of issuance of the convertible bonds to the maturity date of the convertible bonds. The Electromechanical Convertible Bonds triggered conditional redemption on 28 July 2020. As at 10 September 2020, the cumulative conversion of Electromechanical Convertible Bonds decreased by 20,969,996 bonds, and the cumulative redemption decreased by 27,619 bonds, resulting in a total decrease in the balance of bonds payable of RMB1,895 million. As at 31 December 2020, the closing balance of bonds payable was RMB0.

- (v) As at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, the pledged borrowings of the Target Group were RMB459 million, RMB36 million, RMB5 million and RMB67 million, respectively.

As at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, the mortgage borrowings of the Target Group were RMB31 million, RMB24 million, RMB24 million and RMB24 million, 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.

Please refer to C.3 for details of asset mortgage and pledge for the pledge and mortgage borrowings of the Target Group.

C.3 Details of Assets Secured and Pledged

Unit: RMB million

Items	Book value	Book value	Book value	Book value	Purpose
	as at 31 December 2019	as at 31 December 2020	as at 31 December 2021	as at 31 May 2022	
Fixed assets	18	4	3	3	Mortgage used to obtain loans
Intangible assets	30	-	-	-	
Accounts receivable, notes receivable and financing receivable	471	40	37	67	Pledge to obtain loans and issuance of notes payable
Total	<u>519</u>	<u>44</u>	<u>40</u>	<u>70</u>	

- (i) As at 31 December 2019, the Target Group had secured loans of RMB31 million (details are set out in “C.2 Borrowings”), of which RMB27 million was secured by houses and buildings with a net book value of RMB18 million and RMB4 million was secured by land use rights with a net book value of RMB30 million.

As at 31 December 2019, the Target Group had pledged loans of RMB459 million, which was pledged by accounts receivable and notes receivable with a book value of RMB459 million. The notes receivable of a value of RMB12 million pledged were for the issuance of notes payable and hence was not considered a form of loan.

- (ii) As at 31 December 2020, the Target Group had secured loans of RMB24 million, which was secured by house buildings with a net book value of RMB4 million.

As at 31 December 2020, the Target Group had pledged loans of RMB36 million, which was pledged by accounts receivable and notes receivable with a book value of RMB36 million. The notes receivable of a value RMB4 million pledged were for the issuance of notes payable and hence was not considered a form of loan.

- (iii) As at 31 December 2021, the Target Group had secured loans of RMB24 million, which was secured by house buildings with a net book value of RMB3 million.

As at 31 December 2021, the Target Group had pledged loans of RMB5 million, which was pledged by accounts receivable with a book value of RMB5 million. The financing receivable of a value RMB32 million pledged were for the issuance of notes payable and hence was not considered a form of loan.

- (iv) As at 31 May 2022, the Target Group had secured loans of RMB24 million, which was secured by house buildings with a net book value of RMB3 million.

As at 31 May 2022, the Target Group had pledged loans of RMB67 million, which was pledged by accounts receivable and notes receivable with a book value of RMB67 million.

C.4 Guarantee

Unit: RMB million

	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 31 May 2022
The amount of approved guarantee	748	798	580	110
Including:				
The amount of guarantee made by parent company for subsidiaries	188	188	–	–
The amount of guarantee made by subsidiaries for subsidiaries	560	610	580	110
The amount of actual total guarantees made by parent company	42	16	–	–
The amount of actual total guarantees made by subsidiaries	125	153	170	110
Including: The bank borrowing	50	80	100	10
The non-bank borrowing	70	70	70	100
The non-borrowing guarantees	5	3	–	–
The ratio of actual total guarantees to net assets	1.71%	1.31%	1.22%	0.79%

- (i) As at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, the guarantees provided were RMB167 million, RMB169 million, RMB170 million, and RMB110 million, respectively. The non-borrowing guarantees are all customs guarantees from its subsidiary Xi'an Qing'an Aviation Machinery Manufacturing Co., Ltd.* (西安慶安航空機械製造有限公司) provided mainly for its subsidiary Xi'an Qing'an Refrigeration Equipment Co., Ltd.* (西安慶安製冷設備股份有限公司), and there is no guarantee provided for other companies outside of the Target Group.
- (ii) As at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, the ratio of actual total guarantees to net assets has been decreasing year by year, with no more than 2%. The net assets here refer to the net assets attributable to the shareholders of the listed company.

C.5 Use of proceeds raised from convertible corporate bonds

On 31 August 2018, the Target Group publicly issued 21 million convertible corporate bonds, each with a face value of RMB100, and the total proceeds was RMB2,100 million. After deducting related expenses, the net proceeds was RMB2,076 million.

As at 31 December 2021, all proceeds had been used up. Of which, RMB147 million, RMB121 million and RMB149 million had been used for the years ended 31 December 2019, 31 December 2020, 31 December 2021, respectively.

For details of bond redemption, please refer to C.2 Borrowings.

D. EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The foreign currencies risks of the Target Group is the risk of loss due to changes in exchange rates for bank deposits, accounts receivable and accounts payable, other receivables and other payables denominated in foreign currencies. The exposure to foreign currencies risks is mainly related to US Dollar. Its main business activities are denominated and settled in RMB, and some purchases and sales are settled in US Dollar.

As at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, the foreign currency financial assets and foreign currency financial liabilities held by the Target Group converted into RMB are set out as follows:

Unit: RMB million

US Dollar and other foreign currency items	As at 31 December 2019	As at 31 December 2020	As at 31 December 2021	As at 31 May 2022
Monetary funds	103	118	158	180
Accounts receivable	154	166	237	210
Other receivables	—	0	1	7
Total	257	284	396	397
Accounts payable	90	94	59	28
Other payables	—	0	1	1
Total	90	94	60	29

For illustrative purpose only, if the US Dollar exchange rate rises or falls by 10% during the Reporting Period and other factors remain unchanged, the net profit of the Target Group would have increased or decreased by approximately RMB6 million, RMB13 million, RMB19 million and RMB15 million for the three years ended 31 December 2021 and the five months ended 31 May 2022, respectively.

During the Reporting Period, the Target Group did not employ any significant financial instruments such as forward foreign exchange contracts, nor did it employ any major financial instruments for hedging purposes.

E. CAPITAL COMMITMENT

As at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, the Target Group did not have any capital commitment.

F. CONTINGENT LIABILITIES

As at 31 May 2022, the Target Group did not have any contingent liabilities.

G. MATERIAL INVESTMENT, ACQUISITION AND DISPOSAL

For the three years ended 31 December 2021 and for the five months ended 31 May 2022, the Target Group did not have any material investment, acquisition or disposal. The Target Group has no future plan of material investments or capital assets in the coming year after the Share Swap and Absorption.

H. EMPLOYEE AND REMUNERATION POLICIES

As at 31 May 2022, the Target Group had 28,511 employees.

The Target Group recruits, employs, promotes and remunerates its employees based on their qualifications, experience, skills, performances and contributions and in combination with relevant regulations. Remuneration is also determined with reference to 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 incentive programs for staff training and development.

For the three years ended 31 December 2021 and for the five months ended 31 May 2022, the Target Group incurred labour costs of approximately RMB3,330 million, RMB3,431 million, RMB3,971 million and RMB1,751 million, respectively.

I. PROSPECTS

The Target Group is principally engaged in the research and development, production, sales and service of various types of aircraft and engines supporting onboard electromechanical systems and equipment. The current product lineup covers aviation power systems, hydraulic systems, fuel systems, environmental control systems, high lift systems, weapons and suspension launch systems and other aviation electromechanical systems, as well as car seat systems, air conditioning compressors, hyperbaric oxygen

chambers, isostatic presses and other related areas. Upon Completion, the Target Group will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of the Target Group. As the surviving company, AVIC Avionics will integrate the resources of both parties, improve the efficiency of resource allocation and exert synergistic effects, which is conducive to laying a good foundation for the systemization, integration and intelligent development of the aviation and airborne industry and building an aviation and airborne industry with international competitiveness.

Please refer to the accountants' report of the Target Group for the three years ended 31 December 2021 and the five months ended 31 May 2022 set out in Appendix IV to this circular for further details of the financial information of AVIC Electromechanical.

**Da Hua Certified Public Accountants (Special General Partnership)**

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**ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL
INFORMATION OF AVIC ELECTROMECHANICAL SYSTEMS CO., LTD.****Da Hua He Zi [2022] No.0011459****To the Directors of AviChina Industry & Technology Company Limited:**

We report on the historical financial information of AVIC Electromechanical Systems Co., Ltd. (hereinafter referred to as "AVIC Electromechanical") set out on pages 112 to 429, which comprises the consolidated and parent company balance sheets as at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022, the consolidated and parent company income statements, the consolidated and parent company cash flow statements and statements of changes in owners' equity for 2019, 2020, 2021 and January to 31 May 2022 ("Historical Record Period of AVIC Electromechanical") and a summary of significant accounting policies and other explanatory information (hereinafter referred to as "AVIC Electromechanical Historical Financial Information"). AVIC Electromechanical Historical Financial Information was set out on pages 112 to 429 of the Circular, which forms part of the Circular and has been prepared for inclusion in the Circular of AviChina Industry & Technology Company Limited dated 29 September 2022 in relation to the share swap and absorption of the AVIC Electromechanical, deemed disposal of equity of China Avionics Systems Co., Ltd. (the "AVIC Avionics") and subscription and deemed disposal of AVIC Avionics A shares.

Directors' responsibility for the AVIC Electromechanical Historical Financial Information

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

Reporting accountants' responsibility

Our responsibility is to express an opinion on the AVIC Electromechanical 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' Reports on Historical Financial

Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the AVIC Electromechanical Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the AVIC Electromechanical Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the AVIC Electromechanical 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 AVIC Electromechanical Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note III to the AVIC Electromechanical 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 AVIC Electromechanical, as well as evaluating the overall presentation of the AVIC Electromechanical 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 AVIC Electromechanical Historical Financial Information is in line with Note III, the basis of preparation of AVIC Electromechanical Historical Financial Information that gives a true and fair view of the consolidated and parent company financial position of AVIC Electromechanical as at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022 and its consolidated and parent company operating performance and cash flows in Historical Record Period of AVIC Electromechanical.

Review of Interim Comparative Financial Information

We have reviewed the interim comparative financial statements of AVIC Electromechanical, which comprise the income statement, the statement of changes in owners’ equity and the statement of cash flows, and other explanatory information (“Interim Comparative Financial Information”) for the five months ended 31 May 2021. The directors of AVIC Electromechanical are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in Note III to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with the requirements of “China Certified Public Accountants Review Standards No. 2101 – Review of Financial Statements”. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with 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 Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note III to the Historical Financial Information, respectively.

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 AVIC Electromechanical Historical Financial Information no adjustments to the AVIC Electromechanical Underlying Financial Statements as defined on pages 112 to 140 have been made.

Dividends

We refer to AVIC Electromechanical Historical Financial Information Note VI. 49, which states the information on dividends paid by AVIC Electromechanical during the historical record period.

Da Hua Certified Public Accountants
(Special General Partnership)

Beijing, the PRC

China Certified Public
Accountants:

(Engagement partner)

China Certified Public
Accountants:

Long Jiao

Li Haoyang

28 September 2022

Historical financial data of AVIC Electromechanical*Preparation of Historical financial data of AVIC Electromechanical*

The historical financial information of AVIC Electromechanical below constitutes an integral part of this CPA's report.

The historical financial information of AVIC Electromechanical in this report is prepared by AVIC Electromechanical in accordance with the Basic Standard of the Accounting Standards for Business Enterprises issued by the Ministry of finance of the people's Republic of China ("Ministry of finance") and specific accounting standards for business enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations (hereafter referred to as the "Accounting Standards for Business Enterprises") and has been audited by us in accordance with the auditing standards of Chinese certified public accountants.

The historical financial information of AVIC Electromechanical is presented in RMB ("RMB"). Unless otherwise noted, the amounts contained in the historical financial data of AVIC Electromechanical are presented in RMB.

CONSOLIDATED BALANCE SHEET

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

Assets	Note VI	2022.5.31	2021.12.31	2020.12.31	2019.12.31
Current assets:					
Monetary funds	1	6,182,255,582.68	8,512,573,846.21	4,837,459,676.77	4,916,504,185.27
Financial assets held for trading	2	1,912,546.39	1,887,511.82	2,382,501.06	3,052,827.42
Derivative financial assets					
Notes receivable	3	1,789,634,254.01	1,969,199,242.55	1,660,125,690.12	1,666,190,693.58
Accounts receivable	4	8,613,427,325.12	6,410,089,587.43	7,280,326,554.22	6,931,721,890.32
Receivables financing	5	345,697,881.94	469,035,135.81	267,271,483.79	232,326,155.88
Prepayments	6	478,136,471.92	352,015,802.31	333,718,391.06	195,528,775.88
Other receivables	7	128,897,784.01	56,553,539.84	75,259,988.58	197,200,372.61
Inventories	8	6,571,528,601.15	6,228,191,469.31	5,276,711,286.52	4,489,377,458.96
Contract assets					
Held-for-sale assets					
Non-current assets due within one year	9			932,088.58	
Other current assets	10	73,212,413.85	92,483,024.36	64,193,206.35	57,519,732.27
Total current assets		24,184,702,861.07	24,092,029,159.64	19,798,380,867.05	18,689,422,092.19
Non-current assets:					
Debt investments					
Other debt investments					
Long-term receivables	11				3,685,365.68
Long-term equity investments	12	295,246,741.62	261,146,150.85	246,679,250.49	239,262,632.16
Other equity instrument investments	13	1,061,696,266.89	1,288,362,986.88	1,099,728,724.50	560,705,775.00
Other non-current financial assets					
Investment properties	14	187,031,727.16	190,616,383.42	200,483,534.96	188,028,489.49
Fixed assets	15	5,711,802,338.52	5,821,904,819.83	5,281,021,536.89	5,119,866,511.82
Construction-in-progress	16	1,143,889,351.83	1,164,480,032.69	1,821,403,091.14	1,938,692,522.47
Bearer biological assets					
Oil and gas assets					
Right-of-use assets	17	74,182,639.69	82,716,103.04	67,035,476.42	67,347,572.52
Intangible assets	18	1,078,941,236.65	1,116,227,332.31	1,100,406,702.07	1,108,407,098.39
Development expenditure	19	148,536,686.65	148,536,686.65	140,261,853.28	113,192,060.76
Goodwill	20	311,565,698.69	311,565,698.69	331,322,398.69	331,322,398.69
Long-term deferred expenses	21	10,738,763.52	10,228,099.00	8,638,800.11	8,997,737.91
Deferred income tax assets	22	137,779,812.99	137,730,926.26	142,938,970.91	152,048,149.10
Other non-current assets	23	469,480,147.49	267,467,402.82	267,814,362.08	236,984,235.49
Total non-current assets		10,630,891,411.70	10,800,982,622.44	10,707,734,701.54	10,068,540,549.48
Total assets		34,815,594,272.77	34,893,011,782.08	30,506,115,568.59	28,757,962,641.67

APPENDIX IV
**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

<u>Liabilities and Shareholders' equity</u>	<u>Note VI</u>	<u>2022.5.31</u>	<u>2021.12.31</u>	<u>2020.12.31</u>	<u>2019.12.31</u>
Current Liabilities:					
Short-term borrowings	24	516,326,811.72	419,862,672.59	1,753,858,322.91	2,854,246,514.02
Financial liabilities held for trading					
Derivative financial liabilities					
Notes payable	25	2,773,840,465.23	3,131,374,508.68	2,846,804,181.42	2,123,399,312.14
Accounts payable	26	6,908,904,917.95	5,504,020,722.68	5,202,725,149.21	4,966,273,027.53
Advances	27	40,250,238.20	61,471,506.83	65,905,743.84	31,353,193.55
Contract liabilities	28	2,607,807,527.49	2,499,031,903.40	317,986,842.42	169,118,034.00
Employee compensation payable	29	530,686,994.43	650,263,810.33	610,971,515.80	507,212,838.60
Tax payable	30	104,096,809.76	150,372,534.48	157,756,181.76	143,830,762.82
Other payables	31	1,019,088,295.88	594,557,393.78	688,376,152.16	1,266,805,521.78
Held-for-sale liabilities					
Non-current liabilities due within one year	32	487,549,490.38	197,807,919.64	23,364,146.02	398,887,371.34
Other current liabilities	33	307,632,275.57	247,147,719.32	220,380,723.78	283,460,838.13
Total current liabilities		<u>15,296,183,826.61</u>	<u>13,455,910,691.73</u>	<u>11,888,128,959.32</u>	<u>12,744,587,413.91</u>
Non-current liabilities:					
Long-term borrowings	34	727,600,000.00	857,650,000.00	1,650,800,000.00	843,950,000.00
Bonds payable	35				1,851,151,672.49
Including: Preferred shares					
Perpetual bonds					
Lease liabilities	36	56,461,854.89	58,391,830.92	49,801,761.67	53,681,767.62
Long-term payables	37	-2,045,738,256.42	-2,042,140,057.67	-1,287,891,690.97	-725,744,482.69
Long-term employee compensation payable	38	565,373,944.61	591,825,785.76	628,316,797.81	615,671,700.34
Provisions	39	39,014,966.99	35,131,271.39	35,131,271.39	34,919,991.09
Deferred income	40	394,336,315.60	399,552,698.64	441,093,634.04	430,965,880.82
Deferred income tax liabilities	22	174,363,496.72	225,837,472.43	177,308,218.08	35,739,082.07
Other non-current liabilities	41	2,376,281,527.77	4,075,982,787.58	920,674,292.95	188,294,987.86
Total non-current liabilities		<u>2,287,693,850.16</u>	<u>4,202,231,789.05</u>	<u>2,615,234,284.97</u>	<u>3,328,630,599.60</u>
Total liabilities		<u>17,583,877,676.77</u>	<u>17,658,142,480.78</u>	<u>14,503,363,244.29</u>	<u>16,073,218,013.51</u>

APPENDIX IV**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

Liabilities and Shareholders' equity	Note VI	2022.5.31	2021.12.31	2020.12.31	2019.12.31
Shareholders' equity:					
Share capital	42	3,884,824,789.00	3,884,824,789.00	3,884,824,789.00	3,608,664,457.00
Other equity instruments	43				327,228,662.33
Including: Preferred shares					
Perpetual bonds					
Capital reserves	44	2,738,078,048.05	2,737,473,790.53	2,729,299,426.13	779,061,448.71
Less: treasury shares	45	154,893,610.43	154,893,610.43	154,893,610.43	154,893,610.43
Other comprehensive income	46	336,011,651.39	508,542,490.35	392,138,283.69	-28,674,262.07
Special reserves	47	130,496,658.99	120,209,734.35	124,487,942.98	125,573,304.17
Surplus reserves	48	690,599,663.79	690,599,663.79	636,191,540.32	604,145,386.29
Retained earnings	49	6,358,333,574.29	6,204,347,469.81	5,301,006,808.09	4,488,514,684.10
Total shareholders' equity					
attributable to parent company		<u>13,983,450,775.08</u>	<u>13,991,104,327.40</u>	<u>12,913,055,179.78</u>	<u>9,749,620,070.10</u>
Minority equity		3,248,265,820.92	3,243,764,973.90	3,089,697,144.52	2,935,124,558.06
Total shareholders' equity		<u>17,231,716,596.00</u>	<u>17,234,869,301.30</u>	<u>16,002,752,324.30</u>	<u>12,684,744,628.16</u>
Total liabilities and shareholders' equity		<u>34,815,594,272.77</u>	<u>34,893,011,782.08</u>	<u>30,506,115,568.59</u>	<u>28,757,962,641.67</u>

(The accompanying notes to the financial statements form an integral part of the financial statements)

Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

CONSOLIDATED INCOME STATEMENT

Prepared by: AVIC Electromechanical Systems Co., Ltd.

Items	Note VI	January to May 2021				
		January to May 2022	(Unaudited)	2021	2020	2019
I. Operating revenue	50	6,712,693,152.88	6,310,696,891.90	14,992,204,845.40	12,224,098,837.96	12,131,383,070.72
Less: Operating cost	50	5,116,867,455.19	4,978,312,837.06	11,332,018,814.32	8,954,829,810.56	8,903,940,309.86
Taxes and surcharges	51	24,420,859.49	18,931,067.84	63,898,356.78	54,540,090.11	59,339,951.67
Selling expenses	52	50,726,423.95	44,480,294.41	112,494,020.13	88,008,438.78	108,754,665.16
Administrative expenses	53	506,038,239.64	444,142,653.78	1,313,122,492.40	1,283,512,260.54	1,178,536,154.46
Research and development expenses	54	459,591,874.86	228,054,162.37	775,708,652.10	592,853,201.62	550,088,282.54
Finance costs	55	-33,826,158.46	31,246,075.78	20,429,722.45	171,891,877.22	206,133,337.54
Including: Interest expense		30,088,985.42	44,363,557.91	92,045,102.46	191,277,416.13	238,783,843.87
Interest income		62,341,499.56	20,445,942.43	108,176,485.05	60,996,372.34	49,570,892.53
Add: Other income	56	57,965,989.49	44,979,943.32	194,083,819.68	281,595,574.74	144,299,937.62
Investment income	57	19,064,185.92	-455,083.70	45,533,679.20	18,463,946.35	-2,799,320.42
Including: Income from investment in associates and joint ventures		6,516,238.25		23,481,935.94	13,579,154.98	-2,454,815.71
Derecognition income of financial assets at amortised cost		-18,000.00	-177,920.09	-1,126,179.66	-13,756,510.85	-26,687,934.99
Net exposure hedging income						
Income from changes in fair value	58	25,034.57		-494,989.24	-670,326.36	9,214,655.59
Credit impairment loss	59	-20,151,506.32	-6,977,718.29	6,062,208.95	14,937,910.58	-23,131,584.09
Asset impairment loss	60	-12,945,564.47	-16,682.49	-61,368,814.20	-50,159,916.32	-24,731,525.51
Income from assets disposal	61	-27,811.99	-13,278.69	-25,118,728.31	-4,329,966.00	146,389.30
II. Operating profit (loss to be listed with "-")		<u>632,804,785.41</u>	<u>603,046,980.81</u>	<u>1,533,229,963.30</u>	<u>1,338,300,382.12</u>	<u>1,227,588,921.98</u>
Add: Non-operating income	62	5,513,701.50	4,373,290.46	12,838,657.02	21,398,859.18	29,295,794.14
Less: Non-operating expenses	63	6,614,341.53	1,290,807.75	16,723,511.53	13,121,686.68	12,500,121.69
III. Profit before tax (loss to be listed with "-")		<u>631,704,145.38</u>	<u>606,129,463.52</u>	<u>1,529,345,108.79</u>	<u>1,346,577,554.62</u>	<u>1,244,384,594.43</u>
Less: income tax expenses	64	81,433,169.62	67,082,998.48	177,515,083.87	202,774,526.98	185,967,922.83
IV. Net profit (net loss to be listed with "-")		<u>550,270,975.76</u>	<u>539,046,465.04</u>	<u>1,351,830,024.92</u>	<u>1,143,803,027.64</u>	<u>1,058,416,671.60</u>
(I) Classified according to operating continuity						
Net profit from continuing operations (net loss to be listed with "-")		550,270,975.76	539,046,465.04	1,351,830,024.92	1,143,803,027.64	1,058,416,671.60
Net profit from discontinuing operations (net loss to be listed with "-")						
(II) Classified according to attribution of the ownership						
Net profit attributable to the owners of the parent company		540,211,582.88	509,809,524.86	1,271,879,737.38	1,073,759,479.79	960,484,970.72
Minority profit and loss		10,059,392.88	29,236,940.18	79,950,287.54	70,043,547.85	97,931,700.88
V. Net of tax of other comprehensive income	46	<u>-171,388,159.59</u>	<u>-98,258,730.69</u>	<u>110,044,329.84</u>	<u>418,792,525.62</u>	<u>77,032,232.80</u>

APPENDIX IV
**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Prepared by: AVIC Electromechanical Systems Co., Ltd.

Items	Note VI	January to May 2021				
		January to May 2022	(Unaudited)	2021	2020	2019
Net of tax of other comprehensive income attributable to the owner of the parent company	46	-172,530,838.96	-95,479,390.48	116,404,206.66	420,812,545.76	75,184,825.20
(I) Other comprehensive income that cannot be reclassified into profit or loss		-173,678,098.22	-92,688,910.63	122,789,573.97	422,840,662.18	73,330,013.17
1. Changes arising from re-measurement of the defined benefit plan		-459,000.00		-17,643,500.00	17,638,500.00	18,701,500.00
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method		-917,405.00		504,390.00	2,708,355.00	
3. Changes in fair value of other equity instrument investments		-172,301,693.22	-92,688,910.63	139,928,683.97	402,493,807.18	54,628,513.17
4. Changes in fair value of the enterprise's credit risk						
(II) Other comprehensive income that can be reclassified into profit or loss		1,147,259.26	-2,790,479.85	-6,385,367.31	-2,028,116.42	1,854,812.03
1. Other comprehensive income that can be reclassified into profit or loss under the equity method						
2. Changes in fair value of other debt investments						
3. Amount charged into other comprehensive income arising from reclassification of financial assets						
4. Provision for credit impairment of other debt investments						
5. Cash flow hedge provision						
6. Translation difference of foreign currency financial statements		1,147,259.26	-2,790,479.85	-6,385,367.31	-2,028,116.42	1,854,812.03
Net of tax of other comprehensive income attributable to minority shareholders	46	1,142,679.37	-2,779,340.21	-6,359,876.82	-2,020,020.14	1,847,407.60
VI. Total comprehensive income		<u>378,882,816.17</u>	<u>440,787,734.35</u>	<u>1,461,874,354.76</u>	<u>1,562,595,553.26</u>	<u>1,135,448,904.40</u>
Total comprehensive income attributable to owners of the parent company		367,680,743.92	414,330,134.38	1,388,283,944.04	1,494,572,025.55	1,035,669,795.92
Total comprehensive income attributable to minority shareholders		11,202,072.25	26,457,599.97	73,590,410.72	68,023,527.71	99,779,108.48
VII. Earnings per share:						
(I) Basic earnings per share		0.14	0.13	0.33	0.29	0.27
(II) Diluted earnings per share		0.14	0.12	0.33	0.29	0.26

(The accompanying notes to the financial statements form an integral part of the financial statements)

Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

CONSOLIDATED CASH FLOW STATEMENT

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

Items	Note VI	January to May 2021				
		January to May 2022	(Unaudited)	2021	2020	2019
I. Cash flow from operating activities:						
Cash received from sales of goods or rendering of services		3,025,143,498.94	9,906,474,842.14	19,929,305,649.39	10,762,068,039.50	10,492,218,206.05
Refund of taxes and surcharges		48,752,421.03	32,275,952.41	66,862,518.31	50,060,054.69	41,314,248.80
Other cash received relating to operating activities	65	218,707,298.78	276,730,844.63	1,207,851,263.92	1,658,030,973.62	1,717,521,901.52
Subtotal of cash inflows from operating activities		3,292,603,218.75	10,215,481,639.18	21,204,019,431.62	12,470,159,067.81	12,251,054,356.37
Cash paid for purchase of goods and receipt of services		3,412,773,512.17	2,954,942,297.10	8,983,584,533.28	5,911,996,999.51	5,368,578,181.58
Cash paid to and for employees		1,476,077,562.69	1,385,018,344.25	3,802,546,647.08	3,226,591,068.77	3,072,438,368.46
Taxes and surcharges cash payments		172,012,987.63	211,352,125.86	369,800,703.27	348,728,147.25	351,007,739.01
Other cash paid relating to operating activities	65	340,745,321.80	346,172,504.24	1,672,787,002.74	1,660,767,485.76	1,871,372,924.18
Subtotal of cash outflow from operating activities		5,401,609,384.29	4,897,485,271.45	14,828,718,886.37	11,148,083,701.29	10,663,397,213.23
Net cash flow from operating activities		-2,109,006,165.54	5,317,996,367.73	6,375,300,545.25	1,322,075,366.52	1,587,657,143.14
II. Cash flows from investing activities:						
Cash received from return of investment					94,399,575.73	11,389,561.92
Cash received from investment income		5,856,825.45	6,814,779.26	23,288,662.66	16,727,542.88	1,798,295.50
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		3,088,231.02	6,047,912.31	12,000,086.58	3,170,334.36	936,330.50
Net cash received from disposal of subsidiaries and other business entities						2,623,953.98
Other cash received relating to investing activities	65	653,071,001.73	55,912,529.81	846,413,412.50		
Subtotal of cash inflows from investing activities		662,016,058.20	68,775,221.38	881,702,161.74	114,297,452.97	16,748,141.90
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		346,256,816.44	320,788,908.04	757,778,037.49	755,291,084.24	829,457,720.64
Cash paid to acquire investments		31,897,500.00		3,500,000.00	150,000,000.00	
Net cash paid for acquisition of subsidiaries and other business entities						
Other cash paid relating to investing activities	65	1,196,399,963.24	300,718,309.21	2,126,161,161.36	433,000,000.00	3,592,968.48
Subtotal of cash outflows from investing activities		1,574,554,279.68	621,507,217.25	2,887,439,198.85	1,338,291,084.24	833,050,689.12
Net cash flows from investing activities		-912,538,221.48	-552,731,995.87	-2,005,737,037.11	-1,223,993,631.27	-816,302,547.22

APPENDIX IV
**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

Items	Note VI	January to May 2021				
		January to May 2022	(Unaudited)	2021	2020	2019
III. Cash flows from financing activities:						
Cash received from absorbing investment						
Including: Cash received from minority shareholders' investment in subsidiaries						
Cash received from borrowings		528,676,313.57	739,425,289.31	1,229,762,700.43	4,751,553,588.97	4,620,096,177.21
Other cash received relating to financing activities	65	45,610,774.91	29,914,202.37	152,637,900.00	110,050,748.23	222,837,985.08
Subtotal of cash inflow from financing activities		<u>574,287,088.48</u>	<u>769,339,491.68</u>	<u>1,382,400,600.43</u>	<u>4,861,604,337.20</u>	<u>4,842,934,162.29</u>
Cash paid for repayments of debts		383,114,000.00	1,497,788,010.98	2,961,031,857.34	4,643,400,606.24	3,663,512,715.91
Cash paid for distribution of dividends, profits or interest repayment		30,559,492.49	25,132,987.08	417,322,074.07	419,200,337.08	338,816,882.75
Including: Dividends and profits paid to minority shareholders by subsidiaries		9,980,000.00		8,630,356.45	33,346,995.80	32,910,276.34
Other cash paid relating to financing activities	65	5,279,851.93	2,410,187.55	41,817,989.65	363,413,212.06	208,075,774.31
Subtotal of cash outflow from financing activities		<u>418,953,344.42</u>	<u>1,525,331,185.61</u>	<u>3,420,171,921.06</u>	<u>5,426,014,155.38</u>	<u>4,210,405,372.97</u>
Net cash flow from financing activities		<u>155,333,744.06</u>	<u>-755,991,693.93</u>	<u>-2,037,771,320.63</u>	<u>-564,409,818.18</u>	<u>632,528,789.32</u>
IV. Effect of foreign exchange rate changes on cash and cash equivalents						
		4,564,375.85	-4,950,026.01	-12,339,250.52	-10,292,171.34	5,251,086.82
V. Net increase in cash and cash equivalents	66	<u>-2,861,646,267.11</u>	<u>4,004,322,651.92</u>	<u>2,319,452,936.99</u>	<u>-476,620,254.27</u>	<u>1,409,134,472.06</u>
Add: Opening balance of cash and cash equivalents	66	<u>6,229,593,109.32</u>	<u>3,910,140,172.33</u>	<u>3,910,140,172.33</u>	<u>4,386,760,426.60</u>	<u>2,977,625,954.54</u>
VI. Closing balance of cash and cash equivalents	66	<u>3,367,946,842.21</u>	<u>7,914,462,824.25</u>	<u>6,229,593,109.32</u>	<u>3,910,140,172.33</u>	<u>4,386,760,426.60</u>

(The accompanying notes to the financial statements form an integral part of the financial statements)

Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

Items	2019										Total shareholders' equity
	Equity attributable to shareholders of the parent company										
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings			
I. Closing balance of the previous year	3,608,633,335.00	327,265,518.65	1,031,623,922.72		-75,493,003.93	123,753,325.94	577,411,905.13	3,653,477,005.58	2,666,699,076.32	11,913,371,083.41	
Add: Changes in accounting policies					-28,771,272.63		-187,582.25	14,492,334.32	-3,446,614.32	-17,913,134.88	
Error correction of previous period											
Business combination under common control											
Others											
II. Opening balance of the current year	3,608,633,335.00	327,265,518.65	1,031,623,922.72		-104,264,276.56	123,753,325.94	577,224,322.88	3,667,969,339.90	2,663,252,462.00	11,895,457,948.53	
III. Change in increase or decrease of the current year	31,122.00	-36,856.32	-252,562,474.01	154,893,610.45	75,590,016.49	1,819,978.23	26,921,063.41	820,545,344.20	271,872,096.06	789,236,679.63	
(I) Total comprehensive income					75,184,825.20			960,484,970.72	99,779,108.48	1,135,448,904.40	
(II) Capital invested and decreased by shareholders	31,122.00	-36,856.32	-252,562,474.01	154,893,610.45		-18,092,042.36			201,985,587.88	-223,568,273.24	
1. Ordinary shares invested by shareholders	31,122.00		210,848.49						393,516,176.82	393,758,147.31	
2. Capital invested by other equity instrument holders										-36,856.32	
3. Amount of share-based payment recognized as shareholders' equity											
4. Others											
(III) Profit distribution											
1. Appropriation to surplus reserves											
2. Distribution to shareholders											
3. Others											
(IV) Internal carry-over in shareholders' equity											
1. Transfer from capital reserves to share capital											
2. Transfer from surplus reserves to share capital											
3. Recovery of losses by surplus reserves											
					405,191.29					-405,191.29	

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

Items	2019										Total shareholders' equity
	Equity attributable to shareholders of the parent company										
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Minority equity		
4. Retained earnings carried over from changes in defined benefit plans					405,191.29			-405,191.29			
5. Retained earnings carried over from other comprehensive income											
6. Others											
(V) Special reserves						19,912,020.59			3,110,801.99	23,022,822.58	
1. Appropriation in the current period						61,628,215.87			4,390,585.52	66,018,801.39	
2. Use in the current period						-41,716,195.28			-1,279,783.53	-42,995,978.81	
(VI) Others											
IV. Closing balance of the current year	3,608,664,457.00	327,228,662.33	779,061,448.71	154,893,610.43	-28,674,262.07	125,573,304.17	604,145,386.29	4,488,514,684.10	2,935,124,558.06	12,684,744,628.16	

(The accompanying notes to the financial statements form an integral part of the financial statements)

Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

Items	2020										Total shareholders' equity
	Equity attributable to shareholders of the parent company					Minority equity					
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Minority equity	Total shareholders' equity	
I. Closing balance of the previous year	3,608,664,457.00	327,228,662.33	779,061,448.71	154,893,610.43	-28,674,262.07	123,573,304.17	604,145,386.29	4,488,514,684.10	2,935,124,558.06	12,684,744,628.16	
Add: Changes in accounting policies											
Error correction of previous period											
Business combination under common control											
Others											
II. Opening balance of the current year	3,608,664,457.00	327,228,662.33	779,061,448.71	154,893,610.43	-28,674,262.07	123,573,304.17	604,145,386.29	4,488,514,684.10	2,935,124,558.06	12,684,744,628.16	
III. Change in increase or decrease of the current year	276,160,332.00	-327,228,662.33	1,950,237,977.42		420,812,545.76	-1,085,361.19	32,046,154.03	812,492,123.99	154,372,586.46	3,318,007,696.14	
(I) Total comprehensive income					420,812,545.76			1,073,759,479.79	68,023,527.71	1,562,595,553.26	
(II) Capital invested and decreased by shareholders	276,160,332.00	-327,228,662.33	1,950,237,977.42				-7,604,640.17		118,338,540.17	2,009,903,547.09	
1. Ordinary shares invested by shareholders	276,160,332.00		1,950,798,869.07						137,220,000.00	2,364,179,201.07	
2. Capital invested by other equity instrument holders											
3. Amount of share-based payment recognized as shareholders' equity											
4. Others										-327,228,662.33	
(III) Profit distribution			-560,891.65								
1. Appropriation to surplus reserves							-7,604,640.17		-18,881,459.83	-27,046,091.65	
2. Distribution to shareholders							39,600,794.20	-261,267,355.80	-32,329,154.46	-253,945,716.06	
3. Others							39,600,794.20	-39,600,794.20			
(IV) Internal carry-over in shareholders' equity								-221,616,561.60	-32,329,154.46	-253,945,716.06	
1. Transfer from capital reserves to share capital											
2. Transfer from surplus reserves to share capital											
3. Recovery of losses by surplus reserves											
4. Retained earnings carried over from changes in defined benefit plans											

Items	2020										Total shareholders' equity
	Equity attributable to shareholders of the parent company					Minority equity					
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings			
5. Retained earnings carried over from other comprehensive income											
6. Others						-1,085,361.19			539,673.04		-545,688.15
(V) Special reserves						58,855,634.42			1,606,975.63		60,462,610.05
1. Appropriation in the current period						-59,940,995.61			-1,067,302.59		-61,008,298.20
2. Use in the current period											
(VI) Others											
IV. Closing balance of the current year	3,884,824,789.00		2,729,299,426.13	154,893,610.43	392,138,283.69	124,487,942.98	636,191,540.32	5,301,006,808.09	3,089,697,144.52		16,002,752,324.30

(The accompanying notes to the financial statements form an integral part of the financial statements)

Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

Items	2021										Total shareholders' equity
	Equity attributable to shareholders of the parent company					Minority equity					
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings			
I. Closing balance of the previous year	3,884,824,789.00		2,729,299,426.13	154,893,610.43	392,138,283.69	124,487,942.98	636,191,540.32	5,301,006,808.09	3,089,697,144.52		16,002,752,324.30
Add: Changes in accounting policies							18,528.15	-5,169,097.62			-5,150,569.47
Error correction of previous period											
Business combination under common control											
Others											
II. Opening balance of the current year	3,884,824,789.00		2,729,299,426.13	154,893,610.43	392,138,283.69	124,487,942.98	636,210,068.47	5,295,837,710.47	3,089,697,144.52		15,997,601,754.83
III. Change in increase or decrease of the current year			8,174,364.40		116,404,206.66	-4,278,208.63	54,389,595.32	908,509,759.34	154,067,829.38		1,237,267,546.47
(I) Total comprehensive income					116,404,206.66			1,271,879,737.38	73,590,410.72		1,461,874,354.76
(II) Capital invested and decreased by shareholders			8,174,364.40						99,444,617.49		107,618,981.89
1. Ordinary shares invested by shareholders											
2. Capital invested by other equity instrument holders											
3. Amount of share-based payment recognized as shareholders' equity											
4. Others											
(III) Profit distribution											
1. Appropriation to surplus reserves											
2. Distribution to shareholders											
3. Others											
(IV) Internal carry-over in shareholders' equity			8,174,364.40								
1. Transfer from capital reserves to share capital											
2. Transfer from surplus reserves to share capital											
3. Recovery of losses by surplus reserves											
4. Retained earnings carried over from changes in defined benefit plans											

Items	2021										Total shareholders' equity
	Equity attributable to shareholders of the parent company										
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Minority equity		
5. Retained earnings carried over from other comprehensive income											
6. Others											
(V) Special reserves											
1. Appropriation in the current period						-4,278,208.63				-356,842.38	
2. Use in the current period						67,539,667.74				2,776,226.31	
(VI) Others						-71,817,876.37				-3,133,068.69	
IV. Closing balance of the current year	3,884,824,789.00		2,757,473,790.53	154,893,610.46	308,542,490.35	120,209,734.35	690,599,663.79	6,204,347,469.81	3,243,764,973.90	17,234,869,301.30	

(The accompanying notes to the financial statements form an integral part of the financial statements)

Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

Items	January to May 2021 (Unaudited)										Total shareholders' equity
	Equity attributable to shareholders of the parent company										
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings			
I. Closing balance of the previous year	3,884,824,789.00		2,729,299,426.13	154,893,610.43	392,138,283.69	124,487,942.98	636,191,540.32	5,301,006,808.09	3,089,697,144.52	16,002,752,324.30	
Add: Changes in accounting policies							18,528.15	-5,169,097.62		-5,150,569.47	
Error correction of previous period											
Business combination under common control											
Others											
II. Opening balance of the current year	3,884,824,789.00		2,729,299,426.13	154,893,610.43	392,138,283.69	124,487,942.98	636,210,068.47	5,295,837,710.47	3,089,697,144.52	15,997,601,754.83	
III. Change in increase or decrease of the current year					-12,607,922.31	6,048,466.41		200,829,142.14	36,993,633.21	231,263,319.45	
(I) Total comprehensive income					-12,607,922.31			509,809,524.86	26,457,599.97	523,659,202.52	
(II) Capital invested and decreased by shareholders									10,100,000.00	10,100,000.00	
1. Ordinary shares invested by shareholders									10,100,000.00	10,100,000.00	
2. Capital invested by other equity instrument holders											
3. Amount of share-based payment recognized as shareholders' equity											
4. Others											
(III) Profit distribution								-308,980,382.72		-308,980,382.72	
1. Appropriation to surplus reserves											
2. Distribution to shareholders											
3. Others											
(IV) Internal carry-over in shareholders' equity								-308,980,382.72		-308,980,382.72	
1. Transfer from capital reserves to share capital											
2. Transfer from surplus reserves to share capital											
3. Recovery of losses by surplus reserves											
4. Retained earnings carried over from changes in defined benefit plans											

Items	January to May 2021 (Unaudited)										Total shareholders' equity
	Equity attributable to shareholders of the parent company										
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings			
5. Retained earnings carried over from other comprehensive income											
6. Others						6,048,466.41			436,033.24		6,484,499.65
(V) Special reserves						24,274,781.78			1,115,505.94		25,390,287.71
1. Appropriation in the current period											
2. Use in the current period											
(VI) Others						-18,226,315.36			-679,472.70		-18,905,788.06
IV. Closing balance of the current year	3,884,824,789.00		2,729,299,426.13	154,893,610.43	379,530,361.38	130,536,409.39	636,210,068.47	5,496,666,852.61	3,126,690,777.73		16,228,865,074.28

(The accompanying notes to the financial statements form an integral part of the financial statements)

Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

Items	January to May 2022										Total shareholders' equity
	Equity attributable to shareholders of the parent company										
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Minority equity		
I. Closing balance of the previous year	3,884,824,789.00		2,737,473,790.53	154,893,610.43	508,542,490.35	120,209,734.35	690,599,663.79	6,204,347,469.81	3,243,764,973.90	17,234,869,301.30	
Add: Changes in accounting policies											
Error correction of previous period											
Business combination under common control											
Others											
II. Opening balance of the current year	3,884,824,789.00		2,737,473,790.53	154,893,610.43	508,542,490.35	120,209,734.35	690,599,663.79	6,204,347,469.81	3,243,764,973.90	17,234,869,301.30	
III. Change in increase or decrease of the current year			604,257.52		-172,530,838.96	10,286,924.64		153,986,104.48	4,500,847.02	-3,152,705.30	
(I) Total comprehensive income					-172,530,838.96			540,211,582.88	11,202,072.25	378,882,816.17	
(II) Capital invested and decreased by shareholders			604,257.52						473,489.00	1,077,746.52	
1. Ordinary shares invested by shareholders									473,489.00	473,489.00	
2. Capital invested by other equity instrument holders											
3. Amount of share-based payment recognized as shareholders' equity											
4. Others											
(III) Profit distribution								-386,225,478.40	-7,604,294.89	-393,849,773.29	
1. Appropriation to surplus reserves										604,257.52	
2. Distribution to shareholders											
3. Others											
(IV) Internal carry-over in shareholders' equity											
1. Transfer from capital reserves to share capital											
2. Transfer from surplus reserves to share capital											
3. Recovery of losses by surplus reserves											
4. Retained earnings carried over from changes in defined benefit plans								-386,225,478.40	-7,604,294.89	-393,849,773.29	

Items	January to May 2022										Total shareholders' equity	
	Equity attributable to shareholders of the parent company											Minority equity
	Share capital	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings				
5. Retained earnings carried over from other comprehensive income												
6. Others												
(V) Special reserves												
1. Appropriation in the current period						10,286,924.64					449,580.66	10,736,505.30
2. Use in the current period						33,496,688.23					1,234,050.45	34,730,738.68
(VI) Others						-23,209,763.59					-784,469.79	-23,994,233.38
IV. Closing balance of the current year	3,884,824,789.00		2,738,078,048.05	154,893,610.43	336,011,651.39	130,496,658.99	690,599,663.79	6,358,333,574.29		3,248,265,820.92		17,231,716,596.00

(The accompanying notes to the financial statements form an integral part of the financial statements)

Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

BALANCE SHEET OF THE PARENT COMPANY

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

	Note XV	2022.5.31	2021.12.31	2020.12.31	2019.12.31
Current assets:					
Monetary funds		986,063,764.31	535,237,872.35	192,479,994.40	886,609,837.58
Financial assets held for trading					
Derivative financial assets					
Notes receivable					
Accounts receivable					
Receivables financing					
Prepayments					
Other receivables	1	64,961,410.96	50,662,867.35	54,291,662.93	171,311,427.70
Inventories					
Contract assets					
Held-for-sale assets					
Non-current assets due within one year					
Other current assets		403,860,114.61	300,845,164.37	450,803,764.27	55,460,114.59
Total current assets		<u>1,454,885,289.88</u>	<u>886,745,904.07</u>	<u>697,575,421.60</u>	<u>1,113,381,379.87</u>
Non-current assets:					
Debt investments		524,800,000.00	524,800,000.00	524,800,000.00	774,800,000.00
Other debt investments					
Long-term receivables					
Long-term equity investments	2	7,413,099,168.02	7,405,987,140.26	7,358,018,576.96	7,089,605,816.47
Other equity instrument investments		934,916,679.69	1,138,566,867.48	934,462,476.90	377,705,478.00
Other non-current financial assets					
Investment properties					
Fixed assets		84,308.55	71,148.07	107,516.91	173,801.70
Construction-in-progress					
Bearer biological assets					
Oil and gas assets					
Right-of-use assets		5,909,674.64	6,862,847.97	9,150,463.95	11,438,079.94
Intangible assets		4,532.99	5,866.34	9,066.38	12,266.42
Development expenditure					
Goodwill					
Long-term deferred expenses					
Deferred income tax assets					
Other non-current assets					
Total non-current assets		<u>8,878,814,363.89</u>	<u>9,076,293,870.12</u>	<u>8,826,548,101.10</u>	<u>8,253,735,442.53</u>
Total assets		<u><u>10,333,699,653.77</u></u>	<u><u>9,963,039,774.19</u></u>	<u><u>9,524,123,522.70</u></u>	<u><u>9,367,116,822.40</u></u>
Current liabilities:					
Short-term borrowings					165,000,000.00
Financial liabilities held for trading					
Derivative financial liabilities					
Notes payable					
Accounts payable					
Advances					

APPENDIX IV
**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

	<u>Note XV</u>	<u>2022.5.31</u>	<u>2021.12.31</u>	<u>2020.12.31</u>	<u>2019.12.31</u>
Contract liabilities					
Employee compensation payable		2,937,008.67	3,842,633.33	2,720,411.60	2,510,131.45
Tax payable		1,367,810.93	2,073,916.92	1,027,732.74	1,114,161.08
Other payables		426,050,462.69	39,805,164.33	41,294,063.74	499,498,308.20
Held-for-sale liabilities					
Non-current liabilities due within one year		1,988,943.89	1,951,629.58	2,643,715.92	2,570,178.90
Other current liabilities					
Total current liabilities		<u>432,344,226.18</u>	<u>47,673,344.16</u>	<u>47,685,924.00</u>	<u>670,692,779.63</u>
Non-current liabilities:					
Long-term borrowings					
Bonds payable					1,851,151,672.49
Including: Preferred shares					
Perpetual bonds					
Lease Liabilities		3,212,582.89	4,052,309.67	6,003,939.26	8,647,655.18
Long-term payables					
Long-term employee compensation payable					
Provisions					
Deferred income					
Deferred income tax liabilities		150,329,170.79	201,241,717.73	150,215,620.09	11,026,370.36
Other non-current liabilities					
Total non-current liabilities		<u>153,541,753.68</u>	<u>205,294,027.40</u>	<u>156,219,559.35</u>	<u>1,870,825,698.03</u>
Total liabilities		<u>585,885,979.86</u>	<u>252,967,371.56</u>	<u>203,905,483.35</u>	<u>2,541,518,477.66</u>
Shareholders' equity:					
Share capital		3,884,824,789.00	3,884,824,789.00	3,884,824,789.00	3,608,664,457.00
Other equity instruments					327,228,662.33
Including: Preferred shares					
Perpetual bonds					
Capital reserves		3,674,034,887.65	3,673,430,630.13	3,672,109,486.24	1,721,871,508.82
Less: treasury shares		154,893,610.43	154,893,610.43	154,893,610.43	154,893,610.43
Other comprehensive income		453,282,852.35	606,937,898.20	453,355,215.26	33,079,111.09
Special reserves					
Surplus reserves		273,642,217.99	273,642,217.99	219,234,094.52	179,583,300.32
Retained earnings		1,616,922,537.35	1,426,130,477.74	1,245,588,064.76	1,110,064,915.61
Total shareholders' equity		<u>9,747,813,673.91</u>	<u>9,710,072,402.63</u>	<u>9,320,218,039.35</u>	<u>6,825,598,344.74</u>
Total liabilities and shareholders' equity		<u>10,333,699,653.77</u>	<u>9,963,039,774.19</u>	<u>9,524,123,522.70</u>	<u>9,367,116,822.40</u>

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

INCOME STATEMENT OF THE PARENT COMPANY

Prepared by: Avic Electromechanical Systems Co., Ltd.

Items	Note XV	January-May 2021				
		January-May 2022	(Unaudited)	2021	2020	2019
I. Operating income	3	13,851,962.26	9,207,036.20	22,096,886.87	17,676,981.19	17,044,015.62
Less: Operating cost	3					
Taxes and surcharges		1,535,584.15	26,983.05	219,388.04	472,918.67	156,791.63
Selling expenses						
Administrative expenses		3,865,890.30	5,033,409.29	12,653,064.61	12,241,177.04	25,219,819.02
Research and development expenses						
Finance costs		-1,222,589.98	-4,515,907.80	-3,021,349.39	36,762,182.52	83,055,199.04
Including: Interest expense		107,857.50	19,655.95	338,134.20	51,093,847.13	87,821,429.25
Interest income		1,371,763.87	4,535,861.77	3,372,884.85	14,515,607.98	4,880,541.57
Add: Other income		211,760.53	182,190.48	682,470.48	91,370.87	1,017,389.73
Investment income	4	567,657,019.48	485,400,000.00	530,698,275.71	424,387,885.53	363,576,839.57
Including: Income from investment in associates and joint ventures		7,425,175.24		25,147,747.88	18,575,297.14	
Derecognition income of financial assets at amortised cost						
Net exposure hedging income						
Income from changes in fair value						
Credit impairment loss		-517,633.36		119,107.84	4,110,545.59	-3,783,655.29
Asset impairment loss						
Income from assets disposal						
II. Operating profit (loss to be listed with "-")		<u>577,024,224.44</u>	<u>494,244,742.14</u>	<u>543,745,637.64</u>	<u>396,790,504.95</u>	<u>269,422,779.94</u>
Add: Non-operating income						8,100.00
Less: Non-operating expenses		6,686.43	6,686.43			
III. Profit before tax (loss before tax to be listed with "-")		<u>577,017,538.01</u>	<u>494,238,055.71</u>	<u>543,745,637.64</u>	<u>396,790,504.95</u>	<u>269,430,879.94</u>
Less: income tax expenses						
IV. Net profit (net loss to be listed with "-")		<u>577,017,538.01</u>	<u>494,238,055.71</u>	<u>543,745,637.64</u>	<u>396,790,504.95</u>	<u>269,430,879.94</u>
Net profit from continuing operations (net loss to be listed with "-")		577,017,538.01	494,238,055.71	543,745,637.64	396,790,504.95	269,430,879.94
Net profit from discontinuing operations (net loss to be listed with "-")						
V. Net of tax of other comprehensive income		<u>-153,655,045.85</u>	<u>-80,501,468.17</u>	<u>153,582,682.94</u>	<u>420,276,104.17</u>	<u>35,469,652.09</u>
(I) Other comprehensive income that cannot be reclassified into profit or loss		-153,655,045.85	-80,501,468.17	153,582,682.94	420,276,104.17	35,469,652.09
1. Changes arising from re-measurement of the defined benefit plan						

APPENDIX IV

**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Prepared by: Avic Electromechanical Systems Co., Ltd.

Items	Note XV	January-May 2022	January-May 2021 (Unaudited)	2021	2020	2019
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method		-917,405.00		504,390.00	2,708,355.00	
3. Changes in fair value of other equity instrument investments		-152,737,640.85	-80,501,468.17	153,078,292.94	417,567,749.17	35,469,652.09
4. Changes in fair value of the enterprise's credit risk						
(II) Other comprehensive income that can be reclassified into profit or loss						
1. Other comprehensive income that can be reclassified into profit or loss under the equity method						
2. Profit or loss from changes in fair value of available-for-sale financial assets						
3. Profit or loss from reclassification of held-to-maturity investments as available-for-sale assets						
4. Changes in fair value of other debt investments						
5. Amount charged into other comprehensive income arising from reclassification of financial assets						
6. Provision for credit impairment of other debt investments						
7. Reserves for cash flow hedge						
8. Translation difference of foreign currency financial statements						
VI. Total comprehensive income		423,362,492.16	413,736,587.54	697,328,320.58	817,066,609.12	304,900,532.03
VII. Earnings per share						
(I) Basic earnings per share				0.27	0.27	0.27
(II) Diluted earnings per share				0.26	0.26	0.26

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

CASH FLOW STATEMENT OF THE PARENT COMPANY

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

Items	Note XV	January-May 2021				
		January-May 2022	(Unaudited)	2021	2020	2019
I. Cash flow from operating activities:						
Cash received from sales of goods or rendering of services		—	3,500,000.00	26,922,700.00	32,237,600.00	19,066,656.43
Refund of taxes and surcharges			186,199.56	—	213,393.47	—
Other cash received relating to operating activities		3,004,394.38	383,474.94	14,950,833.03	23,579,940.37	775,182,489.94
Subtotal of cash inflows from operating activities		<u>3,004,394.38</u>	<u>4,069,674.50</u>	<u>41,873,533.03</u>	<u>56,030,933.84</u>	<u>794,249,146.37</u>
Cash paid for purchase of goods and receipt of services				—	—	—
Cash paid to and for employees		3,020,115.80	4,816,665.52	18,329,736.88	16,120,481.43	13,137,913.31
Taxes and surcharges cash payments		3,694,995.40	733,752.51	1,160,346.90	2,082,111.57	1,423,055.33
Other cash paid relating to operating activities		1,112,329.09	2,592,290.56	3,413,868.89	28,089,682.02	3,440,686.08
Subtotal of cash outflow from operating activities		<u>7,827,440.29</u>	<u>8,142,708.59</u>	<u>22,903,952.67</u>	<u>46,292,275.02</u>	<u>18,001,654.72</u>
Net cash flow from operating activities		<u>-4,823,045.91</u>	<u>-4,073,034.09</u>	<u>18,969,580.36</u>	<u>9,738,658.82</u>	<u>776,247,491.65</u>
II. Cash flow from investing activities:						
Cash received from return of investment		—	150,000,000.00	495,000,000.00	149,399,575.73	364,406,288.07
Cash received from investment income		556,603,575.45	490,604,757.20	515,774,038.50	422,293,097.42	404,343,800.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets				—	—	—
Net cash received from disposal of subsidiaries and other business entities				—	—	—
Other cash received relating to investing activities				—	—	165,000,000.00
Subtotal of cash inflows from investing activities		<u>556,603,575.45</u>	<u>640,604,757.20</u>	<u>1,010,774,038.50</u>	<u>571,692,673.15</u>	<u>933,750,088.07</u>
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		44,175.00	—	22,493.00	8,678.99	63,204.00
Cash paid to acquire investments		100,000,000.00	45,000,000.00	375,000,000.00	874,985,232.74	55,000,000.00
Net cash paid for acquisition of subsidiaries and other business entities				—	—	—
Other cash paid relating to investing activities				—	—	165,000,000.00
Subtotal of cash outflows from investing activities		<u>100,044,175.00</u>	<u>45,000,000.00</u>	<u>375,022,493.00</u>	<u>874,993,911.73</u>	<u>220,063,204.00</u>
Net cash flows from investing activities		<u>456,559,400.45</u>	<u>595,604,757.20</u>	<u>635,751,545.50</u>	<u>-303,301,238.58</u>	<u>713,686,884.07</u>
III. Cash flows from financing activities:						
Cash received from absorbing investment		—	—	—	—	—
Cash received from borrowings				—	—	165,000,000.00
Other cash received relating to financing activities				—	—	—
Subtotal of cash inflow from financing activities		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>165,000,000.00</u>

APPENDIX IV

**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

Items	Note XV	January-May 2022	January-May 2021 (Unaudited)	2021	2020	2019
Cash paid for repayments of debts				—	167,761,900.00	796,476,101.81
Cash paid for distribution of dividends, profits or interest repayment				308,980,382.72	229,325,633.57	123,105,976.31
Other cash paid relating to financing activities		910,269.97		2,981,850.13	3,479,577.31	158,447,424.25
Subtotal of cash outflow from financing activities		910,269.97	—	311,962,232.85	400,567,110.88	1,078,029,502.37
Net cash flow from financing activities		-910,269.97	—	-311,962,232.85	-400,567,110.88	-913,029,502.37
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-192.61	-298.02	-1,015.06	-152.54	60.98
V. Net increase in cash and cash equivalents		450,825,891.96	591,531,425.09	342,757,877.95	-694,129,843.18	576,904,934.33
Add: Balance of cash and cash equivalents at the beginning of the year		535,237,872.35	192,479,994.40	192,479,994.40	886,609,837.58	309,704,903.25
VI. Closing balance of cash and cash equivalents		986,063,764.31	784,011,419.49	535,237,872.35	192,479,994.40	886,609,837.58

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Corporate Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE PARENT COMPANY

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

Items	2019								Total shareholders' equity
	Share capital	Other equity instrument	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	
I. Closing balance of the previous year	3,608,633,335.00	327,265,518.65	1,830,320,125.83		-2,390,541.00		152,849,819.16	977,386,109.69	6,894,064,367.33
Add: Changes in accounting policies									
Error correction of previous period									
Others									
II. Opening balance of the current year	3,608,633,335.00	327,265,518.65	1,830,320,125.83		-2,390,541.00		152,662,236.91	975,697,869.38	6,892,188,544.77
III. Change in increase or decrease of the current year	31,122.00	-36,856.32	-108,448,617.01	154,893,610.43	35,469,652.09		26,921,063.41	134,367,046.23	-66,590,200.03
(I) Total comprehensive income					35,469,652.09			269,490,879.94	304,900,532.03
(II) Capital invested and decreased by shareholders	31,122.00	-36,856.32	-108,448,617.01	154,893,610.43					-263,347,961.76
1. Ordinary shares invested by shareholders	31,122.00		210,848.49						241,970.49
2. Capital invested by other equity instrument holders		-36,856.32							-36,856.32
3. Amount of share-based payment recognized as shareholders' equity									
4. Others			-108,659,466.50	154,893,610.43					-263,533,075.93
(III) Profit distribution							26,921,063.41	-135,063,833.71	-108,142,770.30
1. Appropriation to surplus reserves							26,921,063.41	-26,921,063.41	
2. Distribution to shareholders								-108,142,770.30	-108,142,770.30
3. Others									
(IV) Internal carry-over in shareholders' equity									
1. Transfer from capital reserves to share capital									
2. Transfer from surplus reserves to share capital									
3. Recovery of losses by surplus reserves									
4. Retained earnings carried over from changes in defined benefit plans									
5. Retained earnings carried over from other comprehensive income									

Prepared by: AVIC Electromechanical Systems Co., Ltd.

(The amounts are presented in RMB, except as otherwise noted)

Items	2019							Total shareholders' equity	
	Share capital	Other equity instrument	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves		Retained earnings
6. Others									
(V) Special reserves									
1. Appropriation in the current period									
2. Use in the current period									
(VI) Others									
IV. Closing balance of the current year	3,608,664,457.00	327,228,662.33	1,721,871,508.82	154,893,610.43	33,079,111.09	179,583,300.32	1,110,064,915.61	6,825,598,344.74	

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Corporate Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

Items	2020							Total shareholders' equity	
	Share capital	Other equity instrument	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves		Retained earnings
I. Closing balance of the previous year	3,608,664,457.00	327,228,662.33	1,721,871,508.82	154,893,610.43	33,079,111.09		179,583,300.32	1,110,064,915.61	6,825,598,344.74
Add: Changes in accounting policies									
Error correction of previous period									
Others									
II. Opening balance of the current year	3,608,664,457.00	327,228,662.33	1,721,871,508.82	154,893,610.43	33,079,111.09		179,583,300.32	1,110,064,915.61	6,825,598,344.74
III. Change in increase or decrease of the current year	276,160,332.00	-327,228,662.33	1,950,237,977.42		420,276,104.17		39,650,794.20	135,523,149.15	2,494,619,694.61
(I) Total comprehensive income					420,276,104.17			396,790,504.95	817,066,609.12
(II) Capital invested and decreased by shareholders	276,160,332.00	-327,228,662.33	1,950,237,977.42						1,899,169,647.09
1. Ordinary shares invested by shareholders	276,160,332.00		1,950,798,869.07						2,226,959,201.07
2. Capital invested by other equity instrument holders									
3. Amount of share-based payment recognized as shareholders' equity									
4. Others			-560,891.65						-327,228,662.33
(III) Profit distribution									-560,891.65
1. Appropriation to surplus reserves							39,650,794.20	-261,267,355.80	-221,616,561.60
2. Distribution to shareholders							39,650,794.20	-39,650,794.20	
3. Others									
(IV) Internal carry-over in shareholders' equity									
1. Transfer from capital reserves to share capital									
2. Transfer from surplus reserves to share capital									
3. Recovery of losses by surplus reserves									
4. Retained earnings carried over from changes in defined benefit plans									
5. Retained earnings carried over from other comprehensive income									
6. Others									
(V) Special reserves									
1. Appropriation in the current period									
2. Use in the current period									
(VI) Others									
IV. Closing balance of the current year	3,884,824,789.00		3,672,109,486.24	154,893,610.43	453,355,215.26		219,234,094.52	1,245,588,064.76	9,320,218,039.35

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Corporate Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

Items	2021							Total shareholders' equity	
	Share capital	Other equity instrument	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves		Retained earnings
I. Closing balance of the previous year	3,884,824,789.00		3,672,109,486.24	154,893,610.43	453,335,215.26		219,234,094.52	1,245,588,064.76	9,320,218,039.35
Add: Changes in accounting policies									
Error correction of previous period									
Others							18,528.15	166,753.38	185,281.53
II. Opening balance of the current year	3,884,824,789.00		3,672,109,486.24	154,893,610.43	453,335,215.26		219,252,622.67	1,245,754,818.14	9,320,403,320.88
III. Change in increase or decrease of the current year			1,321,143.89		153,582,682.94		54,389,595.32	180,375,659.60	389,669,081.75
(I) Total comprehensive income					153,582,682.94			543,745,637.64	697,328,320.58
(II) Capital invested and decreased by shareholders			1,321,143.89						1,321,143.89
1. Ordinary shares invested by shareholders									
2. Capital invested by other equity instrument holders									
3. Amount of share-based payment recognized as shareholders' equity									
4. Others									
(III) Profit distribution			1,321,143.89						1,321,143.89
1. Appropriation to surplus reserves							54,389,595.32	-363,349,978.04	-308,980,382.72
2. Distribution to shareholders							54,389,595.32	-54,389,595.32	
3. Others								-308,980,382.72	-308,980,382.72
(IV) Internal carry-over in shareholders' equity									
1. Transfer from capital reserves to share capital									
2. Transfer from surplus reserves to share capital									
3. Recovery of losses by surplus reserves									
4. Retained earnings carried over from changes in defined benefit plans									
5. Retained earnings carried over from other comprehensive income									
6. Others									
(V) Special reserves									
1. Appropriation in the current period									
2. Use in the current period									
VI) Others									
IV. Closing balance of the current year	3,884,824,789.00		3,673,430,630.13	154,893,610.43	606,937,898.20		273,642,217.99	1,426,130,477.74	9,710,072,402.63

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Corporate Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

Items	January-May 2021 (Unaudited)								
	Share capital	Other equity instrument	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Total shareholders' equity
I. Closing balance of the previous year	3,884,824,789.00		3,672,109,486.24	154,893,610.43	453,335,215.26		219,234,094.52	1,245,588,064.76	9,320,218,039.35
Add: Changes in accounting policies									
Error correction of previous period									
Others							18,528.15	166,753.38	185,281.53
II. Opening balance of the current year	3,884,824,789.00		3,672,109,486.24	154,893,610.43	453,335,215.26		219,252,622.67	1,245,754,818.14	9,320,403,320.88
III. Change in increase or decrease of the current year					-80,501,468.17			494,238,055.71	413,736,587.54
(I) Total comprehensive income					-80,501,468.17			494,238,055.71	413,736,587.54
(II) Capital invested and decreased by shareholders									
1. Ordinary shares invested by shareholders									
2. Capital invested by other equity instrument holders									
3. Amount of share-based payment recognized as shareholders' equity									
4. Others									
(III) Profit distribution									
1. Appropriation to surplus reserves									
2. Distribution to shareholders									
3. Others									
(IV) Internal carry-over in shareholders' equity									
1. Transfer from capital reserves to share capital									
2. Transfer from surplus reserves to share capital									
3. Recovery of losses by surplus reserves									
4. Retained earnings carried over from changes in defined benefit plans									
5. Retained earnings carried over from other comprehensive income									
6. Others									
(V) Special reserves									
1. Appropriation in the current period									
2. Use in the current period									
(VI) Others									
IV. Closing balance of the current year	3,884,824,789.00		3,672,109,486.24	154,893,610.43	372,833,747.09		219,252,622.67	1,739,992,873.85	9,734,139,908.42

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Corporate Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

Items	January-May 2022							Total shareholders' equity	
	Share capital	Other equity instrument	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves		Retained earnings
I. Closing balance of the previous year	3,884,824,789.00		3,673,430,630.13	154,893,610.43	606,937,898.20		273,642,217.99	1,426,130,477.74	9,710,072,402.63
Add: Changes in accounting policies									
Error correction of previous period									
Others									
II. Opening balance of the current year	3,884,824,789.00		3,673,430,630.13	154,893,610.43	606,937,898.20		273,642,217.99	1,426,130,477.74	9,710,072,402.63
III. Change in increase or decrease of the current year			604,257.52		-153,655,045.85			190,792,059.61	37,741,271.28
(I) Total comprehensive income					-153,655,045.85			577,017,538.01	423,362,492.16
(II) Capital invested and decreased by shareholders			604,257.52						604,257.52
1. Ordinary shares invested by shareholders									
2. Capital invested by other equity instrument holders									
3. Amount of share-based payment recognized as shareholders' equity									
4. Others									
(III) Profit distribution									
1. Appropriation to surplus reserves									
2. Distribution to shareholders									
3. Others									
(IV) Internal carry-over in shareholders' equity									
1. Transfer from capital reserves to share capital									
2. Transfer from surplus reserves to share capital									
3. Recovery of losses by surplus reserves									
4. Retained earnings carried over from changes in defined benefit plans									
5. Retained earnings carried over from other comprehensive income									
6. Others									
(V) Special reserves									
1. Appropriation in the current period									
2. Use in the current period									
(VI) Others									
IV. Closing balance of the current year	3,884,824,789.00		3,674,034,887.65	154,893,610.43	453,282,852.35		273,642,217.99	1,616,922,537.35	9,747,813,673.91

(The accompanying notes to the financial statements form an integral part of the consolidated financial statements)

Corporate Legal representative:

Person in charge of accounting:

Person in charge of the accounting department:

AVIC ELECTROMECHANICAL SYSTEMS CO., LTD.**AS FOR THE THREE YEARS ENDED 31 DECEMBER 2019, 2020 AND 2021
AND THE FIVE MONTHS ENDED 31 MAY 2022****NOTES TO THE FINANCIAL STATEMENTS****I. COMPANY PROFILE****(I) History, place of incorporation, form of organization and headquarter address**

AVIC Electromechanical Systems Co., Ltd. (hereinafter referred to as AVIC Electromechanical Parent Company; AVIC Electromechanical Systems Co., Ltd. and its subsidiaries are collectively referred to as AVIC Electromechanical) was established as a joint stock company with limited liability by way of promotion with the approval of the former State Economic and Trade Commission under the document “Guo Jing Mao Qi Gai [2000] No. 1110”. It was jointly initiated by China Aviation Life Saving Research Institute (also known as the 610th Research Institute of AVIC) as the main sponsor and 5 legal entities including Dongfeng Automobile Co., Ltd. and 16 natural persons including Wang Chenghai. AVIC Electromechanical Parent Company was registered with the Hubei Provincial Industry and Commerce Administration Bureau on 5 December 2000 with registration number 420000000005070 (1-1) and the registered capital of AVIC Electromechanical Parent Company was RMB30 million. On 18 June 2004, AVIC Electromechanical Parent Company made an initial public offering of 20 million ordinary shares in RMB (A shares) to the public by way of online fixed-price placement to secondary market investors as approved by the China Securities Regulatory Commission (CSRC) under the document “Zheng Jian Fa Xing Zi 2004 No.84”. After the issuance, the total share capital of AVIC Electromechanical Parent Company was 50 million shares with registered capital of RMB50 million. With the approval of Shenzhen Stock Exchange under the document Shenzhen Shang 2004 No. 48, the 20 million ordinary shares in RMB (A shares) issued to the public by AVIC Electromechanical Parent Company were listed and traded on Shenzhen Stock Exchange on 5 July 2004 under the stock short name of “AVIC Precision Machinery” and stock code of “002013”.

On 21 October 2005, AVIC Electromechanical Parent Company’s share reform plan was approved by the State-owned Assets Supervision and Administration Commission of the State Council under the document “Guo Zi Chan Quan 2005 No. 1322” and passed by the shareholders’ general meeting in relation to the share reform of AVIC Electromechanical Parent Company. For every 10 tradable shares held by the shareholders of tradable shares registered on the share change registration date, they will receive 3 consideration shares paid by shareholders of non-tradable shares who will pay a total consideration of 6 million shares. The share reform plan was formally implemented and completed on 1 November 2005, and the total share capital of AVIC Electromechanical Parent Company remained unchanged after the implementation of the plan. According to the annual profit distribution plan approved at the 2005 annual general meeting of AVIC Electromechanical Parent Company, 2 shares for every 10 shares were distributed at RMB0.5, and the registered capital was RMB60 million after the implementation of the plan.

As approved by the CSRC under the document “Zheng Jian Fa Xing Zi 2007 No.148”, AVIC Electromechanical Parent Company issued 11.4 million RMB ordinary shares with par value of RMB1 per share in a non-public placement on 18 July 2007. As of 18 July 2007, the registered capital of AVIC Electromechanical Parent Company was changed to RMB71.4 million with a total share capital of 71.4 million shares, as verified by the capital verification report Qin Xin Yan Zi 2007 No. 015 of Peking Certified Public Accountants.

In 2008, in accordance with the requirements of the shareholders' general meeting and the amended articles of association, AVIC Electromechanical Parent Company transferred 35.7 million shares to all shareholders from capital reserve at a ratio of 5 shares for every 10 shares, resulting in a registered capital of RMB107.1 million. On 20 May 2009, according to the resolution of the shareholders' general meeting and the amended articles of association of AVIC Electromechanical Parent Company, a cash dividend of RMB5,355,000 and a capital distribution of RMB21,420,000 were distributed to all shareholders at the ratio of RMB0.5 and 2 shares for every 10 shares from retained earnings based on the total share capital at the end of 2008, changing the total share capital to RMB128,520,000. In March 2010, in accordance with the requirements of the shareholders' general meeting and the amended articles of association of AVIC Electromechanical Parent Company, AVIC Electromechanical Parent Company transferred 38,556,000 shares to all shareholders from capital reserve at a ratio of 3 shares for every 10 shares, resulting in a registered capital of RMB167,076,000. In March 2011, in accordance with the requirements of the shareholders' general meeting and the amended articles of association of AVIC Electromechanical Parent Company, AVIC Electromechanical Parent Company transferred shares to all shareholders from the capital reserve at a ratio of 3 shares for every 10 shares, resulting in a registered capital of RMB217,198,800. On 20 March 2012, in accordance with the requirements of the shareholders' general meeting and the amended articles of association of AVIC Electromechanical Parent Company, AVIC Electromechanical Parent Company transferred 65,159,600 shares to all shareholders from capital reserve at a ratio of 3 shares and cash RMB0.2 for every 10 shares based on the total share capital of 217,198,800 shares as at the end of 2011, resulting in a registered capital of RMB282,358,400.

Pursuant to the decision of the 2011 annual general meeting of AVIC Electromechanical Parent Company, AVIC Electromechanical Parent Company applied for an increase in registered capital of RMB433,927,900 through purchase of assets by issuing shares to Aviation Industry Corporation of China (hereafter referred to as AVIC), AVIC E& M Systems Company Limited (中航機電系統有限公司), Guizhou Gaike Aviation Electromechanical Co., Ltd. (貴州蓋克航空機電有限責任公司) and China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司), which subscribed for the non-public offering shares of the Company for RMB433,927,900 with 100% equity interest in Qing'an Group Co., Ltd. (慶安集團有限公司) (hereafter referred to as Qing'an Group), Shaanxi Aero Electric Co., Ltd. (陝西航空電氣有限責任公司) (hereafter referred to as Shaanxi Aero Electric), Zhengzhou Aircraft Equipment Co., Ltd. (鄭州飛機裝備有限責任公司) (hereafter referred to as Zhengzhou Aircraft Company), Sichuan Lingfeng Aero Hydraulic Machinery Co., Ltd. (四川凌峰航空液壓機械有限公司) (hereafter referred to as Sichuan Lingfeng), Guiyang Aviation Motor Co., Ltd. (貴陽航空電機有限公司) (hereafter referred to as Guiyang Motor), Sichuan Fanhua Aviation Instrument and Electric Co., Ltd. (四川泛華航空儀錶電器有限公司) (hereafter referred to as Sichuan Fanhua Instrument) and Sichuan AVIC Chuanxi Machinery Co., Ltd. (四川航空工業川西機器有限責任公司) (hereafter referred to as Chuanxi Machinery) owned by them. The issue price was

RMB14.53 per share, which was the average trading price of AVIC Electromechanical Parent Company's shares for the 20 trading days prior to the date of announcement of the resolution of the seventh meeting of the fourth session of board of directors (22 October 2010). According to the profit distribution plan approved by AVIC Electromechanical Parent Company's 2010 and 2011 annual general meeting, the adjusted issue price was RMB8.57 per share. After the above restructuring, the registered capital of AVIC Electromechanical Parent Company was changed to RMB716,286,300, as verified by the capital verification report Zhong Rui Yue Hua Yan Zi 2012 No. 0347 of Zhongrui Yuehua Certified Public Accountants LLP (Special General Partnership) (中瑞岳華會計師事務所(特殊普通合夥)).

At the tenth meeting of the fifth session of the board of directors of AVIC Electromechanical Parent Company and the first extraordinary general meeting of 2014 on 27 January 2014, the Proposal on Changing the Name of the Company and Amending the Articles of Association was considered and approved. The full Chinese name of AVIC Electromechanical Parent Company was changed from "AVIC Hubei Precision Machinery Technology Company Limited (湖北中航精機科技股份有限公司)" to "AVIC Electromechanical Systems Co., Ltd.". With the approval of Shenzhen Stock Exchange, the full name of the securities of AVIC Electromechanical Parent Company was changed from "AVIC Hubei Precision Machinery Technology Company Limited" to "AVIC Electromechanical Systems Co., Ltd." and the short name of the securities was changed from "AVIC Precision Machinery" to "AVIC Electromechanical". The securities code "002013" of AVIC Electromechanical Parent Company remains unchanged. Since 5 March 2014, AVIC Electromechanical Parent Company adopts the new full name and abbreviation for its securities.

On 16 June 2015, in accordance with the requirements of the shareholders' general meeting and the amended articles of association, AVIC Electromechanical Parent Company transferred 214,885,900 shares to all shareholders from capital reserve at a ratio of 3 shares and RMB0.6 for every 10 shares based on the total share capital of 716,286,300 at the end of 2014, resulting in a registered capital of RMB931,172,200.

On 1 March 2016, AVIC Electromechanical Parent Company issued 138,052,500 ordinary A shares in a non-public offering and increased its registered capital by RMB138,052,500. As of 1 March 2016, the registered capital of AVIC Electromechanical Parent Company was changed to RMB1,069,224,700, with a total share capital of 1,069,224,700 shares, as verified by the capital verification report Zhong Huan Yan Zi (2006) No. 020008 of Zhongshen Zhongzhuan Certified Public Accountants (Special General Partnership) (中審眾環會計師事務所(特殊普通合夥)). On 9 March 2016, AVIC Electromechanical Parent Company obtained the unified social credit code of 914200007220889644 upon the approval of Hubei Provincial Industry and Commerce Administration Bureau.

On 16 June 2016, in accordance with the requirements of the shareholders' general meeting and the amended articles of association, AVIC Electromechanical Parent Company transferred 534,612,300 shares to all shareholders from capital reserve at a ratio of 5 shares for every 10 shares based on the total share capital of 1,069,224,700 on 14 March 2016, resulting in a registered capital of RMB1,603,837,000.

On 15 May 2017, in accordance with the requirements of the shareholders' general meeting and the amended articles of association, AVIC Electromechanical Parent Company transferred share capital of RMB801,918,500 to all shareholders from capital reserve at a ratio of 5 shares for every 10 shares, resulting in a registered capital of RMB2,405,755,600.

On 25 April 2018, in accordance with the requirements of the shareholders' general meeting and the amended articles of association, AVIC Electromechanical Parent Company transferred share capital of RMB1,020,877,800 to all shareholders from capital reserve at a ratio of 5 shares for every 10 shares, resulting in a registered capital of RMB3,608,633,300.

On 25 June 2018, AVIC Electromechanical Parent Company received a notice from its controlling shareholder, AVIC E& M Systems Company Limited, notifying that its name has been changed from "AVIC E& M Systems Company Limited" to "AVIC Airborne Systems Company Limited" and it has completed the relevant industrial and commercial registration and received a new business license issued by the Beijing Administration for Industry and Commerce.

(II) Nature of the business and main operating activities of AVIC Electromechanical

AVIC Electromechanical Parent Company is registered in Xiangyang, Hubei Province, the People's Republic of China, and its head office is located in Beijing, the People's Republic of China.

AVIC Electromechanical Parent Company is mainly engaged in the research and development, production, sales and services of airborne electromechanical systems and equipment supporting various types of aircraft and engines, and the provision of corresponding ancillary products and services for aerospace, armaments, ships, electronic information and other fields; the research and development, production, sales and services of vehicle and shipboard systems, various types of fine blanking products, precision stamping dies, industrial automation and control equipment, electromechanical equipment and systems, electric vehicles, refrigeration systems, information systems and products; the export business of its own products and technologies; the import business of raw and auxiliary materials, instruments and meters, machinery and equipment, spare parts and technologies required for the production of the company (other than commodities whose dealing, import or export is restricted or prohibited to operate by the State); and the operation of processing imported goods and "Three-plus-one" business.

The term of operations of the Company is perpetual from the date of issuance of the Business License. The legal representative of AVIC Electromechanical Parent Company is Wang Shugang. The controlling shareholder of AVIC Electromechanical Parent Company is AVIC Airborne Systems Company Limited and the de facto controller of AVIC Electromechanical Parent Company is Aviation Industry Corporation of China, Ltd.

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

Please refer to "Note VII. Changes in consolidation scope" for details of entities included in the scope of the consolidated financial statements and the change of entities in the scope of consolidation during the reporting period.

III. BASIS OF PREPARATION OF FINANCIAL STATEMENT**(I) Basis of Preparation of Financial Statement**

On the basis of a going concern, AVIC Electromechanical carried out recognition and measurement based on actual transaction and event in accordance with the Basic Standard of the Accounting Standards for Business Enterprises issued by the Ministry of Finance and specific accounting standards for business enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations (hereafter referred to as the "Accounting Standards for Business Enterprises"). And it is prepared based on the accounting policies and estimates described in Note IV "Significant Accounting Policies and Accounting Estimates".

In preparing the financial statements, AVIC Electromechanical has implemented the Accounting Standards for Business Enterprises No. 14 - Revenue revised by the Ministry of Finance in 2017 and the Accounting Standards for Business Enterprises No. 21 - Leasing revised by the Ministry of Finance in 2018 since January 1, 2019.

(II) Going Concern

In preparing the financial statements, AVIC Electromechanical has made a comprehensive assessment of AVIC Electromechanical's ability to continue as a going concern for the next 12 months from the end of the reporting period. Having made this assessment using all available information, including the recent history of profitable operations and information supported by financial resources such as banking facilities, AVIC Electromechanical has a reasonable expectation that AVIC Electromechanical will have sufficient resources to continue as a going concern for the next 12 months from the end of the reporting period and AVIC Electromechanical has therefore prepared these financial statements on a going concern basis.

(III) Statement of Compliance with Accounting Standards for Business Enterprises

The financial statements prepared by AVIC Electromechanical comply with the requirements of the Accounting Standards for Business Enterprises and give a true and complete view of the financial position, results of operations, cash flows and other relevant information of AVIC Electromechanical for the reporting period.

(IV) Basis of Preparation and Principle of Measurement

AVIC Electromechanical adopts the accrual basis as the basis of book-keeping in accounting. Except for certain financial instruments, these financial statements are measured on the historical cost basis. Non-current assets held for sale are stated at the lower of fair value less costs to sale and their carrying amounts. When assets are impaired, provision should be made according to the relevant regulations.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**(I) Specific Accounting Policies and Accounting Estimates**

Judgments, estimates and assumptions shall be made to financial statements items, which could not be measured accurately, due to the inherent uncertainties of operating activities, while applying accounting policy. Management bases its judgments, estimates and assumptions on historical experience and other various factors, these judgments will influence the amount of revenues, expenses, assets and liabilities presented in financial reports and the disclosure of contingent liabilities on the balance sheet date.

The judgments, estimates and assumptions mentioned above shall be reviewed on a going concern basis. If the revisions to accounting estimates only influence the current period, relevant adjustment due to the effect shall be recognized in the current period; otherwise, in the current and future period.

On the balance sheet date, the significant fields involving judgments, estimates and assumptions about financial report items are listed as follows:

(1) *Impairment of financial assets*

Expected credit loss model is adopted for assessing impairment of financial instruments. The application of expected credit loss model requires significant judgement and estimates, all reasonable and evidence-based information, including forward-looking information is taken into account. When making such judgments and estimates, AVIC Electromechanical infers the expected changes in debtors' credit risk based on historical information, combining with economic policies, macroeconomic indicators, industry risks, external market environment, technological environment, changes in customer conditions and other considerable factors.

(2) *Provision for inventory impairment*

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. If the net realisable value is below the cost of inventories, a provision for impairment of inventories is made. Provision for impairment of inventories is made based on the excess of cost over net realisable value of individual inventory item. Provision is considered on a category basis for inventories in large quantity and with relatively low unit prices.

After the provision for impairment of inventories is made, if the circumstances that previously caused inventories to be written-off no longer exist so that the net realisable value of inventories is higher than their carrying amount, the original provision for impairment of inventories is reversed and the reversed amount is recognised in profit or loss for the period.

(3) *Fair value of financial instruments*

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques mainly include market approach, income approach and cost approach. Under limited circumstances, if there is insufficient recent information to determine the fair value or a possible estimate of the fair value covers a wide range, and the cost represents the best estimate of the fair value within the range, then the cost may represent an appropriate estimate of the fair value within the range. AVIC Electromechanical may use all information about the results and operation of the investee obtained after the date of initial recognition to determine whether the cost represents its fair value.

(4) *Provision for impairment of long-term assets*

Non-financial and non-current assets, such as fixed assets, construction in progress, intangible assets with definite useful life, investment properties measured at cost model and long-term equity investments in subsidiaries and joint ventures and associations, judgment shall be made on the balance sheet date, to ensure whether there is any evidence of possible impairment of the assets. If there is, the recoverable amount of the assets shall be estimated and an impairment test shall be conducted. Goodwill, intangible assets with indefinite useful life and those are not ready for intended use, shall be subject to impairment test every year.

If the recoverable amount of an asset is lower than its carrying value, the difference shall be recognized as impairment loss and a provision shall be made accordingly. The recoverable amount is the higher of fair value of an asset deducted disposal expense and the present value of expected future cash flow from the asset. The fair value of an asset is determined according to the price stipulated in a selling agreement, and if there is no selling agreement but a dynamic market exists, the fair value shall be determined according to a bid from a buyer. If there is neither a selling contract nor a dynamic market, the fair value of an asset shall be estimated based on maximum information available. The disposal expenses shall include the relevant legal expenses, relevant taxes, transport expenses as well as the direct expenses to get the asset ready for sale. The present value of expected future cash flow of an asset shall be established by discounting cash flow generated by continuous use and final disposal of the asset with an appropriate discount rate. Provision for impairment shall be determined on the basis of a single asset. If it is difficult to estimate the recoverable amount of a single asset, the asset shall be integrated into an asset group and impairment shall be carried out by the asset group. Asset group refers to minimum group of asset which can generate cash flow independently.

When impairment test is made for goodwill separately shown in the financial statements, the book value of goodwill is allocated to the asset group or asset group combination expected to benefit from the synergy effect of business combination. If the test results show that the recoverable amount of the asset group or the asset group combination containing the allocated goodwill is lower than its book value, impairment loss is recognized

accordingly. The amount of impairment loss is firstly offset against the book value of goodwill allocated to the asset group or asset group combination, and then offset against the book value of other assets other than goodwill in the asset group or asset group combination in proportion to their book value.

Once recognized, impairment loss on the above assets cannot be reversed to the extent that the value is recovered in future period.

(5) *Depreciation and amortization*

Investment properties, fixed and intangible assets are depreciated and amortized by a straight-line approach over their estimated useful life by taking the residual value into consideration. Useful life shall be periodically reviewed to determine the depreciation and amortization expenses for each reporting period and be determined on the basis of historical experience regarding analogous assets and the expected technological innovation. Significant changes to previous accounting estimates will result in adjustments against depreciation and amortization expenses in the future periods.

(6) *Development expenditures*

Determination of the capitalisation amount requires estimation of future cash flows of the related assets, choosing a suitable discount rate and estimation of beneficial useful lives by the management of the Group.

(7) *Deferred tax assets*

Deferred tax asset is recognized for all the uncompensated tax losses to the extent of the amount of deductible taxable income. In order to determine the amount of deferred tax assets, the management is required to exercise significant judgment to predict the timing and the amount of taxable income in the future by taking into account the influence of tax planning.

(8) *Income tax*

Within the normal operating activities of AVIC Electromechanical, some of them are possibly uncertain in the tax treatment and calculation. The approval of tax authority is required by tax expenses of some items. If there is a difference between the final identified result and the original estimated amount, it will have an impact on the current income tax and deferred income tax during the final determination period.

(9) *Provisions*

Provision for product quality guarantee, estimated onerous contracts, and delay delivery penalties shall be recognized in terms of contract, current knowledge and historical experience. If the contingent event has formed a practical obligation which probably results in outflow of economic benefits from AVIC Electromechanical, provisions shall be recognized on the basis

of the best estimate of the expenditures to settle relevant practical obligation. Recognition and measurement of the provisions significantly rely on the management's judgments in consideration of the assessment of relevant risks, uncertainties, time value of money and other factors related to the contingent events.

In particular, AVIC Electromechanical makes provisions for after-sales quality maintenance commitments to the customers in respect of sale, maintenance and modification of the goods sold. In making provisions, AVIC Electromechanical considers recent repair experience and data, but recent repair experience may not be able to reflect the future repair situation. Any increase or decrease in such provisions may affect the profit or loss in the future year.

(II) Accounting period

The accounting period is from 1 January to 31 December in a calendar year. The reporting period is from 1 January 2019 to 31 May 2022.

(III) Business cycle

An business cycle refers to the period when an enterprise purchases assets for processing purpose till the realization of those assets in cash or cash equivalents. AVIC Electromechanical adopts 12 months as a business cycle, and treats it as the criteria for classifying current and non-current assets and liabilities.

(IV) Recording currency

Renminbi ("RMB") is the currency of the primary economic environment in which AVIC Electromechanical Parent Company and its domestic subsidiaries operate. Therefore, AVIC Electromechanical Parent Company and its domestic subsidiaries choose RMB as their recording currency. AVIC Electromechanical Company's foreign subsidiary chooses its recording currency on the basis of the primary economic environment in which it operates. AVIC Electromechanical adopts RMB to prepare its financial statements.

(V) Accounting treatments for business combinations involving and not involving entities under common control

1. When the terms, conditions and economic impact of each transaction in the process of achieving a business combination step by step meet one or more of the following conditions, multiple transactions are accounted for as a package transaction

- (1) These transactions were entered into simultaneously or with mutual influence in mind;
- (2) These transactions as a whole can achieve a complete commercial outcome;

- (3) The occurrence of one transaction depends on the occurrence of at least one other transaction;
- (4) A transaction is uneconomical on its own, but economic when considered in conjunction with other transactions.

2. *Business combinations involving entities under common control*

In case the consideration for the long-term equity investments formed in the business combinations involving entities under common control is paid by way of cash, transfer of non-cash assets or assumption of debts, AVIC Electromechanical will regard the share of carrying amounts of shareholders' equity of the merged party in the ultimate controller's consolidated financial statements as the initial investment cost of long-term equity investments as at the date of combination. In case the consideration for the combination is paid by issuance of equity instruments, the aggregate nominal value of shares issued will be deemed as the share capital. The difference between the initial investment cost of long-term equity investments and the carrying amount of consideration (or aggregate nominal value of shares issued) for the combination shall be adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

3. *Business combinations not involving entities under common control*

For business combinations not involving entities under common control, the combination cost is the aggregate fair value of assets paid, liabilities incurred or assumed and equity instruments issued by the acquirer in exchange for the control of the acquiree on the date of acquisition. The recognizable and identifiable assets, liabilities and contingent liabilities acquired or assumed, through business combinations not involving entities under common control shall be measured at fair values on the date of acquisition. When the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets obtained, the difference shall be recognized as goodwill value. When the cost of the combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference shall be recognized in non-operating income for the period if it remains true after reassessment.

4. *Relevant expenses incurred for combination*

The intermediary expenses such as audit, legal services, appraisal and consultation and other directly related expenses incurred for business combination shall be included in the current profit or loss when incurred. The transaction costs of issuing equity securities for business combination can be deducted from equity if they are directly attributable to equity transactions.

(VI) Preparation methods of consolidated financial statements**1. Consolidation scope**

The consolidation scope of AVIC Electromechanical's consolidated financial statements is determined on the basis of control, and all subsidiaries (including individual entities controlled by AVIC Electromechanical Parent Company) are included in the consolidated financial statements.

2. Consolidation procedures

AVIC Electromechanical prepares consolidated financial statements based on the financial statements of itself and its subsidiaries and other relevant materials. In preparing consolidated financial statements, AVIC Electromechanical Parent Company regards the whole enterprise Group as an accounting entity, and reflects the overall financial position, operating results and cash flow of the enterprise Group in accordance with the recognition, measurement and presentation requirements of relevant accounting standards for business enterprises and unified accounting policies.

Except for the direct consolidation of the financial statements prepared in accordance with the new Accounting Standards for Business Enterprises by the subsidiaries that will implement the new Accounting Standards for Business Enterprises as described in Note III basis of preparation of financial statement, the accounting policies and accounting periods adopted by all subsidiaries included in the consolidation scope of the consolidated financial statements are consistent with those of AVIC Electromechanical Parent Company. If the accounting policies and accounting periods adopted by subsidiaries are inconsistent with those of AVIC Electromechanical Parent Company, necessary adjustments shall be made according to the accounting policies and accounting periods of AVIC Electromechanical Parent Company when preparing the consolidated financial statements.

The consolidated financial statements offset the impact of internal transactions between AVIC Electromechanical Parent Company and subsidiaries and between subsidiaries on the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in shareholders' equity. If the recognition of the same transaction from the perspective of the consolidated financial statements of the enterprise Group is different from that with AVIC Electromechanical Parent Company or subsidiaries as the accounting entity, the transaction shall be adjusted from the perspective of the enterprise Group.

Subsidiary owners' equity, current net profit or loss, and current comprehensive income of the minority shareholders are separately listed under the owner's equity item in the consolidated balance sheet, the net profit item and the total comprehensive income item in the consolidated income statement. The current loss shared by the minority shareholders of the subsidiary exceeds the balance formed by the minority shareholders' share of the beginning owner's equity of the subsidiary, offsetting the minority shareholders' equity.

For subsidiaries acquired through business combinations involving entities under common control, their financial statements shall be adjusted based on the book value of its assets and liabilities (including the goodwill formed by the ultimate controlling party's acquisition of the subsidiaries) in the ultimate controlling party's financial statements.

For subsidiaries acquired through business combination not involving entities under common control, their financial statements shall be adjusted based on the fair value of identifiable net assets on the acquisition date.

(1) Add subsidiaries or businesses

During the reporting period, if subsidiaries or businesses are added due to business combinations involving entities under common control, the opening balance of the consolidated balance sheet shall be adjusted. The income, expenses and profits of subsidiaries or business from the beginning of the current period to the end of the reporting period shall be included into the consolidated income statement; The cash flows of subsidiaries or business from the beginning of the current period to the end of the reporting period are included in the consolidated cash flow statement, and the relevant items of the comparative statements are adjusted. It is deemed that the consolidated reporting entity has existed since the time when the final controller began to control.

If the investee under common control can be controlled due to additional investment and other reasons, it is deemed that the parties involved in the merger exist in the current state when the final controller begins to control. For the equity investment held before obtaining the control of the combined party, the changes in relevant profits or losses, other comprehensive income and other net assets have been recognized from the later of the date of obtaining the original equity and the date of being under common control of the combining party and the combined party to the date of combination, respectively offsetting the beginning retained earnings or current profits or losses during the comparative reporting period.

During the reporting period, if subsidiaries or businesses are added due to business combinations not involving entities under common control, the opening balance of the consolidated balance sheet shall not be adjusted. The income, expenses and profits of the subsidiary or business from the acquisition date to the end of the reporting period shall be included into the consolidated income statement. The cash flow of the subsidiary or business from the acquisition date to the end of the reporting period is included in the consolidated cash flow statement.

If the investee not under common control can be controlled due to additional investment and other reasons, AVIC Electromechanical shall remeasure the equity of the acquiree held before the acquisition date according to the fair value of the equity on the acquisition date, and the difference between the fair value and its book value shall be included in the current investment income. If the equity of the acquiree held before the acquisition date involves other comprehensive income calculated by the equity method and other changes in owner's equity other than net profit or loss, other comprehensive income and profit distribution, the related other comprehensive income and other

changes in owner's equity are transferred to the current investment income on the acquisition date, except for other comprehensive income arising from changes in net liabilities or net assets of the investee's remeasurement of the defined benefit plan.

(2) *Disposal of subsidiaries or businesses*

1) General treatment method

During the reporting period, if AVIC Electromechanical disposes of subsidiaries or businesses, the income, expenses and profits of such subsidiaries or businesses from the beginning of the period to the date of disposal shall be included in the consolidated income statement. The cash flow of the subsidiary or business from the beginning of the period to the disposal date is included in the consolidated cash flow statement.

When the control over the investee is lost due to the disposal of part of the equity investment or other reasons, AVIC Electromechanical remeasures the remaining equity investment after disposal according to its fair value on the date of loss of control. The difference between the sum of the consideration price obtained from the disposal of equity and the fair value of the remaining equity minus the sum of the share of net assets and goodwill of the original subsidiary continuously calculated from the purchase date or combination date according to the original shareholding ratio shall be included in the investment income of the current period when the control is lost. Other comprehensive income related to the equity investment of the original subsidiary or other changes in owner's equity other than net profit or loss, other comprehensive income and profit distribution shall be transferred to the current investment income when the control is lost, except for other comprehensive income arising from the change of net liabilities or net assets due to the remeasurement of the defined benefit plan.

2) Disposal of subsidiaries step by step

When the equity investment in a subsidiary is disposed of step by step through multiple transactions until control is lost, the terms, conditions and economic impact of each transaction that disposes of the equity investment in a subsidiary meet one or more of the following conditions, which generally indicate that multiple transactions should be accounted for as a package transaction:

- A. The transactions were entered into simultaneously or with mutual influence in mind;
- B. The transactions as a whole are capable of achieving a complete commercial outcome;

- C. The occurrence of one transaction depends on the occurrence of at least one other transaction;
- D. The transaction is uneconomical by itself but economic when considered in conjunction with other transactions.

If the transactions from the disposal of equity investment in subsidiaries to the loss of control are package transactions, AVIC Electromechanical will treat each transaction as a transaction for the disposal of subsidiaries and the loss of control; However, before the loss of control, the difference between each disposal price and the share of net assets of the subsidiary corresponding to the disposal of investment shall be recognized as other comprehensive income in the consolidated financial statements, and shall be transferred to the profits and losses of the current period when the control is lost.

If all transactions from the disposal of equity investment in subsidiaries to the loss of control are not package transactions, accounting treatment shall be carried out according to the relevant policies for partial disposal of equity investment in subsidiaries without losing control before the loss of control. In case of loss of control, accounting treatment shall be carried out according to the general treatment method for disposal of subsidiaries.

(3) *Purchase of minority interests in subsidiaries*

For the difference between the long-term equity investment newly obtained by AVIC Electromechanical due to the purchase of minority equity and the share of net assets of subsidiaries continuously calculated from the purchase date (or combination date) according to the newly increased shareholding ratio, the capital stock premium in the capital reserve in the consolidated balance sheet shall be adjusted. If the capital stock premium in the capital reserve is insufficient to be offset, the retained earnings shall be adjusted.

(4) *Partial disposal of equity investment in subsidiaries without losing control*

Without losing control, the difference between the disposal price obtained from the partial disposal of long-term equity investment in subsidiaries and the share of net assets of subsidiaries continuously calculated from the purchase date or merger date corresponding to the disposal of long-term equity investment shall be adjusted to the equity premium in the capital reserve in the consolidated balance sheet. If the equity premium in the capital reserve is insufficient to be offset, adjust the retained earnings.

(VII) Classification of joint arrangements and accounting for joint operations**1. Classification of joint arrangements**

AVIC Electromechanical classifies joint arrangements into joint operations and joint ventures based on factors including the structure, legal form of the joint arrangements and terms agreed in the joint arrangements, other relevant facts and circumstances.

Joint arrangements that are not reached through separate entities are classified as joint operations. Joint arrangements entered into through separate entities are generally classified as joint ventures. However, a joint venture arrangement that meets any of the following conditions and meets the requirements of relevant laws and regulations is classified as joint operation if there is conclusive evidence:

- (1) The legal form of the joint arrangement indicates that the parties to the joint arrangement have rights and obligations respectively over the relevant assets and liabilities under the arrangement.
- (2) The contractual terms of the joint arrangement stipulate that the parties to the joint arrangement shall have rights and obligations respectively in respect of the relevant assets and liabilities under the arrangement.
- (3) Other relevant facts and circumstances indicate that the parties have rights and obligations respectively over the relevant assets and liabilities under the arrangement, such as the parties have substantially all the outputs related to the joint arrangement and the settlement of the liabilities under the arrangement continues to depend on the support of the parties.

2. Accounting for joint operations

AVIC Electromechanical recognises the following items in the share of interests in joint operations that are relevant to AVIC Electromechanical and are accounted for in accordance with the relevant accounting standards for enterprises:

- (1) Recognition of assets held separately and jointly held assets in proportion to their share;
- (2) Recognition of liabilities that are assumed individually and of liabilities that are shared in proportion to their share;
- (3) Recognition of revenue arising from the disposal of their share of joint operating outputs;
- (4) Revenue from the disposal of outputs from joint operations is recognised at its share;

- (5) Recognition of expenses incurred separately and expenses incurred in joint operations in proportion to their share.

AVIC Electromechanical invests or sells assets to a joint operation (except where the assets constitute a business), only the portion of the profit or loss arising from the transaction attributable to the other participants in the joint operation is recognised before the assets are sold from the joint operation to a third party. AVIC Electromechanical recognises in full an impairment loss on an asset that has been placed or sold that meets the requirements of Accounting Standards for Business Enterprises No. 8 – Impairment of Assets.

AVIC Electromechanical purchases assets from a joint operation (except where the assets constitute a business) and only recognises the portion of the profit or loss arising from the transaction attributable to the other participants in the joint operation before selling the assets to a third party. Where an asset acquired has an impairment loss that meets the requirements of Accounting Standard for Business Enterprises No. 8 – Impairment of Assets, AVIC Electromechanical recognises the loss based on the share assumed.

AVIC Electromechanical does not have joint control over the joint operation, If AVIC Electromechanical enjoys the assets related to the joint operation and bears the liabilities related to the joint operation, it shall still be accounted for in accordance with the above principles; otherwise, it shall be accounted for in accordance with the relevant accounting standards for enterprises.

(VIII) Criteria for determining cash and cash equivalents

In preparing the statement of cash flows, cash on hand and deposits that are readily available for payment are recognised as cash. Cash equivalents are defined as investments that simultaneously meet the four criteria of short maturity (generally due within three months from the date of purchase), high liquidity, easy conversion to known amounts of cash, and low risk of changes in value.

(IX) Foreign currency transactions and translation of foreign currency financial statements

1. Foreign currency transaction

AVIC Electromechanical accounts for foreign currency transactions in recording currency using the spot exchange rate (usually the mid-price of the foreign exchange quotation published by the People's Bank of China, the same below) prevailing on the date of transaction. On the balance sheet date, foreign currency monetary items are converted at the spot exchange rate prevailing on the balance sheet date. Exchange gain or loss arising from the difference between the spot exchange rate prevailing on that date and the spot exchange rate prevailing at the time of initial recognition or the previous balance sheet date is recognized in the profit or loss, except that exchange differences on foreign currency special loans qualified for capitalization are capitalized and included in the cost of related assets during the capitalization period. Non-monetary items in foreign currencies that are measured at historical cost are still translated using the spot exchange rate at the date of the transaction without

changing the amount in the recording currency. Non-monetary items measured at fair value in foreign currencies are translated using the spot exchange rate at the date when the fair value is determined. The difference between the amount in the recording currency after translation and the amount in the original recording currency is treated as a change in fair value (including changes in exchange rates) and included in the current profit or loss or recognised as other comprehensive income.

2. *Translation of foreign currency financial statements*

If any subsidiary, joint venture and associate of AVIC Electromechanical adopts a recording currency different from that of AVIC Electromechanical, its foreign currency financial statements are translated before accounting and preparation of consolidated financial statements. Assets and liabilities items in the balance sheet are translated at the spot exchange rate prevailing on the balance sheet date. Except for “retained earnings”, other owners’ equity items are translated at the spot exchange rate prevailing at the time of occurrence. Income and expense items in the income statement are translated at the average spot exchange rate prevailing on the transaction date. The translation difference on foreign currency statements resulting from the translation is shown within other comprehensive income in owners’ equity in the balance sheet. Foreign currency cash flows are translated at the average spot exchange rate prevailing on the date when the cash flow occurs. The impact of exchange rate changes on cash is shown separately in the statement of cash flows. When an overseas operation is disposed of, the translation difference on foreign currency statements related to the overseas operation is recorded in profit or loss for the period in which the disposal occurs in whole or at the percentage of overseas operation disposed of.

(X) **Financial instruments**

1. *Classification and reclassification of financial instruments*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(1) *Financial assets*

A financial asset is measured at amortised cost if it meets the following conditions: ① it is held within a business model whose objective is to hold assets to collect contractual cash flows; and ② its contractual terms provide that cash flows on specified dates are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if it meets the following conditions: ① it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and ② its contractual terms provide that cash flows on specified dates are solely payments of principal and interest on the principal amount outstanding.

On initial recognition, an equity investment that is not held for trading may be irrevocably designated by AVIC Electromechanical as a financial asset at fair value through other comprehensive income. This designation is made on an investment-by-investment basis and relevant investments fall within the definition of equity instruments from the perspective of the issuer.

For those financial assets other than financial assets measured at amortised cost and financial assets at fair value through other comprehensive income, AVIC Electromechanical classifies it as financial assets measured at fair value through profit or loss. At initial recognition, if accounting mismatch can be eliminated or reduced, AVIC Electromechanical may irrevocably designated financial assets as financial assets measured at fair value through profit or loss.

When the AVIC Electromechanical changes the business model for managing financial assets, all relevant financial assets as affected are reclassified on the first day of the first reporting period after the business model changes, and the reclassification are applied prospectively from the reclassification date. AVIC Electromechanical does not retroactively adjust any previously recognized gains, losses (including impairment losses or gains) or interest.

(2) *Financial liabilities*

Financial liabilities are classified into the following categories at initial recognition: financial liabilities measured at fair value through profit or loss, financial liabilities formed when transfer of financial assets does not meet the conditions of derecognition or continues to be involved in the transferred financial assets and financial liabilities measured at amortised cost. All financial liabilities are not reclassified.

2. *Measurement of financial instruments*

Financial instruments of AVIC Electromechanical are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related transaction costs are directly charged to profit or loss; for financial assets and financial liabilities of other categories, any related transaction costs are included in their initial recognized amount. Accounts receivable or bills receivable arising from sales of goods or rendering services or without significant financing component, are initially recognised based on the transaction price expected to be entitled by AVIC Electromechanical. Subsequent measurement of financial instruments depends on their classifications.

(1) *Financial assets*

- ① Financial assets measured at amortised cost. Upon initial recognition, the financial assets are subsequently measured at amortised cost using the effective interest method. Gains or losses arising from financial assets

measured at amortised cost that are not hedging instruments are recorded in current profit or loss when in the case of derecognition, reclassification, amortisation based on the effective interest method, or impairment consideration.

- ② Financial assets measured at fair value through profit or loss. Upon initial recognition, gain or loss (including interest and dividend income) arisen from subsequent measurement of the financial assets (excluding the financial assets are parts of the hedging relationships) at fair value is included in profit and loss in the period which they incurred.
- ③ Debt instrument investments measured at fair value through other comprehensive income. Upon initial recognition, these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment losses and foreign exchange gains and losses are recognised in profit or loss. Other net gains or losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
- ④ Non-trading equity instrument investment designated at fair value through other comprehensive income. Upon initial recognition, these assets are subsequently measured at fair value. Except for the dividends received (except those belonging to the recovery of investment cost), which are included in the current profit or loss, other related gains and losses are included in other comprehensive income, and will not be transferred to the current profit or loss subsequently.

(2) *Financial liabilities*

- ① Financial liabilities measured at fair value through profit or loss. Such financial liabilities include trading financial liabilities (including derivatives that are financial liabilities) and financial liabilities designated at fair value through profit or loss. Upon initial recognition, the financial liabilities are subsequently measured at fair value. Except for those involving the hedge accounting, the gains or losses (including interest expenses) arising from changes in fair value of trading financial liabilities are included in profit or loss in the period which they incurred. For the financial liabilities designated at fair value through profit or loss, the amount of changes in the fair value of the financial liabilities arising from the changes in enterprise's own credit risk is included in other comprehensive income, and other changes in fair value are recognised in profit or loss. If the inclusion of the effects of the changes in the credit risk of the financial liabilities in other comprehensive income will cause or

expand the accounting mismatch in profit or loss, AVIC Electromechanical will include all the gains or losses of the financial liabilities in the profit and loss.

- ② Financial liabilities measured at amortised cost. Upon initial recognition, such financial liabilities are measured at amortised cost using the effective interest method.

3. *Recognition of fair values of financial instruments by AVIC Electromechanical*

For financial instruments with an active market, their fair values shall be determined based on their quotations in the active market. Where there is no active market for a financial instrument, the fair value shall be determined using valuation techniques, which mainly include the market approach, income approach and cost approach. In limited circumstances, if the short-term information used to determine the fair value is insufficient, or the possible estimated amount of fair value is widely distributed, and the cost represents the best estimate of the fair value within the scope, the cost may represent appropriate estimates of fair value within this distribution. AVIC Electromechanical determines whether the cost represents the fair value based on all information in relation to the results and operations of the investees available since the date of initial recognition.

4. *Basis of recognition and methods of measurement for transfer of financial assets and financial liabilities*

(1) *Financial assets*

A financial asset of AVIC Electromechanical is derecognised when any of the below criteria is met: ① the contractual rights to receive the cash flows from the financial asset expire; ② the financial asset has been transferred and AVIC Electromechanical transfers substantially all the risks and rewards of ownership of the financial asset; or ③ the financial asset has been transferred and AVIC Electromechanical has not retained control of the financial asset, although AVIC Electromechanical neither transfers nor retains substantially all the rewards of ownership of the financial asset.

In the case that AVIC Electromechanical has neither transferred nor retained substantially all the rewards associated with ownership of such financial assets and has retained control of such financial assets, AVIC Electromechanical will continue to recognise such financial assets according to the extent of transfer of such financial assets, and will recognise relevant liabilities accordingly.

When the overall transfer of a financial asset meets the criteria for derecognition, the balance between the following two amounts will be included in the current profit or loss: ① the carrying amount of the financial asset transferred on the derecognition date; ② the sum of the consideration received from the transfer of the financial asset and the

amount of the corresponding derecognised part in the accumulated changes in fair value previously recorded directly in other comprehensive income (the financial asset involved in the transfer is classified as financial asset measured at fair value through other comprehensive income).

If part of the transfer of a financial asset meets the criteria for derecognition, the entire carrying amount of the financial asset transferred shall be first proportionally amortised between the derecognised portion and the retained portion according to their respective relative fair value on the transfer date. Then, the balance between the following two amounts will be included in the current profit or loss: ① the carrying amount of the derecognised part on the derecognition date; ② the sum of the consideration received for the derecognised part and the amount of the corresponding derecognised part in the accumulated amount of the changes in fair value originally included in other comprehensive income (the financial asset involved in the transfer is classified as financial asset measured at fair value through other comprehensive income).

Upon derecognition of non-trading equity instrument investment designated as fair value through other comprehensive income by AVIC Electromechanical, the cumulative gain or loss previously included in other comprehensive income shall be transferred out from other comprehensive income and included in retained earnings.

(2) *Financial liabilities*

AVIC Electromechanical derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

The difference between the carrying amount of financial liabilities (or parts of them) and consideration paid (including transferred non-cash assets or liabilities) is recognized in the current profit or loss, when financial liabilities (or parts of them) are derecognised.

(XI) Method of determination of expected credit loss and accounting treatment methods

1. *Determination of expected credit loss*

Based on the expected credit loss ("ECL"), AVIC Electromechanical made the impairment accounting for financial assets measured at amortised cost (including accounts receivable), financial assets measured at fair value through other comprehensive income (including accounts receivable financing) and rental receivable, and recognised the provision for such losses.

AVIC Electromechanical assesses whether the credit risk of relevant financial instruments since its initial recognition is significantly increased on each balance sheet date, and divides the process of credit impairment of financial instruments into three stages, with

different accounting treatment methods for impairment of financial instruments in different stages: (1) stage 1, where the credit risk of financial instruments is not significantly increased since its initial recognition, AVIC Electromechanical measures the loss provisions at 12-month ECL of such financial instruments, and calculates the interest income based on its carrying amount (that is, without deduction of impairment provision) and effective interest; (2) stage 2, where the credit risk of financial instruments is significantly increased since its initial recognition but no impairment of credits exists, AVIC Electromechanical measures the loss provisions at lifetime ECL of such financial instruments, and calculates the interest income based on its carrying amount and effective interest; (3) stage 3, where impairment of credits exists since its initial recognition, AVIC Electromechanical measures the loss provisions at lifetime ECL of such financial instruments, and calculates the interest income based on its amortised cost (carrying amount minus provision made for impairment) and effective interest.

(1) Measurement of loss provision for financial instruments with lower credit risk

For financial instruments with low credit risk at the balance sheet date, AVIC Electromechanical can directly assume the credit risk of such instruments does not increase significantly after the initial recognition without comparing it with the credit risk at the initial recognition.

If a financial instrument has a low risk of default, the debtor has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic situation and business environment in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations, the financial instrument is considered to have a low credit risk.

(2) Method for measurement of loss provisions for accounts receivable and rental receivable

For the accounts receivable (whether or not containing significant financing components) arising from transactions regulated under the Accounting Standards for Business Enterprises No. 14 – Revenue, and rental receivable regulated under the Accounting Standards for Business Enterprises No. 21 – Leases, AVIC Electromechanical adopts a simplification approach which always measures the loss provisions at lifetime ECL.

Based on the nature of financial instruments, AVIC Electromechanical assesses whether credit risk has increased significantly on the basis of an individual financial asset or groupings of financial assets. AVIC Electromechanical divides notes receivable and accounts receivable into certain groups based on credit risk characteristics, then pursuant to which, calculates the ECL.

① Notes receivable

Except for the notes receivable that are individually assessed for credit risk, they are divided into different groups based on their credit risk characteristics:

Item	Basis for determining the group
Banker's acceptance bill	The acceptor is a bank with less credit risk
High credit commercial acceptance bill	Acceptors are related parties within the consolidation scope of AVIC, other central enterprises and their subordinate units, the military and its affiliated enterprises, and government departments
General credit commercial acceptance bill	Commercial acceptance bill other than high credit commercial acceptance bill

② Accounts receivable and contract assets

Except for the accounts receivable that are individually assessed for credit risk, they are divided into different groups based on their credit risk characteristics:

Item	Basis for determining the group
Accounts receivable:	
Group of related parties and government departments (the military)	Accounts receivable from related parties outside the consolidation scope and government departments (the military)
Other groups	Accounts receivable other than the above groups
Contract assets:	
Group of related parties and government departments (the military)	Contract assets from related parties outside the consolidation scope and government departments (the military)
Other groups	Contract assets other than the above groups

For notes receivable that are classified into groups, by making reference to the experience of historical credit losses and giving consideration to the current situation and the forecast of the future economic situation, the Group calculates ECL using exposure at default (“EAD”) and lifetime ECL rate.

For accounts receivable that are classified into groups, by making reference to the experience of historical credit losses and giving consideration to the current situation and the forecast of the future economic situation, the Group prepares a comparison table specifying the aging and the lifetime ECL rates of such receivables to calculate the ECL.

(3) *Method for measurement of loss provisions for other financial assets*

For financial assets other than those mentioned above, e.g. debt investments, other debt investments, other receivables, long-term receivables other than lease receivables, etc., the Group measures loss provisions with the general approach, i.e. the “three-stage” model.

① Other receivables

Based on whether the credit risk of other receivables is significantly increased or not after initial recognition, the Group measures impairment loss by using the equivalent amount of ECL within the next 12 months or during the lifetime. Except for the other receivables that are individually assessed for credit risk, they are divided into different groups based on their credit risk characteristics:

Item	Basis for determining the group
Group of related parties and government departments (the military)	Receivables from related parties outside the consolidation scope and government departments (the military)
Other groups	Receivables other than the above groups

② Debt investments

Debt investments mainly accounts for bond investment measured at amortized cost. Based on whether the credit risk of debt investments is significantly increased or not after initial recognition, AVIC Electromechanical measures impairment loss by using the equivalent amount of ECL within the next 12 months or during the lifetime.

③ Long-term receivables

For the long-term receivables containing significant financing components arising from transactions regulated under the Accounting Standards for Business Enterprises No. 14 – Revenue, the Company always measures the loss provisions at equivalent amount of lifetime ECL.

2. *Accounting treatment of the ECL*

In order to reflect the changes in the credit risk of financial instruments since the initial recognition, AVIC Electromechanical re-measures the ECL on each balance sheet date, and the resulting increase or reversal in loss provision shall be included in the profit or loss for the current period as impairment losses or gains, and shall be deducted from the carrying amounts of the financial assets on the balance sheet or included in other comprehensive income (debt investments measured at fair value through other comprehensive income) according to the type of financial instruments.

(XII) Receivables financing

Notes receivable and accounts receivable that are classified as measured at fair value through other comprehensive income, and those with maturity within one year (including one year) from the date of initial recognition, are listed as receivables financing; if the maturity period is more than one year from the initial recognition date, it is listed as other debt investments. For the relevant accounting policies, please refer to Note IV (X) “Financial Instruments” and Note IV (XI) “Method of determination of expected credit loss and accounting treatment methods”.

(XIII) Inventories

1. *Classification of inventories*

Inventories represent finished goods or merchandise held for sale in the ordinary course of business, unfinished products in the process of production, materials or supplies used in the process of production or rendering of services. Inventories mainly include raw materials, products in progress, finished goods and turnover materials.

2. *Measurement for inventories*

Inventories are recorded at actual costs on acquisition. Cost of inventories comprises purchase cost, processing cost and other costs. Cost for consuming and delivery of inventories other than raw materials is determined using the weighted average method. Cost for consuming and delivery of raw materials is calculated on the basis of planned cost. Difference between the planned cost and the actual cost of raw materials will be calculated by cost variance account, and the cost difference assumed for the inventories will be pay by installment, so as to adjust the planned cost to the actual cost.

3. *Provision for inventory impairment*

On the balance sheet date, the inventories are calculated at the lower of cost and the net realizable value. When the net realizable value is lower than the cost, the provision for inventory impairment is made on an item-by-item basis at the excess of the cost of the inventory over its net realizable value. For large volume inventories with low unit price, the provision for inventory impairment is made by categories.

When the provision for inventory impairment is made, if the factors that previously give rise to the write-down of inventories are no longer exist, which result in a net realizable value of the inventory higher than its carrying amount, the amount of the provision for inventory impairment that has been made should be reversed and recognised in the profit or loss for the current period.

4. *Inventory system*

The perpetual inventory system is adopted for inventories.

5. *Amortization of low-value consumables and packaging materials*

Tooling moulds, low-value consumables and packaging materials in the turnover materials are amortized in full when they are used.

(XIV) Contract assets

If AVIC Electromechanical has transferred the goods to the customer and has the right to receive consideration, and the right depends on factors other than the passage of time, it is recognized as a contract asset. AVIC Electromechanical applies the simplified approach to measure loss provision for contract assets, whether or not they contain a significant financing component.

For details of the determination of ECL and accounting treatment for contract assets, please refer to Note IV(XI) Method of determination of expected credit loss.

If there is an impairment loss on contract assets, AVIC Electromechanical will debit "asset impairment loss" and credit "provision for impairment of contract assets" based on amounts to be written down; if there is a reversal on provision for asset impairment which has been provided, AVIC Electromechanical makes the opposite accounting record.

(XV) Long-term equity investment**1. *Determination of initial investment cost***

- (1) For the long-term equity investment formed by a business combination, see Note IV(V) "Accounting treatments for business combinations involving and not involving entities under common control for specific accounting policies".

(2) Long-term equity investments acquired by other means

Long-term equity investments acquired by cash payments are initially measured based on the purchase price actually paid. Initial investment costs include expenses, taxes and other necessary expenses that are directly related to obtaining a long-term equity investment.

The initial investment cost of long-term equity investments acquired by issuing equity securities is the fair value of the issued equity securities. Transaction costs incurred in issuing or obtaining their own equity instruments are deducted from equity if they are directly attributable to equity transactions.

The initial investment cost of a long-term equity investment in a non-monetary asset exchange is determined on the basis of the fair value of the asset transferred, unless there is conclusive evidence that the fair value of the asset transferred is more reliable, to the extent that the non-monetary asset exchange has commercial substance and the fair value of the asset transferred or the asset transferred can be measured reliably. For the exchange of non-monetary assets that do not meet the above premise, the carrying amount of the assets exchanged and the relevant taxes payable are taken as the initial investment cost of the long-term equity investment.

Initial investment costs for long-term equity investments acquired through debt restructuring are determined on a fair value basis.

2. *Subsequent measurement and profit or loss recognition*

(1) *Cost method*

Long-term equity investments in which AVIC Electromechanical is able to exercise control over the investee are accounted for using the cost method and are valued at the initial investment cost, with additional or recovered investments to adjust the cost of the long-term equity investment.

Except for the declared but undistributed cash dividends or profits included in the price or consideration actually paid when the investment is obtained, the Company is recognised as current investment income in accordance with the cash dividends or profits declared and distributed by the investee.

(2) *Equity method*

AVIC Electromechanical's long-term equity investments in associates and joint ventures are accounted for using the equity method. Some of the equity investments in associates that are indirectly held through venture capital institutions, mutual funds, trust companies or similar entities, including investment linked insurance funds, are measured at fair value through profit or loss.

3. *Basis of conclusion for control, common control and significant influence over the investee*

Joint control over an investee refers to where the activities which have a significant influence on return on certain arrangement could be decided only by mutual consent of the investing parties sharing the control, which includes the sales and purchase of goods or services, management of financial assets, acquisition and disposal of assets, research and development activities and financing activities, etc.; Significant influence on the investee refers to that: significant influence over the investee exists when holding more than 20% but less than 50% of the shares with voting rights or even if the holding is below 20%, there is still significant influence if any of the following conditions is met: there is representative in the board of directors or similar governing body of the investee; participation in the investee's policy setting process; assigning key management to the investee; the investee relies on the technology or technical information of the investing company; or major transactions with the investee.

(XVI) Investment properties

Investment property is property held to earn rentals or for capital appreciation or for both purposes. It includes land use rights that are leased out; land use rights held for transfer upon capital appreciation; and buildings that are leased out.

An investment property is measured initially at cost. Subsequent expenditures incurred for such investment property are included in the cost of the investment property if it is probable that economic benefits associated with an investment property will flow to AVIC Electromechanical and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

AVIC Electromechanical uses the cost model for subsequent measurement of investment properties, and adopts a depreciation or amortisation policy for the investment property which is consistent with that for plant and buildings or land use rights. The estimated useful life, residual value rate and annual depreciation (amortization) rate of investment properties are listed below:

Category	Estimated useful life (year)	Estimated net residual value rate (%)	Annual depreciation (amortization) rate (%)
Plant & buildings	20-45	1-5	2.11-4.95
Land use right	50	0	2.00

Impairment test and provision for impairment of investment properties are detailed in Note IV. (XXII) "Impairment of long-term assets".

When owner-occupied property or inventories are transferred to investment property or when investment property transfers to owner-occupied property, the initial recognized amount shall be the carrying amount of the property before such transfer.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. When an investment property is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the property net of the carrying amount and related taxes is recognised in profit or loss for the period.

(XVII) Fixed assets

1. Recognition of fixed assets

Fixed assets are tangible assets that are held for the purpose of producing goods, rendering services, leasing or operating management and have a useful life of more than one accounting year. Fixed assets are recognised when both of the following conditions are met:

- (1) it is probable that the economic benefits associated with the fixed asset will flow to the enterprise;
- (2) the cost of the fixed asset can be measured reliably.

2. Initial measurement of fixed assets

The Company's fixed assets are initially measured at cost.

- (1) The cost of externally purchased fixed assets includes purchase price, import duties and other related taxes and fees, as well as other expenses incurred to bring the fixed assets into their intended use that can be directly attributed to the assets.
- (2) The cost of self-constructed fixed assets consists of the expenditure necessary to construct the asset before it is ready for intended use.
- (3) Fixed assets invested by investors are accounted for at the value agreed in the investment contract or agreement, but those with unfair value agreed in the contract or agreement are accounted for at fair value.
- (4) Where the purchase price of a fixed asset is deferred beyond normal credit conditions and is of a financing nature in substance, the cost of the fixed asset is determined based on the present value of the purchase price. The difference between the actual price paid and the present value of the purchase price, unless capitalised, is credited to profit or loss in the credit period.

- (5) Fixed assets are initially measured at cost and the effect of any expected costs of abandoning the asset at the end of its use is considered.

3. *Subsequent measurement and disposal of fixed assets*

(1) *Depreciation of fixed assets*

Depreciation of fixed assets is provided over their expected useful lives based on their recorded value less expected net residual value. For fixed assets for which an impairment allowance has been made, the amount of depreciation is determined in future periods based on the carrying amount net of the impairment allowance and based on the useful life; Fixed assets that are fully depreciated and continue to be used are not depreciated.

The fixed assets formed by special reserve expenditures shall be reduced by the cost of forming fixed assets and the accumulated depreciation of the same amount shall be confirmed. The fixed assets shall not be further depreciated in the future.

AVIC Electromechanical determines the useful life and expected net residual value of fixed assets based on their nature and usage. At the end of the year, the useful life, expected net residual value and depreciation method of the fixed assets are reviewed and adjusted accordingly if there are differences from the original estimates.

The depreciation method, depreciation life and annual depreciation rate of each class of fixed assets are as follows:

Category	Depreciation method	Depreciation life (years)	Residual value rate (%)	Annual depreciation rate (%)
Plant & buildings	Straight-line method	20-45	1-5	2.11-4.95
Machinery equipment	Straight-line method	5-15	1-5	6.33-19.80
Transportation equipment	Straight-line method	5-12	1-5	7.92-19.80
Electrical equipment	Straight-line method	5-10	1-5	9.50-19.80
Office facilities	Straight-line method	5-10	1-5	9.50-19.80
Others	Straight-line method	5-10	1-5	9.50-19.80

Estimated residual value of a fixed asset is the estimated amount that AVIC Electromechanical would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(2) *Impairment test and provision for impairment of fixed assets*

Impairment test and provision for impairment of fixed assets are detailed in Note IV. (XXII) "Impairment of long-term assets".

(3) *Other explanation*

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset if it is probable that the economic benefits associated with the asset will flow to AVIC Electromechanical and the cost of the asset can be measured reliably, and the carrying amount of the replaced part is derecognised. Other subsequent expenditures other than the above are charged to profit or loss for the current period when incurred.

A fixed asset is derecognised when it is disposed of, or no economic benefits are expected from its use or disposal. Disposal income from the sale, transfer, retirement or damage of fixed assets is included in the profit or loss of the current period after deducting its carrying amount and relevant taxes and fees.

AVIC Electromechanical reviews the useful life, estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end, and any change is accounted for as a change in accounting estimate.

(XVIII) Construction in progress

1. *Initial measurement of construction in progress*

AVIC Electromechanical's own construction in progress is valued at the actual cost, which comprises the necessary expenses incurred before the asset is constructed to its intended serviceable condition, including the cost of materials used for the project, labour costs, related taxes and fees paid, borrowing costs to be capitalised and indirect costs to be apportioned.

2. *The standard and time point at which construction in progress is carried forward as fixed assets*

Construction in progress projects are accounted for as the value of fixed assets on the basis of all expenditures incurred before the asset is ready for use. If the construction in progress project has reached its scheduled serviceable condition but has not yet completed the final accounts, from the date when it reaches its scheduled serviceable condition, it is transferred to the fixed assets based on the estimated value according to the project budget, cost or actual cost of the project, etc., and the depreciation of the fixed assets is accrued in accordance with AVIC Electromechanical's fixed assets depreciation policy. After the final accounts are completed, the original provisional value is adjusted based on the actual cost, but the original accrued depreciation amount is not adjusted.

3. Impairment method of construction in progress

Impairment test and provision for impairment of construction in progress are detailed in Note IV. (XXII) "Impairment of long-term assets".

(XIX) Right-of-use assets

The right-of-use assets are initially measured at cost, which includes:

1. The initial measurement amount of lease liabilities;
2. For the lease payment paid on or before the beginning of the lease term, if there is lease incentive, the relevant amount of lease incentive enjoyed shall be deducted;
3. The initial direct expenses incurred;
4. The cost of dismantling and removing the leased assets, restoring the site of the leased assets or restoring the leased assets to the state agreed in the lease terms (excluding costs incurred for the production of inventories).

After the beginning of the lease term, AVIC Electromechanical uses the cost model to carry on the follow-up measurement to the right-of-use assets.

(XX) Borrowing costs**1. Principles for recognition of capitalisation of borrowing costs**

Borrowing costs incurred by AVIC Electromechanical that are directly attributable to the acquisition, construction or production of assets that meet the conditions for capitalization are capitalised and included in the cost of the related assets. Other borrowing costs are recognised as an expense when incurred based on the amount incurred and credited to profit or loss in the current period.

Assets eligible for capitalization are assets such as fixed assets, investment properties and inventories that require a significant period of time to acquire, build or produce before they are ready for intended use or sale.

Borrowing costs are capitalised when all the following conditions are met:

- (1) Expenditure on assets has been incurred. Expenditure on assets includes expenditure incurred in the form of payment of cash, transfer of non-cash assets or assumption of interest-bearing liabilities for the purchase, construction or production of assets that meet the conditions for capitalization;
- (2) Borrowing costs have been incurred;

- (3) The purchase, construction or production activities necessary to bring the asset to its intended use or sale have commenced.

2. *Period in which borrowing costs are capitalised*

The period of capitalisation refers to the period from the point when the capitalisation of borrowing costs begins to the point when the capitalisation ceases, excluding the period when the capitalisation of borrowing costs is suspended.

Capitalization of borrowing costs ceases when the acquisition, construction or production of an asset that meets the conditions for capitalization reaches its intended use or sale.

Capitalisation of borrowing costs for assets that qualify for capitalisation ceases when some of the items in the asset that qualify for capitalisation are completed separately and can be used separately.

During the capitalisation period, the exchange differences on special foreign currency borrowings are all capitalised; the exchange differences on general-purpose foreign currency borrowings are recognised in profit or loss for the current period.

Where each part of an asset that is purchased, constructed or produced is completed separately, but cannot be used or sold externally until it is completed in its entirety, the capitalisation of borrowing costs ceases when the asset is completed in its entirety.

3. *Suspension period*

If the acquisition, construction or production of an asset that meets the conditions for capitalization is interrupted abnormally for more than 3 consecutive months, the capitalization of borrowing costs is suspended; Borrowing costs continue to be capitalised if the interruption is a process necessary to bring the qualifying assets acquired, constructed or produced to their intended use or sale. Borrowing costs incurred in the period of interruption are recognised in profit or loss until the acquisition, construction or resumption of production activities of the asset.

4. *The method of calculating the capitalised amount of borrowing costs*

Interest expense on special borrowings (net of interest income earned on deposits of unused borrowing funds with banks or investment income from temporary investments) and ancillary expenses are capitalised before the qualifying assets acquired, constructed or produced are ready for intended use or sale.

The amount of interest to be capitalised on general borrowings is determined by multiplying the weighted average of the asset expenditures for the portion of the accumulated asset expenditures that exceeds the specific borrowings by the capitalisation rate of the general borrowings occupied. The capitalisation rate is calculated based on the weighted average interest rate on general borrowings.

Where there is a discount or premium on the borrowing, the amount of discount or premium to be amortised in each accounting period shall be determined in accordance with the effective interest method, and the amount of interest per period shall be adjusted.

(XXI) Intangible assets and development expenditures

Intangible assets are identifiable non-monetary assets with no physical form owned or controlled by AVIC Electromechanical, including software, land use right, patent right, non-patented technology, trademark right and customer relationship.

1. *Initial measurement of intangible assets*

The cost of acquiring an intangible asset includes the purchase price, related taxes and other expenses that are directly attributable to the intended use of the asset. Where the purchase price of an intangible asset is deferred beyond normal credit conditions and is essentially of a financing nature, the cost of the intangible asset is determined based on the present value of the purchase price. Expenses for other items other than the above shall be included in the current profit and loss when incurred.

Land use right is usually recognized as an intangible asset. For self-constructed plants and buildings, the expenditure on land use right and the cost of constructions shall be recognized as intangible assets and fixed assets respectively. For purchased plants and buildings, the relevant cost shall be allocated between the land use rights and plants, and if it is impossible to be allocated properly, all the relevant cost shall be recognized as fixed assets.

2. *Subsequent measurement of intangible assets*

When AVIC Electromechanical obtains intangible assets, it analyzes and judges their useful lives and classifies them into intangible assets with finite useful lives and indefinite useful lives.

Intangible assets with finite useful lives

Intangible assets with finite useful lives are amortised on a straight-line basis over the period that brings economic benefits to the enterprise. The expected life of intangible assets with finite useful lives and the basis are as follows:

Items	Estimated useful life
Software	3-20
Land use right	50
Patent right	20
Non-patented technology	8-10
Trademark right	10
Customer relationship	10

At the end of each period, the useful life and amortisation method of intangible assets with finite useful lives are reviewed and adjusted accordingly if there are differences from the original estimates.

Upon review, the useful lives and amortisation method of intangible assets at the end of each period in the reporting period are not different from previous estimates.

For intangible assets with indefinite useful lives, they will not be amortized during the holding period, and the life of intangible assets will be reviewed at the end of each period. If there is evidence that the intangible asset will bring economic benefits to the enterprise for a foreseeable period, the intangible asset shall be amortized according to policies applying to an intangible asset with a finite useful life.

3. *Specific criteria for dividing the research phase and development phase of research and development projects within the Company*

Research phase: The stage of original and planned investigation and research activities to acquire and understand new scientific or technological knowledge.

Development phase: The phase in which research results or other knowledge are applied to a plan or design to produce new or substantially improved materials, devices, products, etc, before commercial production or use.

Expenditures incurred in the research phase of internal research and development projects are included in profit or loss as incurred.

4. *Development phase expenditures meet specific criteria for capitalisation*

Expenditures incurred during the development phase of internal research and development projects are recognised as intangible assets when the following conditions are met:

- (1) it is technically feasible to complete the intangible asset so that it can be used or sold;

- (2) has the intention to complete the intangible asset and use or sell it;
- (3) the way in which the intangible asset generates economic benefits, including the ability to prove the existence of a market for the products produced using the intangible asset or the existence of a market for the intangible asset itself, and the usefulness of the intangible asset if it is to be used internally;
- (4) having sufficient technical, financial and other resources to support the development of the intangible asset and the ability to use or sell the intangible asset;
- (5) Expenditure attributable to the development phase of the intangible asset can be measured reliably.

If it is impossible to distinguish the research phase expenditure and the development phase expenditure, all the research and development expenditure incurred shall be included in the current profit and loss. Development expenditures charged to profit or loss in prior periods are not recognised as assets in subsequent periods. Expenditures for the development phase that have been capitalised are shown as development expenditures on the balance sheet and are transferred to intangible assets from the date the item reaches its intended use.

5. *Impairment test and provision for impairment of intangible assets*

Impairment test and provision for impairment of intangible assets are detailed in Note IV. (XXII) "Impairment of long-term assets".

(XXII) Impairment of long-term assets

Non-financial and non-current assets, such as fixed assets, construction in progress, intangible assets with definite useful life, investment properties measured by cost model and, and long-term equity investments in subsidiaries and joint ventures and associations, judgment shall be made on the balance sheet date, to ensure whether there is any evidence of possible impairment of the assets. If there is, the recoverable amount of the assets shall be estimated and an impairment test shall be conducted. Goodwill and intangible assets with indefinite useful life and those are not ready for intended use, shall be subject to impairment test every year no matter whether there is any evidence of possible impairment of the assets.

If the recoverable amount of an asset is lower than its carrying value, the difference shall be recognized as impairment loss and a provision shall be made accordingly. The recoverable amount is the higher of fair value of an asset deducted disposal expense and the present value of expected future cash flow from the asset. The fair value of an asset is determined according to the price stipulated in a selling agreement, and if there is no selling agreement but a dynamic market exists, the fair value shall be determined according to a bid from a buyer. If there is neither a selling contract nor a dynamic market, the fair value of an asset shall be estimated based on maximum information available. The disposal expenses shall include the relevant legal expenses, relevant taxes, transport

expenses as well as the direct expenses to get the asset ready for sale. The present value of expected future cash flow of an asset shall be established by discounting cash flow generated by continuous use and final disposal of the asset with an appropriate discount rate. Provision for impairment shall be determined on the basis of a single asset. If it is difficult to estimate the recoverable amount of a single asset, the asset shall be integrated into an asset group and impairment shall be carried out by the asset group. Asset group refers to minimum group of asset which can generate cash flow independently.

When performing impairment test on goodwill that is separately presented in the financial statements, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above assets impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(XXIII) Long-term deferred expenses

Long-term deferred expenses refer to expenses that have been paid but have a benefiting period longer than one year (one year exclusive). Long-term deferred expenses are amortized over the period benefiting from the expenses. If the long-term deferred expenses cannot benefit subsequent financial period, the unamortized balance of the item is fully charged to the current profit or loss.

(XXIV) Contract liabilities

AVIC Electromechanical recognises the portion of the obligation to transfer goods to customers for consideration received or receivable from customers as a contract liability.

AVIC Electromechanical presents contract assets and contract liabilities under the same contract on a net basis.

(XXV) Employee compensation

Employee compensation refers to various forms of remuneration or compensation given by AVIC Electromechanical to obtain services provided by employees or to dissolve labor relations. Employee compensation includes short-term compensation, post-employment benefits, termination benefits and other long-term staff benefits.

1. Short-term compensation

Short-term compensation includes salary, bonus, allowance and subsidy, employee benefit, medical insurance premiums, work-related injury insurance premiums, maternity insurance premiums, housing provident fund, trade union and education funds and non-monetary benefits. During the accounting period in which the employees render services, AVIC Electromechanical recognises the short-term compensation payable as liabilities and includes the same in related asset costs or expenses according to the object which benefits from the services rendered by employees. Among them, non-monetary benefits are measured at fair value.

2. Post-employment benefits

AVIC Electromechanical classifies the post-employment benefits as defined contribution plans and defined benefit plans. A defined contribution plan is a pension plan under which AVIC Electromechanical pays fixed contributions into a separate fund and AVIC Electromechanical has no legal or constructive obligations to pay further contributions. A defined benefit plan is a pension plan that is not a defined contribution plan. During the reporting period, AVIC Electromechanical mainly had the following post-employment benefits.

(1) Basic pension insurance

AVIC Electromechanical's employees participated in the basic social pension insurance organised and implemented by local labour and social security bureau and such post-employment benefits belong to the defined contribution plan. AVIC Electromechanical paid the basic pension issuance expenses monthly to designated insurance companies for its employees according to the basis amounts and rates determined by the local regulations. After retirement, local labour and social security bureau is responsible for paying the pension benefit to the retired employees. The amounts of pension insurance payable calculated according to the above regulations are recognised as liabilities during the periods when the employees render services and are charged to the current profit or loss or capitalised in costs of related assets.

(2) Enterprise annuities plan

AVIC Electromechanical establishes an enterprise annuities plan in accordance with relevant national enterprise annuity system policies. This kind of post-employment benefits is a defined contribution plan, and employees of AVIC Electromechanical can voluntarily participate in the annuities plan. The corresponding amounts that appropriated for the annuities plan from certain proportion of employees' total wages, are charged to the current profit or loss or capitalised in costs of related assets.

(3) *Supplemental retirement benefits*

For employees who meet certain retirement requirements, AVIC Electromechanical also provides them with supplemental retirement benefits outside the state-mandated insurance system, including supplementary pension and post-retirement medical benefits, which are classified as defined benefit plans. The defined benefit liabilities recognized on the balance sheet shall be the present value of defined benefit obligations minus the fair value of plan assets. Each year, the independent actuary shall adopt the treasury bond interest rate similar to the term and currency of the obligation and the expected unit of benefit method to calculate the defined benefit obligation. The cost of service (including the current service costs, past service costs and settlement gains or losses) and net interest relating to the supplementary retirement benefit are accounted for as current profit or loss or relevant asset costs, and the change from the re-measurement of net liabilities or net assets of the defined benefit plan are accounted for as other comprehensive income.

Supplemental retirement benefits expected to be paid within one year from the balance sheet date are presented as current liabilities.

3. *Termination benefits*

Termination benefits refer to AVIC Electromechanical's termination of labor relations with employees before their labor contracts expire, or compensation given to employees in order to encourage employees to voluntarily accept the layoff. When AVIC Electromechanical cannot unilaterally withdraw the plan for termination of labor relations or the layoff proposal, or when the Company recognizes the earlier of the two, the liability arising from compensation given for termination of labor relations with employees is recognized and included in the current profit or loss.

AVIC Electromechanical provides retirement benefits to employees who accept internal retirement arrangements. Internal retirement benefits refer to the salaries paid to employees who have not reached the retirement age stipulated by the state and have voluntarily retired from their jobs with the approval of AVIC Electromechanical's management, and social insurance premiums paid for them. AVIC Electromechanical pays internal retirement benefits to retired employees from the date of commencement of internal retirement arrangements until the employees reach normal retirement age. For the retirement benefits, AVIC Electromechanical performs accounting treatment by referring to the dismissal benefits, when the relevant recognition conditions for the dismissal benefits are met, the salaries and social insurance premiums of the retired employees to be paid during the period from the date when the employees stop providing services to the normal retirement date are recognized as liabilities and included in the current profit or loss in a lump sum. Differences arising from changes in actuarial assumptions and adjustments to benefit standards for retirement benefits are included in the current profit or loss as they arise.

Termination benefits expected to be paid within one year from the balance sheet date are presented as current liabilities.

4. *Other long-term employee benefits*

Other long-term employee benefits provided by AVIC Electromechanical to employees that meet the defined contribution plan shall be accounted for in accordance with the defined contribution plan; otherwise, such long-term employee benefits shall be accounted for in accordance with the defined benefit plan.

(XXVI) Provisions

1. *Criteria for recognition of provisions*

AVIC Electromechanical recognises a provision when the obligations associated with the contingency simultaneously meet the following conditions:

The obligation is a present obligation of AVIC Electromechanical;

Fulfilment of this obligation is likely to result in outflow of economic benefits from AVIC Electromechanical;

The amount of the obligation can be measured reliably.

2. *Measurement of provisions*

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money.

When all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that the reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provisions.

An onerous contract is identified when the inevitable cost for performance of the contractual obligation exceeds the inflow of expected economic benefits. When an onerous contract is identified and the obligations thereunder are qualified by the aforesaid recognition criterion for provisions, the difference of estimated loss under contract over the recognized impairment loss (if any) of the subject matter of the contract is recognized as a provision.

(XXVII) Revenue**1. *General principles for revenue recognition***

Revenue is the total inflow of economic benefit arising in the course of AVIC Electromechanical's ordinary activities when the inflows result in increase in shareholder's equity, other than increase relating to contributions from shareholders. Revenue is recognized when the customer obtains control of the relevant commodity (including services, the same below), and the contract between AVIC Electromechanical and the customer meets the following conditions: the parties have approved the contract and have committed to performing their respective obligations; the contract identifies the rights and obligations of the parties relating to the goods transferred or the provision of services; the contract has clear payment terms associated with the transferred goods; the contract has commercial substance, which means that the fulfillment of the contract will result in changes in risk, time distribution or amount of the future cash flows of AVIC Electromechanical; the consideration that AVIC Electromechanical is entitled to for the transfer of goods to customers is likely to be recovered. Obtaining control of the relevant commodity means that it is able to dominate the use of the goods and derive almost all economic benefits therefrom.

2. *The specific method of revenue recognition*

From the effective date of the contract, AVIC Electromechanical identifies each individual performance obligation under the contract, and allocates the transaction price to each individual performance obligation based on the relative proportion of the individual selling price of the commodities promised for each individual performance obligation. When the transaction price is determined, the impact of variable consideration, major financing components in the contract, non-cash consideration, consideration payable to customers and other factors are considered.

For each individual performance obligation in the contract, AVIC Electromechanical recognizes the transaction price allocated to the individual performance obligation as revenue in accordance with the performance progress during the relevant performance period, if one of the following conditions is met: the customer obtains and consumes the economic benefits of AVIC Electromechanical's performance as AVIC Electromechanical performs the contract; the customer can control the commodities in progress in the course of AVIC Electromechanical's performance; the commodities produced during the performance of AVIC Electromechanical have irreplaceable uses and AVIC Electromechanical has the right to receive payments for the portion of the performance that has been completed to date. In addition, the performance progress of the contract is determined by the input method or the output method according to the nature of the transferred goods. When the performance progress of the contract cannot be reasonably determined, if the costs incurred by AVIC Electromechanical are expected to be compensated, the revenue will be recognized according to the amount of costs incurred until the performance progress of the contract can be reasonably determined.

If one of the above conditions is not met, AVIC Electromechanical will recognize the transaction price which was allocated to the individual performance obligation as revenue when the customer obtains control of the relevant commodity. When determining whether the customer has obtained control of the commodity, AVIC Electromechanical will consider the following indications: the Company has the current right to receive payment for the goods, which means that the customer has a current payment obligation for the goods; the Company has transferred the legal title of the item to the customer, which means that the customer has already owned the legal title of the item; the Company has transferred the goods in kind to the customer, which means the customer has possessed the goods in kind; the Company has transferred the main risks and rewards of ownership of the goods to the customer, which means the customer has obtained the main risks and rewards of ownership of the goods; the customer has accepted the goods; and other indications that the customer has obtained control of the goods.

The sales of aviation military products by AVIC Electromechanical generally consist only of performance obligations for the transfer of the goods. Control of the goods passes when they are inspected and delivered to the customer with the right to receive payment, and AVIC Electromechanical recognizes revenue at that point in time. The credit periods granted by AVIC Electromechanical to its customers are consistent with industry practice and do not have a significant financing component.

Some of AVIC Electromechanical's aviation military products with customers are subject to arrangements such as price reviews by the military, which result in variable consideration. AVIC Electromechanical determines the best estimate of the variable consideration based on expectations, but the transaction price including the variable consideration does not exceed the amount for which it is highly probable that there will be no material reversal of the cumulative recognized revenue when the related uncertainty is removed.

The sales of civilian products by AVIC Electromechanical generally consist only of performance obligations for the transfer of goods. Control of the goods passes when the product handover certificate or product sign-off slip is obtained and AVIC Electromechanical has the right to receive payment, and AVIC Electromechanical recognizes revenue at that point in time. The credit periods granted by AVIC Electromechanical to its customers are consistent with industry practice and do not have a significant financing component.

(XXVIII) Contract cost**1. Contract performance cost**

AVIC Electromechanical recognises the cost of performing a contract that it incurs to perform the contract that is outside the scope of accounting standards for enterprises other than inventor standards and that simultaneously meets the following conditions as an asset:

- (1) The cost is directly related to a current or expected contract, including direct labor, direct materials, manufacturing costs (or similar), costs that are clearly attributable to the customer, and other costs that are incurred solely as a result of the contract;
- (2) The cost increases the resources that the enterprise will use to fulfill its performance obligations in the future;
- (3) The cost is expected to be recovered.

2. Contract acquisition cost

Incremental costs incurred by AVIC Electromechanical in obtaining a contract that are expected to be recovered are recognised as contract acquisition costs as an asset. Incremental costs are costs that AVIC Electromechanical would not have incurred without obtaining a contract, such as sales commissions. Where the amortisation period does not exceed one year, it is included in the current profit or loss when incurred.

3. Amortisation of contract costs

The contract performance cost recognized as assets shall be listed in the “inventory” item on the balance sheet, if the amortization period is not exceeding one year or a normal business cycle at initial recognition, and shall be listed in the “other non-current assets” item on the balance sheet, if the amortization period exceeding one year or a normal business cycle at initial recognition.

The costs of obtaining a contract recognized as assets shall be listed in the “other current assets” item on the balance sheet, if the amortization period is not exceeding one year or a normal business cycle at initial recognition, and shall be listed in the “other non-current assets” item on the balance sheet, if the amortization period exceeding one year or a normal business cycle at initial recognition.

Assets recognised for the costs of obtaining a contract and the costs to fulfil a contract (the “assets related to contract costs”) are amortised on a systematic basis that is consistent with the transfer to the customer of the goods to which the assets relate and recognised in the

current profit or loss. Where the amortization period for the asset resulting from the incremental cost on obtaining the contract is no more than one year, such asset shall be included in the current profit or loss as incurred.

4. *Impairment of contract costs*

Where the carrying value of the above assets relating to contract costs is higher than the difference between the remaining consideration expected to be obtained by AVIC Electromechanical from the transfer of the commodities related to the assets and the cost estimated to be incurred for the transfer of the related commodities, the excess shall be provided for impairment and recognised as an asset impairment loss:

1. The remaining amount of consideration that AVIC Electromechanical expects to receive in exchange for the goods to which the asset relates;
2. Estimated costs to be incurred for the transfer of the relevant goods.

After the provision for impairment is made, if the difference between the above two items is higher than the carrying amount of the asset due to changes in the factors of impairment in previous periods, the original provision for impairment of the asset is reversed and included in the current profit or loss, but the carrying amount of the asset after the reversal does not exceed the carrying amount of the asset on the reversal date assuming no provision for impairment is made.

(XXIX) Government grants

1. *Category and accounting treatment of government grants*

Government grants are the monetary assets and non-monetary assets received from the government without consideration (excluding the capital invested by the government as the owner). As monetary assets, government grants are measured based on the actual received or receivable amounts. As non-monetary assets, government grants are measured based on their fair value; if the fair value cannot be estimated reliably, it will be measured based on nominal amount.

Government grants related to daily activities are included in other income according to the substance of the economic activities. Government grants unrelated to daily activities are included in non-operating income.

The government grants which are clearly defined in the government documents to be used for acquisition, construction or other projects that form a long-term asset are recognized as asset-related government grants. Regarding the government grant that is not clearly defined in the government documents and can form long-term assets, the part of government grant which can be referred to the value of the assets is classified as government grant related to assets and the remaining part is government grant related to income. For the government grant

that is difficult to distinguish, the entire government grant is classified as government grant related to income. Any government grants related to assets are recognized as deferred income, the amount of which shall be recorded in the current profit or loss in installments with a reasonable and systematic method over the useful lives of relevant assets.

The government grants other than those related to assets are recognized as government grants related to income. The income-related government grants used to compensate relevant expenses or losses to be incurred by the enterprise in subsequent periods are recognized as deferred income and recorded in profit and loss for the current period when such expenses are recognized while those used to compensate relevant expenses or losses that have been incurred by the enterprise are recorded directly in the current profit or loss.

Where AVIC Electromechanical obtains an interest subsidy for policy-related preferential loans, the government either appropriates an interest subsidy to the lending bank, allowing the latter to provide loans at a preferential interest rate to AVIC Electromechanical that shall recognize the loan amount received as the book-entry value of such loans, and calculate the relevant loan expenses according to the loan principal and the preferential interest rate. If the government directly transfers the interest subsidy to AVIC Electromechanical, AVIC Electromechanical will offset the relevant borrowing costs with the corresponding interest subsidy.

2. *The recognition time point for government grants*

The governmental grants would be recognized upon satisfaction of the conditions attached and such amount of grants is sure to be received. Specifically, the governmental grants measured at the amount receivable will be recognized when there is unambiguous evidence suggesting the conformance to related conditions as provided in financial support policies and financial support fund is expected to be received at the end of financial year. Other government grants other than those measured at the amount receivable will be recognized at the actual time of receiving such grants.

(XXX) Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities of AVIC Electromechanical shall be calculated and recognized according to the difference (temporary difference) between the tax base and the carrying amount thereof. Deferred income tax assets and deferred income tax liabilities shall be measured at applicable tax rate during the anticipated period for recovering such assets or paying off such liabilities on the balance sheet date.

1. *Basis for recognition of deferred income tax assets*

Deferred income tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised. At the balance sheet date, deferred income tax assets unrecognised in previous accounting periods are recognised to the extent that there is obvious

evidence that it has become probable that sufficient taxable income will be available in subsequent periods against which the deductible temporary differences can be utilized. If it is probable that sufficient taxable income will not be available in future periods to allow the benefit of the deferred income tax asset to be utilized, the carrying amount of the deferred income tax asset is reduced.

2. *Basis for recognition of deferred income tax liabilities*

The taxable temporary differences associated with investments in subsidiaries and associates shall be recognized deferred income tax liabilities, except AVIC Electromechanical is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The deductible temporary differences associated with investments in subsidiaries, associates, the corresponding deferred income tax asset is recognized when it is probable that the temporary difference will reverse in the foreseeable future and it is probable that taxable income will be available in the future against which the temporary difference can be utilized.

(XXXI) Lease

1. *The accounting treatment for leased assets*

At the beginning of the lease term, AVIC Electromechanical recognizes the right-of-use assets and lease liabilities for leases other than short-term leases and leases of low-value assets, and depreciation and interest expenses are recognised during the lease term.

AVIC Electromechanical uses the straight-line method in each period of the lease term to include lease payments for short-term leases and leases of low-value assets into current expenses.

(1) *Right-of-use assets*

The right-of-use assets refer to the right of the lessee to use the leased asset during the lease term. On the commencement date of the lease term, right-of-use assets are initially measured at cost. The cost includes: ① the amount of the initial measurement of the lease liability; ② the lease payment made on or before the commencement date of the lease term, less any lease incentive received if any; ③ the initial direct costs incurred by the lessee; ④ an estimate of costs to be incurred by the lessee in dismantling and removing the leased assets, restoring the site on which it is located or restoring the leased asset to the condition required by the terms and conditions of the lease.

The depreciation for right-of-use assets of AVIC Electromechanical is categorized and provided using the average life method. For those leased assets which can be reasonably determined that their ownership will be acquired at the expiration of the lease term, depreciation will be provided within the estimated

remaining useful life of the leased assets; for those which cannot be reasonably determined that their ownership will be acquired at the expiration of the lease term, depreciation will be provided within the shorter of the lease term and the remaining useful life of the leased assets.

AVIC Electromechanical determines whether the right-of-use assets have been impaired and are accounted for in accordance with the relevant provisions under the Accounting Standards for Business Enterprises No. 8 – Asset Impairment.

(2) *Leased liabilities*

Lease liabilities are initially measured based on the present value of outstanding lease payment on the commencement date of the lease term. Lease payment include: ① fixed payments (including in-substance fixed payments), less any relevant lease incentives if any; ② variable lease payments subject to an index or a rate; ③ estimated payables based on the residual value of the guarantee provided by the lessee; ④ the exercise price under the purchase option if the lessee is reasonably certain to exercise; ⑤ payments for exercising the option of termination of a lease if the lease term reflects the lessee exercising the option to terminate.

AVIC Electromechanical uses the inherent interest rate of the lease as the discount rate; if the inherent interest rate of the lease cannot be determined, the incremental borrowing interest rate of AVIC Electromechanical should be used as the discount rate. AVIC Electromechanical calculates the interest expenses of lease liabilities for each period over the lease term based on the fixed periodic rate and recognises them in financial expenses. Such periodic rate is the discount rate or revised discount rate adopted by AVIC Electromechanical.

The variable lease payments not included in the measurement of lease liabilities are recognized in the current profit and loss when they actually occur.

If there are any changes in AVIC Electromechanical's evaluation of the lease renewal option, the lease termination option or the purchase option, the lease liabilities shall be remeasured at the present value calculated based on the changed lease payments and the revised discount rate, and the book value of the right-of-use assets shall be adjusted accordingly. If there are any changes in actual lease payments, the estimated payables of guaranteed residual value or the variable lease payments subject to an index or a rate, the lease liabilities are remeasured at the changed lease payments and the present value calculated at the original discount rate, and the book value of the right-of-use assets shall be adjusted accordingly.

2. *Accounting treatment of leasing assets*

(1) *Accounting treatment of operating leases*

During each period of the lease term, AVIC Electromechanical uses the straight-line method to recognize the lease amount collected from operating leases as rental income. The initial direct costs incurred by AVIC Electromechanical in relation to the operating leases are capitalised, and are accounted for in current income based on the same recognition basis as the rental income during the lease term.

(2) *Accounting treatment of finance leases*

At the commencement date of lease term, AVIC Electromechanical recognizes the difference between the sum of finance lease receivables and the unguaranteed residual value, and the present value thereof as unrealized finance income, and recognizes the same as rental income over the periods when rent is received in the future. AVIC Electromechanical's initial direct costs associated with rental transactions shall be included in the initial measurement of the finance lease receivables.

(XXXII) Held-for-sale and discontinued operations

Non-current assets or disposal groups are classified as held-for-sale assets when all the following conditions are met: a) the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups; b) the sale must be highly probable, i.e. an enterprise has signed an irrevocable transfer agreement with the transferee and the transfer is expected to be completed within one year. If related regulations require pre-approval of the relevant authority or the regulatory department of the Company for the sale, the sale transaction has been approved.

When a non-current asset or disposal group classified as held for sale is initially measured or re-measured at each balance sheet date, if the book value of the non-current asset or disposal group is higher than the net amount after deducting the disposal cost from its fair value, the book value is reduced to the net amount after deducting the disposal cost from its fair value. The reduced amount is recognized as an asset impairment loss and accounted for as profit and loss for the current period, with provision for impairment loss on held-for-sale assets.

Non-current asset or disposal group classified as held-for-sale asset will be presented as held-for-sale assets and the liabilities in the disposal group will be presented as held-for-sale liabilities in the balance sheet.

A discontinued operation is a distinguished component of an entity, that either has been disposed of, or is classified as held-for-sale by AVIC Electromechanical, and meets any of the following criteria:

1. Such component represents a separate major line of business or geographical area of operations;
2. Such component is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations;
3. Such component is a subsidiary acquired exclusively with a view to resale.

(XXXIII) Special reserve

The safety production expenses drawn by AVIC Electromechanical are separately presented in the newly added item “special reserve” under the owner’s equity in the balance sheet. Safety production expenses drawn by AVIC Electromechanical in accordance with the prescribed standards are recorded in the cost of the relevant products or current profit or loss and transferred to “special reserve”. When using the safety production expenses, if it is an expense, it is directly deducted from the special reserve. When the safety production expenses are used to form fixed assets, the expenses incurred are collected under the account “construction in progress” and recognised as fixed assets when the projects are completed and ready for intended use; at the same time, the special reserve is deducted from the cost of the fixed assets and the same amount of accumulated depreciation is recognised. Such fixed assets are not depreciated in subsequent periods.

(XXXIV) Changes in significant accounting policies and accounting estimates

1. Changes in accounting policies

There was no change in accounting policy during the reporting period.

2. Changes in accounting estimates

There was no change in accounting estimates during the reporting period.

V. TAXATION

(I) Main types of taxes and corresponding tax rates

Tax type	Tax basis	Tax rate	Note
Enterprise income tax	Taxable income	15%、25%、20%	Enterprise income tax

Tax type	Tax basis	Tax rate	Note
Value-added tax	Taxable value-added amount (taxable amount is calculated by multiplying the taxable sales amount by the applicable tax rate after deducting the input tax allowed to be deducted in the current period)	13%、9%、6%	Value-added tax
City maintenance and construction tax	VAT and consumption tax paid	7%	City maintenance and construction tax

The taxable entities of AVIC Electromechanical subject to the income tax rate different from 25% are as follows:

Name of taxable entity	January to May 2022	2021	2020	2019
Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司)	15%	15%	15%	15%
AVIC Wuhan Fineblanking Technology Co., Ltd. (武漢中航精沖技術有限公司)	/	/	15%	15%
Hubei AVIC Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司)	/	/	15%	15%
Qing'an Group Co., Ltd. (慶安集團有限公司)	15%	15%	15%	15%
Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	15%	15%	15%	15%
Xi'an Qing'an Import & Export Co., Ltd. (西安慶安進出口有限公司)	20%	20%	/	/
Shaanxi Aero Electric Co., Ltd. (陝西航空電氣有限責任公司)	15%	15%	15%	15%
Sichuan Fanhua Aviation Instrument and Electric Co., Ltd. (四川泛華航空儀錶電器有限公司)	15%	15%	15%	15%
Sichuan AVIC Chuanxi Machinery Co., Ltd. (四川航空工業川西機器有限責任公司)	15%	15%	15%	15%

Name of taxable entity	January to May 2022	2021	2020	2019
Sichuan Lingfeng Aero Hydraulic Machinery Co., Ltd. (四川凌峰航空液壓機械有限公司)	15%	15%	15%	15%
Zhengzhou Aircraft Equipment Co., Ltd. (鄭州飛機裝備有限責任公司)	15%	15%	15%	15%
Zhengzhou Zhengfei Special Equipment Co., Ltd. (鄭州鄭飛特種裝備有限公司)	15%	15%	15%	/
Guizhou Anshun Tiancheng Aviation Equipment Co., Ltd. (貴州安順天成航空設備有限公司)	20%	20%	20%	20%
Guizhou Fenglei Aviation Ordnance Co., Ltd. (貴州風雷航空軍械有限責任公司)	15%	15%	15%	15%
Guizhou Halei Kongtian Environmental Engineering Co., Ltd. (貴州哈雷空天環境工程有限公司)	20%	20%	15%	15%
Guizhou Fengyang Hydraulic Co., Ltd. (貴州楓陽液壓有限責任公司)	15%	15%	15%	15%
AVIC Xinxiang Aviation Industry (Group) Co., Ltd. (新鄉航空工業(集團)有限公司)	15%	15%	15%	15%
Xinxiang Aviation Industry (Group) Rubber & Plastic Products Co., Ltd. (新鄉航空工業(集團)橡塑製品有限公司)	/	/	15%	15%
Yibin Sanjiang Machinery Co., Ltd. (宜賓三江機械有限責任公司)	15%	15%	15%	15%
Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	15%	15%	15%	15%
AVIC Qinling Aerospace (Xiamen) Co., Ltd. (廈門中航秦嶺宇航有限公司)	15%	15%	/	/
Hapm Magna Seating System (Thailand) Co., Ltd.	20%	20%	/	/

(II) Preferential tax policies

According to the Announcement on the Continuation of the Enterprise Income Tax Policy for the Western Development (Announcement 2020 No. 23 of the Ministry of Finance, State Taxation Administration and the National Development and Reform Commission), Qing'an Group, Shaanxi Aero Electric, Sichuan Lingfeng, Guizhou Fenglei Aviation Ordnance Co., Ltd. (貴州風雷航空軍械有限責任公司) (hereinafter referred to as Guizhou Fenglei), Guizhou Fengyang Hydraulic Co., Ltd. (貴州楓陽液壓有限責任公司) (hereinafter referred to as Fengyang Hydraulic), Sichuan Fanhua Instrument, Chuanxi Machinery and Yibin Sanjiang Machinery Co., Ltd. (宜賓三江機械有限責任公

司) (hereinafter referred to as Yibin Sanjiang) are entitled to the preferential tax policy of the Western Development and shall pay enterprise income tax at a reduced rate of 15% from 1 January 2021 to 31 December 2030.

On 29 October 2018, Qing'an Group obtained a high-tech enterprise certificate (No. GR201861000527) as jointly approved by the Department of Science and Technology of Shaanxi Province, Financial Department of Shaanxi Province and Shaanxi Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%. On 10 December 2021, Qing'an Group obtained a high-tech enterprise certificate (No. GR202161002636) as jointly approved by the Department of Science and Technology of Shaanxi Province, Financial Department of Shaanxi Province and Shaanxi Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 18 October 2017, Shaanxi Aero Electric obtained a high-tech enterprise certificate (No. GR201761000487) as jointly approved by the Department of Science and Technology of Shaanxi Province, Financial Department of Shaanxi Province, Shaanxi Provincial Tax Service of the State Taxation Administration and Taxation Bureau of Shaanxi Province, which is valid for three years with a reduced enterprise income tax rate of 15%. On 1 December 2020, Shaanxi Aero Electric obtained a high-tech enterprise certificate (No. GR202061002575) as jointly approved by the Department of Science and Technology of Shaanxi Province, Financial Department of Shaanxi Province and Shaanxi Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 28 November 2019, Sichuan Lingfeng obtained a high-tech enterprise certificate (No. GR201951001952) as jointly approved by the Science & Technology Department of Sichuan Province, Sichuan Provincial Finance Department and Sichuan Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 15 November 2021, Guizhou Fenglei obtained a high-tech enterprise certificate (No. GR202152000276) as jointly approved by the Department of Science and Technology of Guizhou Province, Guizhou Provincial Finance Bureau and Guizhou Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 29 September 2019, Fengyang Hydraulic obtained a high-tech enterprise certificate (No. GR201952000487) as jointly approved by the Department of Science and Technology of Guizhou Province, Guizhou Provincial Finance Bureau and Guizhou Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 4 December 2017, Sichuan Fanhua Instrument obtained a high-tech enterprise certificate (No. GR201751000746) as jointly approved by the Science & Technology Department of Sichuan Province, Sichuan Provincial Finance Department, Sichuan Provincial Tax Service of the State

Taxation Administration and Taxation Bureau of Sichuan Province, which is valid for three years with a reduced enterprise income tax rate of 15%. On 3 December 2020, Sichuan Fanhua Instrument obtained a high-tech enterprise certificate (No. GR202051003481) as jointly approved by the Science & Technology Department of Sichuan Province, Sichuan Provincial Finance Department and Sichuan Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 3 December 2020, Chuanxi Machinery obtained a high-tech enterprise certificate (No. GR202051002756) as jointly approved by the Science & Technology Department of Sichuan Province, Sichuan Provincial Finance Department and Sichuan Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 29 August 2017, Yibin Sanjiang obtained a high-tech enterprise certificate (No. GR201751000139) as jointly approved by the Science & Technology Department of Sichuan Province, Sichuan Provincial Finance Department, Sichuan Provincial Tax Service of the State Taxation Administration and Taxation Bureau of Sichuan Province, which is valid for three years with a reduced enterprise income tax rate of 15%. On 11 September 2020, Yibin Sanjiang obtained a high-tech enterprise certificate (No. GR202051000421) as jointly approved by the Science & Technology Department of Sichuan Province, Sichuan Provincial Finance Department and Sichuan Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 29 August 2017, Zhengzhou Aircraft Company obtained a high-tech enterprise certificate (No. GR201741000003) as jointly approved by Henan Science and Technology Department, Henan Provincial Finance Department, Henan Provincial Tax Service of the State Taxation Administration and Taxation Bureau of Henan Province, which is valid for three years with a reduced enterprise income tax rate of 15%. On 9 September 2020, Zhengzhou Aircraft Company obtained a high-tech enterprise certificate (No. GR202041000020) as jointly approved by Henan Science and Technology Department, Henan Provincial Finance Department and Henan Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 29 August 2017, Zhengzhou Zhengfei Special Equipment Co., Ltd. (鄭州鄭飛特種裝備有限公司) (hereinafter referred to as Zhengfei Special Equipment) obtained a high-tech enterprise certificate (No. GR201741000003) as jointly approved by Henan Science and Technology Department, Henan Provincial Finance Department, Henan Provincial Tax Service of the State Taxation Administration and Taxation Bureau of Henan Province, which is valid for three years with a reduced enterprise income tax rate of 15%. On 4 December 2020, Zhengfei Special Equipment obtained a high-tech enterprise certificate (No. GR202041001524) as jointly approved by Henan Science and Technology Department, Henan Provincial Finance Department and Henan Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 29 August 2017, AVIC Xinxiang Aviation Industry (Group) Co., Ltd. (新鄉航空工業(集團)有限公司) (hereinafter referred to as Xinxiang Aviation Group) obtained a high-tech enterprise certificate (No. GR201741000062) as jointly approved by Henan Science and Technology Department, Henan Provincial Finance Department, Henan Provincial Tax Service of the State Taxation Administration and Taxation Bureau of Henan Province, which is valid for three years with a reduced enterprise income tax rate of 15%. On 4 December 2020, Xinxiang Aviation Group obtained a high-tech enterprise certificate (No. GR202041001180) as jointly approved by Henan Science and Technology Department, Henan Provincial Finance Department and Henan Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 31 October 2019, Xinxiang Aviation Industry (Group) Rubber & Plastic Products Co., Ltd. (新鄉航空工業(集團)橡塑製品有限公司) obtained a high-tech enterprise certificate (No. GR201941000689) as jointly approved by Henan Science and Technology Department, Henan Provincial Finance Department and Henan Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 7 December 2017, Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司) (hereinafter referred to as Nanjing Hangjian) obtained a high-tech enterprise certificate (No. GR201732003814) as jointly approved by the Jiangsu Provincial Department of Science and Technology, Department of Finance of Jiangsu Province, Jiangsu Provincial Tax Service of the State Taxation Administration and Taxation Bureau of Jiangsu Province, which is valid for three years with a reduced enterprise income tax rate of 15%. On 2 December 2020, Nanjing Hangjian obtained a high-tech enterprise certificate (No. GR202032007413) as jointly approved by the Jiangsu Provincial Department of Science and Technology, Department of Finance of Jiangsu Province and Jiangsu Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 15 November 2019, Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司) obtained a high-tech enterprise certificate (No. GR201942000739) as jointly approved by the Department of Science and Technology of Hubei Province, Department of Finance of Hubei Province and Hubei Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 30 November 2017, AVIC Hubei Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司) obtained a high-tech enterprise certificate (No. GR201742001985) as jointly approved by the Department of Science and Technology of Hubei Province, Department of Finance of Hubei Province, Hubei Provincial Tax Service of the State Taxation Administration and Taxation Bureau of Hubei Province, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 15 November 2019, AVIC Wuhan Fineblanking Technology Co., Ltd. (武漢中航精沖技術有限公司) obtained a high-tech enterprise certificate (No. GR201942001403) as jointly approved by the Department of Science and Technology of Hubei Province, Department of Finance of Hubei Province and Hubei Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 29 October 2018, Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司) (hereinafter referred to as Qing'an Refrigeration) obtained a high-tech enterprise certificate (No. GR201861000098) as jointly approved by the Department of Science and Technology of Shaanxi Province, Financial Department of Shaanxi Province, Shaanxi Provincial Tax Service of the State Taxation Administration and Taxation Bureau of Shaanxi Province, which is valid for three years with a reduced enterprise income tax rate of 15%. On 25 November 2021, Qing'an Refrigeration obtained a high-tech enterprise certificate (No. GR202161001755) as jointly approved by the Department of Science and Technology of Shaanxi Province, Financial Department of Shaanxi Province and Shaanxi Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

On 15 December 2020, AVIC Qinling Aerospace (Xiamen) Co., Ltd. (廈門中航秦嶺宇航有限公司) obtained a certificate of Technologically Advanced Service Enterprise (No. 20203502000020) as jointly approved by Xiamen Municipal Science and Technology Bureau, Xiamen Municipal Finance Bureau, Xiamen Tax Service of the State Taxation Administration, Xiamen Municipal Bureau of Commerce and Xiamen Municipal Development and Reform Commission.

On 4 December 2020, Zhengzhou Zhengfei Special Equipment Co., Ltd. (鄭州鄭飛特種裝備有限公司) obtained a high-tech enterprise certificate (No. GR202041001524) as jointly approved by Henan Science and Technology Department, Henan Provincial Finance Department and Henan Provincial Tax Service of the State Taxation Administration, which is valid for three years with a reduced enterprise income tax rate of 15%.

According to the Notice on the Issue of Value-Added Tax on Aircraft Maintenance of the Ministry of Finance and the State Taxation Administration (Cai Shui 2000 No. 102), the part of the actual VAT of aircraft maintenance service assumed by Nanjing Hangjian that exceeds 6% is subject to the tax authority's Drawback Policy of the Value-added Tax.

In accordance with the Notice on Extending the Loss Carry-forward Period of High-tech Enterprises and Technology-based Small and Medium-sized Enterprises of the Ministry of Finance and the State Taxation Administration (Cai Shui 2018 No. 76), since 1 January 2018, uncovered losses of high-tech enterprises occurred in 5 financial years prior to the year of being qualified as a high-tech enterprise are allowed to be carried forward to cover up in following years, and the maximum carry-forward period is extended from 5 years to 10 years.

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(The following amounts are denominated in RMB unless otherwise specified)

Note 1. Monetary funds

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Cash on hand	175,002.39	289,701.29	273,367.76	311,515.77
Bank deposits	6,123,931,105.35	8,430,140,510.17	4,782,866,804.57	4,826,448,884.42
Other monetary funds	5,588,024.48	53,197,729.16	14,937,302.94	72,521,485.08
Interests receivable not due	52,561,450.46	28,945,905.59	39,382,201.50	17,222,300.00
Total	6,182,255,582.68	8,512,573,846.21	4,837,459,676.77	4,916,504,185.27
Including: total amount deposited abroad	124,584,188.92	99,593,293.30	68,581,595.10	81,848,351.98

Breakdown of the restricted monetary funds are as follows:

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Bank acceptance notes deposit	1,519,631.57	46,128,395.99	7,443,993.42	56,828,145.06
Letter of credit deposit	3,096,392.91	6,097,333.17	7,200,309.52	5,238,265.67
Performance security deposit	972,000.00	972,000.00	293,000.00	9,510,623.35
Time deposits	2,756,159,265.53	2,200,837,102.14	873,000,000.00	440,000,000.00
Other deposits				944,424.59
Total	2,761,747,290.01	2,254,034,831.30	887,937,302.94	512,521,458.67

Note 2. Financial assets held for trading

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Subtotal of financial assets classified as at fair value through profit or loss	1,912,546.39	1,887,511.82	2,382,501.06	3,052,827.42
Debt instrument investments				
Equity instrument investments	1,912,546.39	1,887,511.82	2,382,501.06	3,052,827.42
Sub-total of financial assets designated as measured at fair value through profit or loss				
Total	1,912,546.39	1,887,511.82	2,382,501.06	3,052,827.42

Note 3. Notes receivable**1. Classified presentation of notes receivable**

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Banker's acceptance bill	447,422,167.59	342,691,290.70	347,901,351.68	287,349,398.53
Commercial acceptance bill	1,343,712,348.64	1,628,610,948.45	1,313,980,589.91	1,378,841,295.05
Less: bad debt provision	1,500,262.22	2,102,996.60	1,756,251.47	
Total	1,789,634,254.01	1,969,199,242.55	1,660,125,690.12	1,666,190,693.58

2. Classified presentation by bad debt accrual method

Category	31 May 2022				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Notes receivable with ECL provision made individually					
Notes receivable with ECL provision made on portfolio basis	1,791,134,516.23	100.00	1,500,262.22	—	1,789,634,254.01
Including: Banker's acceptance bill	447,422,167.59	24.98			447,422,167.59
High credit commercial acceptance bill	1,283,701,859.83	71.67			1,283,701,859.83
General credit commercial acceptance bill	60,010,488.81	3.35	1,500,262.22	2.50	58,510,226.59
Total	1,791,134,516.23	100.00	1,500,262.22	—	1,789,634,254.01

Continued:

Category	31 December 2021				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Notes receivable with ECL provision made individually					
Notes receivable with ECL provision made on portfolio basis	1,971,302,239.15	100.00	2,102,996.60	-	1,969,199,242.55
Including: Banker's acceptance bill	342,691,290.70	17.38			342,691,290.70
High credit commercial acceptance bill	1,544,491,084.30	78.35			1,544,491,084.30
General credit commercial acceptance bill	84,119,864.15	4.27	2,102,996.60	2.50	82,016,867.55
Total	1,971,302,239.15	100.00	2,102,996.60	-	1,969,199,242.55

Continued:

Category	31 December 2020				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Notes receivable with ECL provision made individually					
Notes receivable with ECL provision made on portfolio basis	1,661,881,941.59	100.00	1,756,251.47	-	1,660,125,690.12
Including: Banker's acceptance bill	347,901,351.68	20.20			347,901,351.68
High credit commercial acceptance bill	1,243,730,531.11	75.72			1,243,730,531.11
General credit commercial acceptance bill	70,250,058.80	4.08	1,756,251.47	2.50	68,493,807.33
Total	1,661,881,941.59	100.00	1,756,251.47	-	1,660,125,690.12

Continued:

Category	31 December 2019				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Notes receivable with ECL provision made individually					
Notes receivable with ECL provision made on portfolio basis	1,666,190,693.58	100.00	-		1,666,190,693.58
Including: Banker's acceptance bill	287,349,398.53	16.50			287,349,398.53
High credit commercial acceptance bill	1,376,165,286.19	83.35			1,376,165,286.19
General credit commercial acceptance bill	2,676,008.86	0.15			2,676,008.86
Total	1,666,190,693.58	100.00	-		1,666,190,693.58

3. *Notes receivable with bad debt provision based on general credit commercial acceptance bills among the groups*

Item	Notes receivable	31 May 2022	
		Bad debt provision	Expected credit loss rate (%)
General credit commercial acceptance bill	60,010,488.81	1,500,262.22	2.50

Continued:

Item	Notes receivable	31 December 2021	
		Bad debt provision	Expected credit loss rate (%)
General credit commercial acceptance bill	84,119,864.15	2,102,996.60	2.50

Continued:

Item	Notes receivable	31 December 2020	
		Bad debt provision	Expected credit loss rate (%)
General credit commercial acceptance bill	70,250,058.80	1,756,251.47	2.50

Item	Notes receivable	31 December 2019	
		Bad debt provision	Expected credit loss rate (%)
General credit commercial acceptance bill	2,676,008.86		

4. Bad debt provision

Category	Balance at 31 December 2019		Changes in 2020		Balance at 31 December 2020		Changes in 2021		Balance at 31 December 2021		Changes from January to May 2022			Balance at 31 May 2022
	Provision	Provision	Recovered or reversed	Written off	Provision	Provision	Recovered or reversed	Written off	Provision	Provision	Recovered or reversed	Written off		
General credit commercial acceptance bill	1,756,251.47				1,756,251.47	346,745.13			2,102,996.60	-602,734.38			1,500,262.22	

5. Notes transferred to accounts receivable at the end of period due to non-performance of drawers

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Commercial acceptance bill	1,300,000.00	1,900,000.00		
Total	1,300,000.00	1,900,000.00		

6. Notes receivable that have been endorsed or discounted by the Company during the period but not due on the balance sheet date

Item	31 May 2022		31 December 2021		31 December 2020		31 December 2019	
	Amount derecognized	Amount not derecognized	Amount derecognized	Amount not derecognized	Amount derecognized	Amount not derecognized	Amount derecognized	Amount not derecognized
Banker's acceptance bill	2,675,608.16	196,488,787.17		144,855,436.26		128,794,232.26		177,727,728.87
Commercial acceptance bill		72,923,121.99		63,101,673.73	60,059,259.90	74,735,707.92	75,890,316.29	90,743,921.08
Total	2,675,608.16	269,411,909.16		207,957,109.99	60,059,259.90	203,529,940.18	75,890,316.29	268,471,649.95

7. Notes receivable pledged at the end of the period

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Commercial acceptance bill	56,671,152.00		15,700,000.00	83,129,912.37
Total	56,671,152.00		15,700,000.00	83,129,912.37

8. Notes receivable actually written-off

No.

9. The ageing of the notes receivable at the end of the period

The ageing of AVIC Electromechanical's notes receivable at the end of the year mentioned above is within 365 days.

Note 4. Accounts receivable**1. Disclosure by aging**

Aging	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Within 1 year	7,629,777,978.29	5,765,548,294.87	6,147,014,231.66	5,934,393,952.26
1-2 years	776,363,181.44	357,291,005.84	858,072,547.91	832,885,841.25
2-3 years	240,896,304.73	304,475,511.64	243,912,160.76	195,907,924.74
3-4 years	61,739,912.31	64,251,690.02	102,796,476.20	35,432,033.32
4-5 years	9,493,419.58	4,806,460.85	16,779,238.86	13,259,221.03
Over 5 years	23,017,855.03	23,508,726.16	43,731,128.41	74,519,289.67
Subtotal	8,741,288,651.38	6,519,881,689.38	7,412,305,783.80	7,086,398,262.27
Less: Bad debt provision	127,861,326.26	109,792,101.95	131,979,229.58	154,676,371.95
Total	8,613,427,325.12	6,410,089,587.43	7,280,326,554.22	6,931,721,890.32

2. *Disclosed by bad debt provision methods*

Category	31 May 2022				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Expected credit loss rate (%)	
Accounts receivable with ECL provision made individually	16,126,868.09	0.18	16,126,868.09	100.00	
Accounts receivable with ECL provision on portfolio basis	8,725,161,783.29	99.82	111,734,458.17	1.28	8,613,427,325.12
Including: Group of related parties and government departments (the military)	6,872,605,980.64	78.63	22,365,843.70	0.33	6,850,240,136.94
Other groups	1,852,555,802.65	21.19	89,368,614.47	4.82	1,763,187,188.18
Total	8,741,288,651.38	100.00	127,861,326.26	1.46	8,613,427,325.12

Continued:

Category	31 December 2021				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Expected credit loss rate (%)	
Accounts receivable with ECL provision made individually	14,826,868.09	0.23	14,826,868.09	100.00	
Accounts receivable with ECL provision made on portfolio basis	6,505,054,821.29	99.77	94,965,233.86	1.46	6,410,089,587.43
Including: Group of related parties and government departments (the military)	5,052,603,376.58	77.50	20,321,197.54	0.40	5,032,282,179.04
Other groups	1,452,451,444.71	22.27	74,644,036.32	5.14	1,377,807,408.39
Total	6,519,881,689.38	100.00	109,792,101.95	1.68	6,410,089,587.43

Continued:

Category	31 December 2020				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Expected credit loss rate (%)	
Accounts receivable with ECL provision made individually	14,107,238.60	0.19	14,107,238.60	100.00	
Accounts receivable with ECL provision made on portfolio basis	7,398,198,545.20	99.81	117,871,990.98	1.59	7,280,326,554.22
Including: Group of related parties and government departments (the military)	6,082,647,103.56	82.06	33,249,112.90	0.55	6,049,397,990.66
Other groups	1,315,551,441.64	17.75	84,622,878.08	6.43	1,230,928,563.56
Total	7,412,305,783.80	100.00	131,979,229.58	1.78	7,280,326,554.22

Continued:

Category	31 December 2019				
	Book balance		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Expected credit loss rate (%)	
Accounts receivable with ECL provision made individually	6,505,291.83	0.09	6,505,291.83	100.00	
Accounts receivable with ECL provision made on portfolio basis	7,079,892,970.44	99.91	148,171,080.12	2.09	6,931,721,890.32
Including: Group of related parties and government departments (the military)	5,593,805,840.93	78.94	36,268,699.08	0.65	5,557,537,141.85
Other groups	1,486,087,129.51	20.97	111,902,381.04	7.53	1,374,184,748.47
Total	7,086,398,262.27	100.00	154,676,371.95	2.18	6,931,721,890.32

3. *Accounts receivable with bad debt provision made individually*

Name	Book balance	31 May 2022		Reasons for provision
		Bad debt provision	Expected credit loss rate (%)	
Company 1	4,445,990.01	4,445,990.01	100.00	Expected to be unable to recover
Company 2	3,742,800.00	3,742,800.00	100.00	Expected to be unable to recover
Company 3	2,660,000.00	2,660,000.00	100.00	Expected to be unable to recover
Company 4	1,500,000.00	1,500,000.00	100.00	Expected to be unable to recover
Company 5	1,400,000.00	1,400,000.00	100.00	Expected to be unable to recover
Company 6	1,244,078.08	1,244,078.08	100.00	Expected to be unable to recover
Company 7	784,000.00	784,000.00	100.00	Expected to be unable to recover
Company 8	200,000.00	200,000.00	100.00	Expected to be unable to recover
Company 9	100,000.00	100,000.00	100.00	Expected to be unable to recover
Company 10	50,000.00	50,000.00	100.00	Expected to be unable to recover
Total	16,126,868.09	16,126,868.09	100.00	-

Continued:

Name	Book balance	31 December 2021		Reasons for provision
		Bad debt provision	Expected credit loss rate (%)	
Company 1	4,445,990.01	4,445,990.01	100.00	Expected to be unable to recover
Company 2	3,742,800.00	3,742,800.00	100.00	Expected to be unable to recover
Company 3	2,660,000.00	2,660,000.00	100.00	Expected to be unable to recover
Company 4	1,244,078.08	1,244,078.08	100.00	Expected to be unable to recover
Company 5	1,100,000.00	1,100,000.00	100.00	Expected to be unable to recover
Company 6	784,000.00	784,000.00	100.00	Expected to be unable to recover
Company 7	500,000.00	500,000.00	100.00	Expected to be unable to recover
Company 8	200,000.00	200,000.00	100.00	Expected to be unable to recover
Company 9	100,000.00	100,000.00	100.00	Expected to be unable to recover
Company 10	50,000.00	50,000.00	100.00	Expected to be unable to recover
Total	14,826,868.09	14,826,868.09	100.00	-

Continued:

Name	Book balance	31 December 2020		Reasons for provision
		Bad debt provision	Expected credit loss rate (%)	
Company 1	4,445,990.01	4,445,990.01	100.00	Expected to be unable to recover
Company 2	3,742,800.00	3,742,800.00	100.00	Expected to be unable to recover
Company 3	2,660,000.00	2,660,000.00	100.00	Expected to be unable to recover
Company 4	1,012,180.89	1,012,180.89	100.00	Expected to be unable to recover
Company 5	784,000.00	784,000.00	100.00	Expected to be unable to recover
Company 6	657,609.11	657,609.11	100.00	Expected to be unable to recover
Company 7	754,658.59	754,658.59	100.00	Expected to be unable to recover
Company 8	50,000.00	50,000.00	100.00	Expected to be unable to recover
Total	14,107,238.60	14,107,238.60	100.00	-

Continued:

Name	Book balance	31 December 2019		Reasons for provision
		Bad debt provision	Expected credit loss rate (%)	
Company 1	4,445,990.01	4,445,990.01	100.00	Expected to be unable to recover
Company 2	784,000.00	784,000.00	100.00	Expected to be unable to recover
Company 3	657,609.11	657,609.11	100.00	Expected to be unable to recover
Company 4	307,692.71	307,692.71	100.00	Expected to be unable to recover
Company 5	150,000.00	150,000.00	100.00	Expected to be unable to recover
Company 6	110,000.00	110,000.00	100.00	Expected to be unable to recover
Company 7	50,000.00	50,000.00	100.00	Expected to be unable to recover
Total	6,505,291.83	6,505,291.83	100.00	-

4. *Accounts receivable with bad debt provision made on portfolio basis*1) *Accounts receivable with bad debt provision based on the groups of related parties and government departments (the military)*

Aging	Book balance	31 May 2022	
		Bad debt provision	Expected credit loss rate (%)
Within 1 year	6,001,183,751.34	3,000,591.88	0.05
1-2 years	630,886,151.65	6,308,861.53	1.00
2-3 years	215,582,469.37	6,467,474.10	3.00
3-4 years	18,394,611.97	1,839,461.20	10.00
4-5 years	2,585,059.03	775,517.71	30.00
Over 5 years	3,973,937.28	3,973,937.28	100.00
Total	6,872,605,980.64	22,365,843.70	–

Continued:

Aging	Book balance	31 December 2021	
		Bad debt provision	Expected credit loss rate (%)
Within 1 year	4,502,465,186.38	2,251,238.69	0.05
1-2 years	249,200,187.33	2,492,001.87	1.00
2-3 years	270,865,777.14	8,125,973.26	3.00
3-4 years	23,383,448.77	2,338,344.88	10.00
4-5 years	2,250,197.32	675,059.20	30.00
Over 5 years	4,438,579.64	4,438,579.64	100.00
Total	5,052,603,376.58	20,321,197.54	–

Continued:

Aging	Book balance	31 December 2020	
		Bad debt provision	Expected credit loss rate (%)
Within 1 year	5,041,922,525.11	2,520,961.25	0.05
1-2 years	749,711,635.71	7,497,116.37	1.00
2-3 years	185,772,510.30	5,573,175.32	3.00
3-4 years	95,742,816.55	9,574,281.65	10.00
4-5 years	2,020,053.68	606,016.10	30.00
Over 5 years	7,477,562.21	7,477,562.21	100.00
Total	6,082,647,103.56	33,249,112.90	–

Continued:

Aging	Book balance	31 December 2019	
		Bad debt provision	Expected credit loss rate (%)
Within 1 year	4,684,590,980.78	2,342,295.53	0.05
1-2 years	692,982,970.88	6,929,829.72	1.00
2-3 years	173,176,130.85	5,195,283.89	3.00
3-4 years	19,080,454.11	1,908,045.42	10.00
4-5 years	5,831,513.98	1,749,454.19	30.00
Over 5 years	18,143,790.33	18,143,790.33	100.00
Total	5,593,805,840.93	36,268,699.08	–

2) *Accounts receivable with bad debt provision based on other groups among the groups*

Aging	Book balance	31 May 2022	
		Bad debt provision	Expected credit loss rate (%)
Within 1 year	1,628,594,226.95	40,714,855.75	2.50
1-2 years	140,299,962.90	14,029,996.30	10.00
2-3 years	24,561,105.36	3,684,165.80	15.00
3-4 years	37,042,178.48	11,112,653.54	30.00
4-5 years	4,462,771.78	2,231,385.90	50.00
Over 5 years	17,595,557.18	17,595,557.18	100.00
Total	1,852,555,802.65	89,368,614.47	–

Continued:

Aging	Book balance	31 December 2021	
		Bad debt provision	Expected credit loss rate (%)
Within 1 year	1,263,083,108.49	31,577,077.76	2.50
1-2 years	108,090,818.51	10,809,081.87	10.00
2-3 years	33,609,734.50	5,041,460.19	15.00
3-4 years	27,499,639.62	8,249,891.89	30.00
4-5 years	2,403,237.98	1,201,619.00	50.00
Over 5 years	17,764,905.61	17,764,905.61	100.00
Total	1,452,451,444.71	74,644,036.32	–

Continued:

Aging	Book balance	31 December 2020	
		Bad debt provision	Expected credit loss rate (%)
Within 1 year	1,105,091,706.55	27,627,292.72	2.50
1-2 years	108,360,912.20	10,836,091.22	10.00
2-3 years	57,552,971.57	8,632,945.75	15.00
3-4 years	6,628,157.65	1,988,447.29	30.00
4-5 years	4,759,185.18	2,379,592.61	50.00
Over 5 years	33,158,508.49	33,158,508.49	100.00
Total	1,315,551,441.64	84,622,878.08	—

Continued:

Aging	Book balance	31 December 2019	
		Bad debt provision	Expected credit loss rate (%)
Within 1 year	1,249,802,971.48	31,245,376.26	2.50
1-2 years	134,955,778.72	13,495,577.87	10.00
2-3 years	22,575,286.42	3,386,292.97	15.00
3-4 years	16,091,579.21	4,827,473.76	30.00
4-5 years	7,427,707.05	3,713,853.54	50.00
Over 5 years	55,233,806.63	55,233,806.64	100.00
Total	1,486,087,129.51	111,902,381.04	—

5. Bad debt provision

Category	1 January 2022		Changes				31 May 2022
	Provision	Recovered or reversed	Written off	Decrease due to combination	Other changes		
Accounts receivable with ECL provision made individually	14,826,868.09	1,300,000.00					16,126,868.09
The group of related parties and government departments (the military)	20,321,197.54	2,044,646.16					22,365,843.70
Other groups	74,644,036.32	14,724,578.15					89,368,614.47
Total	109,792,101.95	18,069,224.31					127,861,326.26

Continued:

Category	1 January 2021	Provision	Changes				31 December 2021
			Recovered or reversed	Written off	Decrease due to combination	Other changes	
Accounts receivable with ECL provision made individually	14,107,238.60	3,090,394.23		2,370,764.74			14,826,868.09
The group of related parties and government departments (the military)	33,249,112.90	-12,927,915.36					20,321,197.54
Other groups	84,622,878.08	4,158,066.30		14,265,434.82		128,526.76	74,644,036.32
Total	131,979,229.58	-5,679,454.83		16,636,199.56		128,526.76	109,792,101.95

Continued:

Category	1 January 2020	Provision	Changes				31 December 2020
			Recovered or reversed	Written off	Decrease due to combination	Other changes	
Accounts receivable with ECL provision made individually	6,505,291.83	7,601,946.77					14,107,238.60
The group of related parties and government departments (the military)	36,268,699.08	-3,019,586.18					33,249,112.90
Other groups	111,902,381.04	-10,941,554.79	150,022.05	16,187,948.17		22.05	84,622,878.08
Total	154,676,371.95	-6,359,194.20	150,022.05	16,187,948.17		22.05	131,979,229.58

Continued:

Category	1 January 2019	Provision	Changes				31 December 2019
			Recovered or reversed	Written off	Decrease due to combination	Other changes	
Accounts receivable with ECL provision made individually	6,150,404.53	354,887.30					6,505,291.83
The group of related parties and government departments (the military)	28,565,691.75	7,703,007.33					36,268,699.08
Other groups	166,571,649.63	8,971,961.84		13,255.30	63,631,908.57	3,933.44	111,902,381.04
Total	201,287,745.91	17,029,856.47		13,255.30	63,631,908.57	3,933.44	154,676,371.95

6. *Accounts receivable actually written-off in the reporting period*

Item	January to May			
	2022	2021	2020	2019
Accounts receivable actually written-off		16,636,199.56	16,187,948.17	13,255.30

The important write off of accounts receivable is as follows:

January to May 2022				
Name	Nature of accounts receivable	Write-off amount	Reason for write-off	Whether arising from related party transaction
No	No	No	No	No

Continued:

2021				
Name	Nature of accounts receivable	Write-off amount	Reason for write-off	Whether arising from related party transaction
Company 1	Payment of goods	6,000,000.00	Uncollectible for a long period of time	No
Company 2	Payment of goods	5,178,285.00	Uncollectible for a long period of time	No
Company 3	Payment of goods	1,012,180.89	Uncollectible for a long period of time	No
Total	-	12,190,465.89	-	-

Continued:

2020				
Name	Nature of accounts receivable	Write-off amount	Reason for write-off	Whether arising from related party transaction
Company 1	Payment of goods	1,527,481.43	Uncollectible	No

Continued:

Name	Nature of accounts receivable	2019		Whether arising from related party transaction
		Write-off amount	Reason for write-off	
No	No	No	No	No
7. Top five accounts receivable with balances classified by the debtors at the end of each period				
Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Book balance of the top five accounts receivable	4,165,250,713.69	3,214,578,288.04	3,711,618,907.69	2,785,996,047.60
Proportion to total accounts receivable (%)	47.65	49.30	50.07	39.31
The balance of the corresponding provision for bad debts	9,930,009.45	8,914,428.03	6,822,974.45	2,297,937.82
8. Accounts receivable derecognized due to transfer of financial assets during the reporting period				

Name of debtor	Transfer method of financial assets	January to May 2022	
		Amount derecognized	Gains or losses related to derecognition
Company 1	Factored accounts receivable	1,291,020.50	
Company 2	Factored accounts receivable	3,630,645.29	
Total		4,921,665.79	

Continued:

		2021	
Name of debtor	Transfer method of financial assets	Amount derecognized	Gains or losses related to derecognition
Company 1	Factored accounts receivable	30,000,094.50	-450,326.27
Company 2	Factored accounts receivable	7,168,644.52	-263,806.12
Company 3	Factored accounts receivable	6,408,410.00	-235,829.49
Company 4	Factored accounts receivable	3,849,488.00	-137,842.93
Total	-	47,426,637.02	-1,087,804.81

Continued:

		2020	
Name of debtor	Transfer method of financial assets	Amount derecognized	Gains or losses related to derecognition
Company 1	Factored accounts receivable	287,139,721.05	-9,461,348.21
Company 2	Factored accounts receivable	36,895,769.00	-1,262,792.00
Company 3	Factored accounts receivable	20,507,872.00	-361,992.42
Company 4	Factored accounts receivable	17,864,318.00	-611,211.51
Company 5	Factored accounts receivable	9,050,567.00	-210,475.96
Company 6	Factored accounts receivable	8,046,000.00	-217,957.20
Company 7	Factored accounts receivable	7,440,000.00	-115,030.67
Company 8	Factored accounts receivable	5,250,000.00	-177,382.00
Company 9	Factored accounts receivable	2,971,800.00	-34,175.70
Total	-	395,166,047.05	-12,452,365.67

Continued:

		2019	
Name of debtor	Transfer method of financial assets	Amount derecognized	Gains or losses related to derecognition
Company 1	Factored accounts receivable	380,226,270.56	-14,137,473.95
Company 2	Factored accounts receivable	55,063,386.50	-2,246,935.60
Company 3	Factored accounts receivable	26,897,248.00	-783,913.28
Company 4	Factored accounts receivable	13,126,836.00	-474,937.42
Company 5	Factored accounts receivable	11,016,346.24	-407,613.29
Company 6	Factored accounts receivable	3,000,000.00	-121,439.46
Total	-	489,330,087.30	-18,172,313.00

Note 5. Receivables financing

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Notes receivable	345,697,881.94	469,035,135.81	267,271,483.79	232,326,155.88
Total	345,697,881.94	469,035,135.81	267,271,483.79	232,326,155.88

Movements in receivables financing and changes in fair value for the reporting period

Item	1 January 2022		Movement for the period		31 May 2022	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
Notes receivable	469,035,135.81		-123,337,253.87		345,697,881.94	
Total	469,035,135.81		-123,337,253.87		345,697,881.94	

Continued:

Item	1 January 2021		Movement for the period		31 December 2021	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
Notes receivable	267,271,483.79		201,763,652.02		469,035,135.81	
Total	267,271,483.79		201,763,652.02		469,035,135.81	

Continued:

Item	1 January 2020		Movement for the period		31 December 2020	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
Notes receivable	232,326,155.88		34,945,327.91		267,271,483.79	
Total	232,326,155.88		34,945,327.91		267,271,483.79	

Continued:

Item	1 January 2019		Movement for the period		31 December 2019	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
Notes receivable	191,657,532.24		40,668,623.64		232,326,155.88	
Total	191,657,532.24		40,668,623.64		232,326,155.88	

Note 6. Prepayments**1. Prepayments listed as per aging**

Aging	31 May 2022		31 December 2021		31 December 2020		31 December 2019	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	452,583,258.97	94.66	338,332,268.00	96.11	315,355,403.05	94.50	175,003,121.89	89.50
1-2 years	21,029,710.55	4.40	12,417,588.94	3.53	16,033,176.89	4.80	6,768,430.31	3.46
2-3 years	4,225,658.90	0.88	1,078,300.79	0.31	1,317,551.94	0.40	7,707,576.56	3.94
Over 3 years	297,843.50	0.06	187,644.58	0.05	1,012,259.18	0.30	6,049,647.12	3.10
Total	478,136,471.92	100.00	352,015,802.31	100.00	333,718,391.06	100.00	195,528,775.88	100.00

2. Explanation on the unsettled prepayments with significant balances aged over 1 year as at the end of the reporting period

Name	31 May 2022	Aging	Reason for being unsettled
Company 1	9,880,000.00	1-2 years (include 2 years)	Not yet settled
Company 2	2,590,562.48	1-2 years (include 2 years)	Not yet settled
Company 3	2,022,633.42	2-3 years (include 3 years)	Not yet settled
Company 4	1,059,719.62	1-2 years (include 2 years)	Not yet settled

Continued:

Name	31 December 2021	Aging	Reason for being unsettled
Company 1	4,491,000.00	1-2 years (including 2 years)	Not yet settled

Continued:

Name	31 December 2020	Aging	Reason for being unsettled
Company 1	6,933,264.87	1-2 years (including 2 years)	Not yet settled

Continued:

Name	31 December 2019	Aging	Reason for being unsettled
Company 1	1,712,351.21	4-5 years (including 5 years)	Not yet settled
Company 2	1,139,612.09	1-2 years (including 2 years)	Not yet settled
Company 3	1,081,312.81	3-4 years (including 4 years)	Not yet settled

3. *Details of top five prepayments at the end of each period*

Period	The total of the top five prepayments with balances at the end of the period	Proportion to the closing balance of prepayments (%)
31 May 2022	171,029,897.95	35.77
31 December 2021	177,415,418.34	50.40
31 December 2020	211,389,861.83	63.34
31 December 2019	99,018,686.60	50.64

Note 7. Other receivables

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Interests receivable	5,703,125.00			128,325.00
Dividends receivable	4,000,000.00		6,000,000.00	8,539,100.00
Other receivables	119,194,659.01	56,553,539.84	69,259,988.58	188,532,947.61
Total	128,897,784.01	56,553,539.84	75,259,988.58	197,200,372.61

Note: Other receivables in the above table refer to other receivables after deducting interests receivable and dividends receivable.

(I) *Interests receivable*

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Term deposits	5,703,125.00			
Entrusted Loans				128,325.00
Less: bad debt provision				
Total	5,703,125.00			128,325.00

*(II) Dividends receivable**1. Dividends receivable*

Investee	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Guangzhou Huazhi Auto Parts Co., Ltd. (廣州 華智汽車部件有限公 司)	4,000,000.00		6,000,000.00	
Guiyang Aviation Motor Co., Ltd. (貴陽航空 電機有限公司)				8,539,100.00
Less: bad debt provision				
Total	4,000,000.00		6,000,000.00	8,539,100.00

*(III) Other receivables**1. Disclosure by aging*

Aging	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Within 1 year	110,518,942.14	44,442,068.67	56,638,222.15	175,546,677.39
1-2 years	7,194,608.29	10,453,752.51	13,062,303.15	8,827,613.49
2-3 years	3,285,906.98	3,372,565.14	3,098,258.99	9,880,614.22
3-4 years	3,667,335.25	1,383,273.09	444,783.75	5,219,804.37
4-5 years	755,786.06	444,783.75	113,000.00	989,493.59
Over 5 years	1,066,845.42	1,066,845.42	1,271,753.43	14,016,310.52
Subtotal	126,489,424.14	61,163,288.58	74,628,321.47	214,480,513.58
Less: bad debt provision	7,294,765.13	4,609,748.74	5,368,332.89	25,947,565.97
Total	119,194,659.01	56,553,539.84	69,259,988.58	188,532,947.61

2. *Classification by nature of amount*

Nature of amount	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Intercourse funds	22,080,764.77	25,534,372.08	43,100,066.83	32,333,215.39
Deposit and security	19,424,671.12	15,665,772.00	6,142,272.62	16,204,256.63
Water/Electricity/Gas				
Supply and Property				
Management fees	8,547,310.82	8,547,310.82	9,012,971.44	18,309,501.94
Petty cash	10,703,223.18	6,163,987.65	6,987,841.80	9,454,151.42
Funds disbursed for				
others	10,036,474.84	3,865,193.85	3,775,622.70	8,467,547.09
Zero balance account	41,013,899.41	1,386,652.18	2,109,546.08	11,112,265.37
Custodian fee	14,683,080.00		3,500,000.00	17,000,000.00
Receivables from equity				
disposals	7,294,765.13			101,599,575.74
Less: bad debt provision		4,609,748.74	5,368,332.89	25,947,565.97
Total	119,194,659.01	56,553,539.84	69,259,988.58	188,532,947.61

3. *Bad debt provision of other receivables*

Bad debt provision	January to May 2022			Total
	Stage 1 Expected credit loss in the future 12 months	Stage 2 Lifetime expected credit loss (not credit impaired)	Stage 3 Lifetime expected credit loss (credit impaired)	
Opening balance	1,077,003.61	3,532,745.13		4,609,748.74
Opening balance during the current period				
– Be transferred to Stage 2	-144,138.29	144,138.29		
– Be transferred to Stage 3				
– Be transferred back to Stage 2				
– Be transferred back to Stage 1				
Provision made in the current period	2,127,111.87	557,904.52		2,685,016.39
Amount transferred back in the current period				
Amount written back in the current period				
Amount written off in the current period				
Other changes				
Closing balance	3,059,977.19	4,234,787.94		7,294,765.13

Continued:

Bad debt provision	2021			Total
	Stage 1 Expected credit loss in the future 12 months	Stage 2 Lifetime expected credit loss (not credit impaired)	Stage 3 Lifetime expected credit loss (credit impaired)	
Opening balance	1,520,595.12	3,847,737.77		5,368,332.89
Opening balance during the current period				
– Be transferred to Stage 2	-297,730.89	297,730.89		
– Be transferred to Stage 3				
– Be transferred back to Stage 2				
– Be transferred back to Stage 1				
Provision made in the current period	-117,780.72	-611,718.53		-729,499.25
Amount transferred back in the current period				
Amount written back in the current period				
Amount written off in the current period	28,079.90	1,005.00		29,084.90
Other changes				
Closing balance	1,077,003.61	3,532,745.13		4,609,748.74

Continued:

Bad debt provision	2020			Total
	Stage 1 Expected credit loss in the future 12 months	Stage 2 Lifetime expected credit loss (not credit impaired)	Stage 3 Lifetime expected credit loss (credit impaired)	
Opening balance	5,702,401.67	20,011,306.84	233,857.46	25,947,565.97
Opening balance during the current period				
– Be transferred to Stage 2	-362,336.94	362,336.94		
– Be transferred to Stage 3				
– Be transferred back to Stage 2				
– Be transferred back to Stage 1				
Provision made in the current period	-3,819,469.61	-6,351,018.73		-10,170,488.34
Amount transferred back in the current period			14,457.46	14,457.46
Amount written back in the current period				
Amount written off in the current period		10,174,887.28	219,400.00	10,394,287.28
Other changes				
Closing balance	1,520,595.12	3,847,737.77		5,368,332.89

Continued:

Bad debt provision	2019			Total
	Stage 1 Expected credit loss in the future 12 months	Stage 2 Lifetime expected credit loss (not credit impaired)	Stage 3 Lifetime expected credit loss (credit impaired)	
Opening balance	3,232,437.82	25,065,254.67	233,857.46	28,531,549.95
Opening balance during the current period				
– Be transferred to Stage 2	-185,528.68	185,528.68		
– Be transferred to Stage 3				
– Be transferred back to Stage 2				
– Be transferred back to Stage 1				
Provision made in the current period	2,655,492.53	3,446,235.09		6,101,727.62
Amount transferred back in the current period				
Amount written back in the current period				
Amount written off in the current period		180,000.00		180,000.00
Other changes		8,505,711.60		8,505,711.60
Closing balance	5,702,401.67	20,011,306.84	233,857.46	25,947,565.97

4. *Bad debt provision*

Category	Balances as at 1 January 2022	Provision	Changes			Balances as at 31 May 2022
			Accounts recovered or transferred back	Amounts written off	Other changes	
Other receivables	4,609,748.74	2,685,016.39				7,294,765.13
Total	4,609,748.74	2,685,016.39				7,294,765.13

Continued:

Category	Balances as at		Changes			Balances as at
	1 January	Provision	Accounts recovered or transferred back	Amounts written off	Other changes	
Other receivables	5,368,332.89	-729,499.25		29,084.90		4,609,748.74
Total	5,368,332.89	-729,499.25		29,084.90		4,609,748.74

Continued:

Category	Balances as at		Changes			Balances as at
	1 January	Provision	Accounts recovered or transferred back	Amounts written off	Other changes	
Other receivables	25,947,565.97	-10,170,488.34	14,457.46	10,394,287.28		5,368,332.89
Total	25,947,565.97	-10,170,488.34	14,457.46	10,394,287.28		5,368,332.89

Continued:

Category	Balances as at		Changes			Balances as at
	1 January	Provision	Accounts recovered or transferred back	Amounts written off	Other changes	
Other receivables	28,531,549.95	6,101,727.62		180,000.00	-8,505,711.60	25,947,565.97
Total	28,531,549.95	6,101,727.62		180,000.00	-8,505,711.60	25,947,565.97

Note: Other changes in 2019 represent the decrease in the provision for bad debts of other receivables due to the removal of Guiyang Aviation Motor Co., Ltd. (貴陽航空電機有限公司).

5. *Other receivables actually written-off in the reporting period*

The amount of other receivables actually written-off in the reporting period

Item	Amount written-off from January to May 2022	Amount written-off in 2021	Amount written-off in 2020	Amount written-off in 2019
Other receivables actually written-off		29,084.90	10,394,287.28	180,000.00
Among above, the important write off of other receivables	No	No	See the table below	No

The important write off of other receivables is as follows:

Name	Nature of accounts receivables	2020			Whether arising from related party transaction
		Write-off amount	Reason for write-off	Verification procedures fulfilled	
Company 1	Intercourse funds	3,030,254.86	Uncollectible for a long period of time	Party Committee approval	No
Company 2	Project fund	1,900,000.00	Uncollectible for a long period of time	Intermediary forensics and Party Committee 1016	No
Company 3	Project fund	1,580,000.00	Uncollectible for a long period of time	Intermediary forensics and Party Committee 1016	No

6. *Details of top five other receivables with balances classified by the debtors at the end of the period*

Name of the company	Nature of amount	Balances at		Proportion to the closing balance of other receivables (%)	Closing balance of bad debt provision
		31 May 2022	Aging		
Company 1	Financial refundable amount	41,013,899.41	Within 1 year	32.42	1,435,486.48
Company 2	Custody fee	14,683,080.00	Within 1 year	11.74	513,907.80
	Water/Electricity/ Gas Supply and Property Management fees	8,547,310.82	Within 4 years	6.83	874,603.38
Company 3	Intercourse funds	1,066,845.42	Over 5 years	0.85	1,066,845.42
	Funds disbursed for others	5,629,929.12	Within 1 year	4.50	84,448.94
Company 4	Intercourse funds	4,200,000.00	Within 1 year	3.36	147,000.00
Company 5	Security deposit	2,984,621.20	Within 1 year	2.39	44,769.32
Total	-	78,125,685.97		61.76	4,167,061.34

Continued:

Name of the company	Nature of amount	Balances at 31		Proportion to the closing balance of other receivables (%)	Closing balance of bad debt provision
		December 2021	Aging		
Company 1	Water/Electricity/Gas Supply and Property Management fees	8,547,310.82	Within 3 years	13.98	606,942.72
	Intercourse funds	1,066,845.42	Over 4 years	1.74	1,066,845.42
Company 2	Intercourse funds	4,200,000.00	Within 1 year	6.87	147,000.00
Company 3	Security deposit	1,640,000.00	Within 1 year	2.68	24,600.00
Company 4	Amount to be refunded	1,386,652.18	Within 1 year	2.27	48,532.84
Company 5	Security deposit	1,000,000.00	1-2 years	1.63	100,000.00
Total	-	17,840,808.42		29.17	1,993,920.98

Continued:

Name of the company	Nature of amount	Balances at December 2020	Aging	Proportion to the closing balance of other receivables (%)	Closing balance of bad debt provision
Company 1	Water/Electricity/Gas Supply and Property Management fees, security deposit	6,622,652.39	Within 4 years	8.87	1,622,426.12
	Custody fee	3,500,000.00	Within 1 year	4.69	122,500.00
Company 2	Subsidies for employment stabilization	9,713,088.00	Within 1 year	13.02	339,958.08
Company 3	Lease payment	7,500,000.00	Within 1 year	10.05	262,500.00
Company 4	Water/Electricity/Gas Supply and Property Management fees	2,919,244.12	1-2 years	3.91	437,886.62
Company 5	Advance duties	2,754,215.14	Within 1 year	3.69	41,313.23
Total	-	33,009,199.65	-	44.23	2,826,584.05

Continued:

Name of the company	Nature of amount	Balances at 31 December 2019	Aging	Proportion to the closing balance of other receivables (%)	Closing balance of bad debt provision
Company 1	Receivables from equity disposals, custody fee and Water/Electricity/Gas Supply and Property Management fees	124,831,576.70	Within 1 year	58.20	4,369,105.18
	Security deposit	4,922,077.12	Within 3 years	2.29	693,821.27
Company 2	Zero balance account	11,112,265.37	Within 1 year	5.18	388,929.29
Company 3	Receivables from equity disposals	7,200,000.00	Within 1 year	3.36	252,000.00
Company 4	Water/Electricity/Gas Supply and Property Management fees	3,097,888.00	Within 1 year	1.44	46,468.32
Company 5	Intercourse funds	3,030,254.86	Over 5 years	1.41	3,030,254.86
Total	-	154,194,062.05		71.88	8,780,578.92

7. *Other receivables involving government grants*

Name of the company	Name of government subsidy project	Balances at 31 May 2022	Closing aging	Estimated time, amount and basis for collection
No	No	No	No	No

Continued:

Name of the company	Name of government subsidy project	Balances at		Estimated time, amount and basis for collection
		31 December 2021	Closing aging	
No.	No.	No.	No.	No.

Continued:

Name of the company	Name of government subsidy project	Balances at		Estimated time, amount and basis for collection
		31 December 2020	Closing aging	
Company 1	Subsidies for employment stabilization	9,713,088.00	Within 1 year	Already collected before March 2021, the amount is RMB9,713,088.00
Company 2	Loan interests subsidy, insurance subsidy	1,119,030.00	Within 1 year	Already collected in January 2021, the amount is RMB1,119,030.00
Total	-	10,832,118.00	-	

Continued:

Name of the company	Name of government subsidy project	Balances at		Estimated time, amount and basis for collection
		31 December 2019	Closing aging	
Company 1	Power supply transformation under Water/Electricity/Gas Supply and Property Management	1,548,944.00	Within 1 year	2020
Total	-	1,548,944.00	-	-

Note 8. Inventories**1. Inventory classification**

Item	31 May 2022		
	Book balance	Impairment provision	Book value
Raw materials	2,453,493,755.71	75,033,749.55	2,378,460,006.16
Self made semi-finished goods and products in progress	1,382,477,458.32	4,296,087.53	1,378,181,370.79
Finished goods	2,809,528,266.43	70,502,202.08	2,739,026,064.35
Turnover materials	75,861,159.85		75,861,159.85
Total	6,721,360,640.31	149,832,039.16	6,571,528,601.15

Continued:

Item	31 December 2021		
	Book balance	Impairment provision	Book value
Raw materials	2,152,188,161.73	72,928,776.46	2,079,259,385.27
Self made semi-finished goods and products in progress	1,405,294,196.01	3,056,607.46	1,402,237,588.55
Finished goods	2,746,293,792.72	66,432,001.86	2,679,861,790.86
Turnover materials	66,832,704.63		66,832,704.63
Total	6,370,608,855.09	142,417,385.78	6,228,191,469.31

Continued:

Item	31 December 2020		
	Book balance	Impairment provision	Book value
Raw materials	1,577,174,372.89	57,092,086.99	1,520,082,285.90
Self made semi-finished goods and products in progress	1,507,039,786.05	1,780,058.66	1,505,259,727.39
Finished goods	2,236,967,245.49	60,414,685.45	2,176,552,560.04
Turnover materials	75,162,593.66	345,880.47	74,816,713.19
Total	5,396,343,998.09	119,632,711.57	5,276,711,286.52

Continued:

Item	31 December 2019		
	Book balance	Impairment provision	Book value
Raw materials	1,421,388,685.04	64,624,700.27	1,356,763,984.77
Self made semi-finished goods and products in progress	1,271,837,588.77	7,700,914.32	1,264,136,674.45
Finished goods	1,836,158,292.16	60,637,436.54	1,775,520,855.62
Turnover materials	93,561,736.71	605,792.59	92,955,944.12
Total	4,622,946,302.68	133,568,843.72	4,489,377,458.96

2. *Movement of provision for impairment of inventory and contract performance costs*

Item	Increase in the current period			Decrease in the current period			Others	31 May 2022
	1 January 2022	Provision	Others	Amounts transferred back	Amounts written back	Decrease due to combination		
Raw materials	72,928,776.46	1,419,318.07	685,655.02					75,033,749.55
Self made semi-finished goods and products in progress	3,056,607.46	1,519,909.14			280,429.07			4,296,087.53
Finished goods	66,432,001.86	10,006,337.26			5,936,137.04			70,502,202.08
Turnover materials								
Total	142,417,385.78	12,945,564.47	685,655.02		6,216,566.11			149,832,039.16

Continued:

Item	Increase in the current period			Decrease in the current period			Others	31 December 2021
	1 January 2021	Provision	Others	Amounts transferred back	Amounts written back	Decrease due to combination		
Raw materials	57,092,086.99	19,948,016.16			4,111,326.69			72,928,776.46
Self made semi-finished goods and products in progress	1,780,058.66	2,531,553.50			1,255,004.70			3,056,607.46
Finished goods	60,414,685.45	14,261,326.05			8,244,009.64			66,432,001.86
Turnover materials	345,880.47				345,880.47			
Total	119,632,711.57	36,740,895.71			13,956,221.50			142,417,385.78

Continued:

Item	Increase in the current period			Decrease in the current period			Others	31 December 2020
	1 January 2020	Provision	Others	Amounts transferred back	Amounts written back	Decrease due to combination		
Raw materials	64,624,700.27	26,614,017.81			34,146,631.09			57,092,086.99
Self made semi-finished goods and products in progress	7,700,914.32	170,684.51			6,091,540.17			1,780,058.66
Finished goods	60,637,436.54	16,662,917.58			16,885,668.67			60,414,685.45
Turnover materials	605,792.59				259,912.12			345,880.47
Total	133,568,843.72	43,447,619.90			57,383,752.05			119,632,711.57

Continued:

Item	Increase in the current period			Decrease in the current period			31 December 2019
	1 January 2019	Provision	Others	Amounts transferred back	Amounts written back	Decrease due to combination	
Raw materials	62,639,895.35	4,647,637.01			2,362,559.67	300,272.42	64,624,700.27
Self made semi-finished goods and products in progress	8,065,678.30	2,453,829.59				2,818,593.57	7,700,914.32
Finished goods	48,696,579.90	17,145,364.44			1,959,356.11	3,245,151.69	60,637,436.54
Turnover materials	121,098.12	484,694.47					605,792.59
Total	119,523,251.67	24,731,525.51			4,321,915.78	6,364,017.68	133,568,843.72

3. The capitalized amount of loan interest included in the inventory balance at the end of the year

No.

Note 9. Non-current assets due within one year

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Long-term receivables due within one year			932,088.58	
Total			932,088.58	

Note 10. Other current assets

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Input tax to be deducted	68,443,642.35	85,641,655.27	58,129,044.43	56,582,907.50
Input tax to be certified	97,521.82	337,151.88		
Prepayment of tax	4,671,249.68	6,504,217.21	6,064,161.92	936,824.77
Total	73,212,413.85	92,483,024.36	64,193,206.35	57,519,732.27

Note 11. Long-term receivables

Nature of the payment	31 May 2022			31 December 2021			
	Discount rate	Book balance	Bad debt provision	Book value	Book balance	Bad debt provision	Book value
Finance Lease payments							
Including: Unrealized financing income							
Total							

Continued:

Nature of the payment	31 December 2020			31 December 2019			
	Discount rate	Book balance	Bad debt provision	Book value	Book balance	Bad debt provision	Book value
Finance Lease payments				3,685,365.68		3,685,365.68	6.1512
Including: Unrealized financing income				416,321.77		416,321.77	6.1512
Total				3,685,365.68		3,685,365.68	-

Note 12. Long-term equity investments

Investees	Movement for the period										Closing balance of impairment provision
	31 December 2021	Added investment	Decreased investment	Investment profit or loss recognized under equity method	Adjustment to other comprehensive income	Other changes in equity	Distribution of cash dividend or profit declared	Impairment provision	Others	31 May 2022	
I. Joint ventures											
Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安中航漢勝航空電 力有限公司)											
	24,035,673.94	31,897,500.00		-2,337,999.42							53,595,174.52
Subtotal	24,035,673.94	31,897,500.00		-2,337,999.42							53,595,174.52
II. Associates											
AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降裝備有限公司)											
	186,381,323.79			7,425,175.24	-917,405.00	604,257.52					193,493,351.55
Guangzhou Huazhi Auto Parts Co., Ltd. (廣州華智汽車部件有限公司)											
	47,005,724.82			569,095.47			4,000,000.00				43,574,820.29
Wuhan Qinling Linke Aviation Power System Co., Ltd. (武漢秦嶺凌科航空電 力系統有限公司)											
	3,723,428.30			859,966.96							4,583,395.26
Subtotal	237,110,476.91			8,854,237.67	-917,405.00	604,257.52	4,000,000.00				241,651,567.10
Total	261,146,150.85	31,897,500.00		6,516,238.25	-917,405.00	604,257.52	4,000,000.00				295,246,741.62

Continued:

Investee	Movement for the period										
	1 January 2021	Added investment	Decreased investment	Investment profit or loss recognized under equity method	Adjustment to comprehensive other income	Other changes in equity	Distribution of cash dividend or profit declared	Impairment provision	Others	31 December 2021	Closing balance of impairment provision
I. Joint venture											
Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安中航漢勝航空 電力有限公司)											
	30,075,452.04			-6,039,778.10						24,035,673.94	
Subtotal	30,075,452.04			-6,039,778.10						24,035,673.94	
II. Associates											
AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降裝備有限公司)											
	168,598,042.02			25,147,747.88	504,390.00	1,321,143.89	9,190,000.00			186,381,323.79	
Guangzhou Huazhi Auto Parts Co., Ltd. (廣州華智汽車部件有限公司)											
	42,855,186.96			4,150,537.86						47,005,724.82	
Wuhan Qinling Linke Aviation Power System Co., Ltd. (武漢秦嶺凌科航空電力 系統有限公司)											
		3,500,000.00		223,428.30						3,723,428.30	
Subtotal	211,453,228.98	3,500,000.00		29,521,714.04	504,390.00	1,321,143.89	9,190,000.00			237,110,476.91	
Total	241,528,681.02	3,500,000.00		23,481,935.94	504,390.00	1,321,143.89	9,190,000.00			261,146,150.85	

Note: The investees Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安中航漢勝航空電力有限公司) and AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降裝備有限公司) have implemented the new revenue standards, new financial instrument standards and new lease standards (hereinafter referred to as the "New Standards") from 1 January 2021 and adjusted the opening balances in the financial statements according to the transitional requirements of the New Standards. AVIC Electromechanical made adjustments to the opening balances in the 2021 financial statements accordingly when adopting the equity method for accounting. The opening amount of long-term equity investments was reduced by RMB5,150,569.47 and the opening amount of owner's equity attributable to the parent company was reduced by RMB5,150,569.47 (among which, the opening amount of surplus reserve was increased by RMB18,528.15 and the opening amount of retained earnings was reduced by RMB5,169,097.62).

Continued:

Investee	Movement for the period									
	31 December 2019	Added investment	Decreased investment	Investment profit or loss recognized under equity method	Adjustment to comprehensive other income	Other changes in equity	Distribution of cash dividend or profit declared	Impairment provision	Others	Closing balance of impairment provision
I. Joint ventures										
Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安中航漢勝航空 電力有限公司)	39,213,547.76			-3,802,244.72						35,411,303.04
Subtotal	39,213,547.76			-3,802,244.72						35,411,303.04
II. Associates										
AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降裝備有限公司)	150,000,000.00			18,575,297.14	2,708,355.00	-560,891.65	2,310,000.00			168,412,760.49
Guangzhou Huazhi Auto Parts Co., Ltd. (廣州華智汽車部件有限公司)	50,049,084.40			-1,193,897.44			6,000,000.00			42,855,186.96
Subtotal	200,049,084.40			17,381,399.70	2,708,355.00	-560,891.65	8,310,000.00			211,267,947.45
Total	239,262,632.16			13,579,154.98	2,708,355.00	-560,891.65	8,310,000.00			246,679,250.49

Continued:

Investee	Movement for the period									
	1 January 2019	Added investment	Decreased investment	Investment profit or loss recognized under equity method	Adjustment to comprehensive other income	Other changes in equity	Distribution of cash dividend or profit declared	Impairment provision	Others	Closing balance of impairment provision
I. Joint ventures										
Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安中航漢勝航空 電力有限公司)	41,022,886.27	5,917,397.30		-7,726,735.81						39,213,547.76
Subtotal	41,022,886.27	5,917,397.30		-7,726,735.81						39,213,547.76
II. Associates										
AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降裝備有限公司)		150,000,000.00								150,000,000.00
Guangzhou Huazhi Auto Parts Co., Ltd. (廣州華智汽車部件有限公司)	44,777,164.30			5,271,920.10						50,049,084.40
Subtotal	44,777,164.30	150,000,000.00		5,271,920.10						200,049,084.40
Total	85,800,050.57	155,917,397.30		-2,454,815.71						239,262,632.16

Note 13. Other equity instrument investments**1. Categories**

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Equity investments in AVIC Industry-Finance Holdings Co., Ltd. (中航工業產融控股股份有限公司)	126,779,587.20	149,796,119.40	165,266,247.60	183,000,297.00
Equity investments in AVIC Shenyang Aircraft Company Limited (中航沈飛股份有限公司)	934,916,679.69	1,138,566,867.48	934,462,476.90	377,705,478.00
Equity investments in Aviation Trust Investment Co., Ltd. (航空信託投資有限責任公司股權投資)				
Total	1,061,696,266.89	1,288,362,986.88	1,099,728,724.50	560,705,775.00

1. Table of investments in non-trading equity instruments

Item	Dividend income recognized from		Accumulated gains	Accumulated losses	Amount transferred from other comprehensive income to retained earnings	Reasons for designating at fair value through other comprehensive income	Reasons for transferring from other comprehensive income to retained earnings
	January to May 2022	Investment cost					
Equity investments in AVIC Industry-Finance Holdings Co., Ltd. (中航工業產融控股股份有限公司)		145,645,597.20		18,866,010.00		Non-trading equity	
Equity investments in AVIC Shenyang Aircraft Company Limited (中航沈飛股份有限公司)	5,856,825.45	333,599,996.55	601,316,683.14			Non-trading equity	
Equity investments in Aviation Trust Investment Co., Ltd. (航空信託投資有限責任公司股權投資)		22,000,000.00		22,000,000.00		Non-trading equity	
Total	5,856,825.45	501,245,593.75	601,316,683.14	40,866,010.00		-	-

(Continued)

Item	Dividend income recognized in 2021	Investment cost	Accumulated gains	Accumulated losses	Amount transferred from other comprehensive income to retained earnings	Reasons for designating at fair value through other comprehensive income	Reasons for transferring from other comprehensive income to retained earnings
Equity investments in AVIC Industry-Finance Holdings Co., Ltd. (中航工業產融控股股份有限公司)	4,225,986.24	145,645,597.20	4,150,522.20			Non-trading equity	
Equity investments in AVIC Shenyang Aircraft Company Limited (中航沈飛股份有限公司)	3,872,676.42	333,599,996.55	804,966,870.93			Non-trading equity	
Equity investments in Aviation Trust Investment Co., Ltd. (航空信托投資有限責任公司股權投資)		22,000,000.00		22,000,000.00		Non-trading equity	
Total	8,098,662.66	501,245,593.75	809,117,393.13	22,000,000.00		-	-

(Continued)

Item	Dividend income recognized in 2020	Investment cost	Accumulated gains	Accumulated losses	Amount transferred from other comprehensive income to retained earnings	Reasons for designating at fair value through other comprehensive income	Reasons for transferring from other comprehensive income to retained earnings
Equity investments in AVIC Industry-Finance Holdings Co., Ltd. (中航工業產融控股股份有限公司)	3,961,862.10	145,645,597.20	19,620,650.40			Non-trading equity	
Equity investments in AVIC Shenyang Aircraft Company Limited (中航沈飛股份有限公司)	1,792,905.75	333,599,996.55	600,862,480.35			Non-trading equity	
Equity investments in Aviation Trust Investment Co., Ltd. (航空信托投資有限責任公司股權投資)		22,000,000.00		22,000,000.00		Non-trading equity	
Total	5,754,767.85	501,245,593.75	620,483,130.75	22,000,000.00		-	-

(Continued)

Item	Dividend income recognized in 2019	Investment cost	Accumulated gains	Accumulated losses	Amount transferred from other comprehensive income to retained earnings	Reasons for designating at fair value through other comprehensive income	Reasons for transferring from other comprehensive income to retained earnings
Equity investments in AVIC Industry-Finance Holdings Co., Ltd. (中航工業產融控股股份有限公司)	1,358,352.72	145,645,597.20	37,354,699.80			Non-trading equity	
Equity investments in AVIC Shenyang Aircraft Company Limited (中航沈飛股份有限公司)		333,599,996.55	44,105,481.45			Non-trading equity	
Equity investments in Aviation Trust Investment Co., Ltd. (航空信托投資有限責任公司股權投資)		22,000,000.00		22,000,000.00		Non-trading equity	
Yuxin Automotive Thermal Management Technology Co., Ltd. (豫新汽車熱管理科技有限公司股權投資)	58,457.09	3,786,331.60		405,191.29	- 405,191.29	Non-trading equity	Equity disposal
Total	1,416,809.81	505,031,925.35	81,460,181.25	22,405,191.29	- 405,191.29	-	-

Note 14. Investment properties**1. Investment properties measured at cost**

Item	Plant & buildings	Land use right	Total
I. Original book value			
1. Balance at 1 January 2022	277,600,294.27	50,492,212.80	328,092,507.07
2. Increase in the current period	4,470,698.91		4,470,698.91
(1) Transferred from fixed assets	4,470,698.91		4,470,698.91
(2) Transferred from intangible assets			
3. Decrease in the current period			
Transferred to fixed assets			
Transferred to intangible assets			
Decrease due to change of consolidation scope			
4. Balance at 31 May 2022	282,070,993.18	50,492,212.80	332,563,205.98
II. Accumulated depreciation and accumulated amortization			
1. Balance at 1 January 2022	120,451,450.11	17,024,673.54	137,476,123.65
2. Increase in the current period	7,619,879.37	435,475.80	8,055,355.17
(1) Provision or amortisation	4,471,416.15	435,475.80	4,906,891.95
(2) Transferred from accumulated depreciation	3,148,463.22		3,148,463.22
(3) Transferred from accumulated amortization			
3. Decrease in the current period			
Transferred to fixed assets			
Transferred to intangible assets			
Decrease due to change of consolidation scope			
4. Balance at 31 May 2022	128,071,329.48	17,460,149.34	145,531,478.82
III. Impairment provision			
1. Balance at 1 January 2022			
2. Increase in the current period			
3. Decrease in the current period			
4. Balance at 31 May 2022			
IV. Book value			
1. Book value at 31 May 2022	153,999,663.70	33,032,063.46	187,031,727.16
2. Book value at 1 January 2022	157,148,844.16	33,467,539.26	190,616,383.42

Continued:

Item	Plant & buildings	Land use right	Total
I. Original book value			
1. Balance at 31 December 2020	275,909,633.48	47,726,204.47	323,635,837.95
2. Increase in the current period	2,763,551.87	2,766,008.33	5,529,560.20
(1) Transferred from fixed assets	2,763,551.87		2,763,551.87
(2) Transferred from intangible assets		2,766,008.33	2,766,008.33
3. Decrease in the current period	1,072,891.08		1,072,891.08
Transferred to fixed assets	1,072,891.08		1,072,891.08
Transferred to intangible assets			
Decrease due to change of consolidation scope			
4. Balance at 31 December 2021	277,600,294.27	50,492,212.80	328,092,507.07
II. Accumulated depreciation and accumulated amortization			
1. Balance at 31 December 2020	108,348,199.84	14,804,103.15	123,152,302.99
2. Increase in the current period	12,320,561.36	2,220,570.39	14,541,131.75
(1) Provision or amortisation	10,715,918.07	1,068,191.97	11,784,110.04
(2) Transferred from accumulated depreciation	1,604,643.29		1,604,643.29
(3) Transferred from accumulated amortization		1,152,378.42	1,152,378.42
3. Decrease in the current period	217,311.09		217,311.09
Transferred to fixed assets	217,311.09		217,311.09
Transferred to intangible assets			
Decrease due to change of consolidation scope			
4. Balance at 31 December 2021	120,451,450.11	17,024,673.54	137,476,123.65
III. Impairment provision			
1. Balance at 31 December 2020			
2. Increase in the current period			
3. Decrease in the current period			
4. Balance at 31 December 2021			
IV. Book value			
1. Book value at 31 December 2021	157,148,844.16	33,467,539.26	190,616,383.42
2. Book value at 31 December 2020	167,561,433.64	32,922,101.32	200,483,534.96

Continued:

Item	Plant & buildings	Land use right	Total
I. Original book value			
1. Balance at 31 December 2019	234,201,968.74	39,939,369.42	274,141,338.16
2. Increase in the current period	41,750,718.73	7,786,835.05	49,537,553.78
(1) Transferred from fixed assets	41,750,718.73		41,750,718.73
(2) Transferred from intangible assets		7,786,835.05	7,786,835.05
3. Decrease in the current period	43,053.99		43,053.99
Transferred to fixed assets	43,053.99		43,053.99
Transferred to intangible assets			
Decrease due to change of consolidation scope			
4. Balance at 31 December 2020	275,909,633.48	47,726,204.47	323,635,837.95
II. Accumulated depreciation and accumulated amortization			
1. Balance at 31 December 2019	73,664,813.99	12,448,034.68	86,112,848.67
2. Increase in the current period	34,695,340.21	2,356,068.47	37,051,408.68
(1) Provision or amortisation	10,211,938.82	928,326.69	11,140,265.51
(2) Transferred from accumulated depreciation	24,483,401.39		24,483,401.39
(3) Transferred from accumulated amortization		1,427,741.78	1,427,741.78
3. Decrease in the current period	11,954.36		11,954.36
Transferred to fixed assets	11,954.36		11,954.36
Transferred to intangible assets			
Decrease due to change of consolidation scope			
4. Closing balance	108,348,199.84	14,804,103.15	123,152,302.99
III. Impairment provision			
1. Balance at 31 December 2020			
2. Increase in the current period			
3. Decrease in the current period			
4. Balance at 31 December 2020			
IV. Book value			
1. Book value at 31 December 2020	167,561,433.64	32,922,101.32	200,483,534.96
2. Book value at 31 December 2019	160,537,154.75	27,491,334.74	188,028,489.49

Continued:

Item	Plant & buildings	Land use right	Total
I. Original book value			
1. Balance at 1 January 2019	217,645,810.38	48,359,361.83	266,005,172.21
2. Increase in the current period	31,701,888.23		31,701,888.23
(1) Transferred from fixed assets	31,701,888.23		31,701,888.23
(2) Transferred from intangible assets			
3. Decrease in the current period	15,145,729.87	8,419,992.41	23,565,722.28
Transferred to fixed assets	11,089,169.87		11,089,169.87
Transferred to intangible assets		8,039,822.78	8,039,822.78
Decrease due to change of consolidation scope	4,056,560.00	380,169.63	4,436,729.63
4. Balance at 31 December 2019	234,201,968.74	39,939,369.42	274,141,338.16
II. Accumulated depreciation and accumulated amortization			
1. Balance at 1 January 2019	68,623,101.55	12,869,509.33	81,492,610.88
2. Increase in the current period	10,453,793.23	1,057,789.56	11,511,582.79
(1) Provision or amortisation	8,325,621.21	1,057,789.56	9,383,410.77
(2) Transferred from accumulated depreciation	2,128,172.02		2,128,172.02
(3) Transferred from accumulated amortization			
3. Decrease in the current period	5,412,080.79	1,479,264.21	6,891,345.00
Transferred to fixed assets	2,918,109.67		2,918,109.67
Transferred to intangible assets		1,339,970.36	1,339,970.36
Decrease due to change of consolidation scope	2,493,971.12	139,293.85	2,633,264.97
4. Balance at 31 December 2019	73,664,813.99	12,448,034.68	86,112,848.67
III. Impairment provision			
1. Balance at 1 January 2019			
2. Increase in the current period			
3. Decrease in the current period			
4. Balance at 31 December 2019			
IV. Book value			
1. Book value at 31 December 2019	160,537,154.75	27,491,334.74	188,028,489.49
2. Book value at 1 January 2019	149,022,708.83	35,489,852.50	184,512,561.33

2. *Amounts and reasons for investment properties for which the certificate of title has not been obtained as of 31 May 2022*

Item	Book value	Reason for not completing the title certificate
Shaanxi Aero Electric Plant No. 1	32,934,146.05	In process
Sichuan Lingfeng (四川凌峰) Plant No. 1	6,666,055.54	In process
Total	39,600,201.59	–

Note 15. Fixed assets

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Fixed assets	5,711,630,186.79	5,821,753,193.06	5,281,011,572.46	5,119,866,511.82
Fixed assets in liquidation	172,151.73	151,626.77	9,964.43	
Total	5,711,802,338.52	5,821,904,819.83	5,281,021,536.89	5,119,866,511.82

Note: The fixed assets in the above table refer to fixed assets net of fixed assets liquidation.

(I) Fixed assets

1. *Details of fixed assets*

Item	Plant & buildings	Machinery equipment	Transportation vehicles	Electronic equipment	Office equipment	Others	Total
I. Original book value							
1. 31 December 2021	3,399,743,938.32	7,186,620,770.33	77,436,939.55	676,330,008.31	80,007,277.24	390,110,177.22	11,810,249,110.97
2. Increase in the current period	21,044,640.14	142,515,058.82	880,288.21	10,791,397.96	1,532,829.91	8,794,394.76	185,558,609.80
Purchase	391,315.53	48,644,840.99	880,288.21	8,078,152.83	1,525,307.79	6,692,331.96	66,212,237.31
Reclassification							
Transferred from construction in progress	20,653,324.61	93,566,235.87		2,671,324.25	7,522.12	2,092,325.91	118,990,732.76
Transferred from investment properties							
Translation differences of foreign currency statements		303,981.96		41,920.88		9,736.89	355,639.73
Donations received							
3. Decrease in the current period	17,945,969.96	20,738,194.33	1,739,428.42	10,740,698.69	210,962.23	4,697,858.45	56,073,112.08
Disposal or scrapping	1,920,319.86	20,738,194.33	1,739,428.42	10,740,698.69	210,962.23	4,697,858.45	40,047,461.98
Reclassification							
Transferred to investment properties	4,470,698.91						4,470,698.91
Disposal of subsidiaries							
Decrease due to change of consolidation scope							

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Item	Plant & buildings	Machinery equipment	Transportation vehicles	Electronic equipment	Office equipment	Others	Total
Fixed assets renovation expenses							
Audit reduction due to project settlement							
Transferred to construction in progress	6,796,297.47						6,796,297.47
Completion settlement adjustment	3,234,704.92						3,234,704.92
Asset input tax adjustment	1,523,948.80						1,523,948.80
Other decrease							
4. 31 May 2022	3,402,842,608.50	7,308,397,634.82	76,577,799.34	676,380,707.58	81,329,144.92	394,206,713.53	11,939,734,608.69
II. Accumulated depreciation							
1. 31 December 2021	1,058,265,430.52	4,038,597,348.84	57,102,070.96	490,394,684.24	40,447,737.51	277,114,171.33	5,961,921,443.40
2. Increase in the current period	47,939,670.70	185,906,922.78	1,618,536.27	26,169,745.04	4,400,033.78	13,303,155.72	279,338,064.29
Provision made in the current period	47,939,670.70	185,619,586.07	1,618,536.27	26,128,741.14	4,400,033.78	13,293,898.27	279,000,466.23
Reclassification							
Transferred from investment properties							
Translation differences of foreign currency statements		287,336.71		41,003.90		9,257.45	337,598.06
3. Decrease in the current period	9,203,889.44	14,008,661.89	1,655,161.27	9,891,027.30	202,691.36	4,367,664.25	39,329,095.51
Disposal or scrapping	1,091,592.79	14,008,661.89	1,655,161.27	9,891,027.30	202,691.36	4,367,664.25	31,216,798.86
Reclassification							
Transferred to investment properties	3,148,463.22						3,148,463.22
Transferred to construction in progress	4,963,833.43						4,963,833.43
Decrease due to change of consolidation scope							
Fixed assets renovation expenses							
Other decrease							
4. 31 May 2022	1,097,001,211.78	4,210,495,609.73	57,065,445.96	506,673,401.98	44,645,079.93	286,049,662.80	6,201,930,412.18
III. Impairment provision							
1. 31 December 2021	80,345.97	25,527,995.10		432,159.92	631.84	533,341.68	26,574,474.51
2. Increase in the current period							
Provision made in the current period							
Other increase							
3. Decrease in the current period				400,464.79			400,464.79
Disposal or scrapping				400,464.79			400,464.79
Other decrease							
4. 31 May 2022	80,345.97	25,527,995.10		31,695.13	631.84	533,341.68	26,174,009.72
IV. Book value							
1. 31 May 2022	2,305,761,050.75	3,072,374,029.99	19,512,353.38	169,675,610.47	36,683,433.15	107,623,709.05	5,711,630,186.79
2. 31 December 2021	2,341,398,161.83	3,122,495,426.39	20,334,868.59	185,503,164.15	39,558,907.89	112,462,664.21	5,821,753,193.06

Continued:

Item	Plant & buildings	Machinery equipment	Transportation vehicles	Electronic equipment	Office equipment	Others	Total
I. Original book value							
1. 31 December 2020	2,988,001,615.22	6,671,362,606.17	79,608,724.38	637,694,175.17	65,209,868.11	324,784,136.27	10,766,661,125.32
2. Increase in the current period	486,832,939.38	623,460,227.05	6,883,607.29	57,772,307.89	19,348,489.95	74,449,108.15	1,268,746,679.71
Purchase	9,242,687.33	123,236,717.45	6,883,607.29	32,061,581.89	11,579,810.24	73,320,178.88	256,324,583.08
Reclassification	670,552.45						670,552.45
Transferred from construction in progress	475,846,808.52	500,217,009.60		25,710,726.00	7,768,679.71	1,128,929.27	1,010,672,153.10
Transferred from investment properties	1,072,891.08						1,072,891.08
Translation differences of foreign currency statements							
Donations received		6,500.00					6,500.00
3. Decrease in the current period	75,090,616.28	108,202,062.89	9,055,392.12	19,136,474.75	4,551,080.82	9,123,067.20	225,158,694.06
Disposal or scrapping	51,747,043.60	106,057,881.66	9,055,392.12	16,907,930.42	4,551,080.82	9,123,067.20	197,442,395.82
Reclassification		670,552.45					670,552.45
Transferred to investment properties	2,763,551.87						2,763,551.87
Disposal of subsidiaries							
Decrease due to change of consolidation scope							
Fixed assets renovation expenses							
Audit reduction due to project settlement							
Transferred to construction in progress	20,580,020.81	1,473,628.78		2,228,544.33			24,282,193.92
Completion settlement adjustment							
Asset input tax adjustment							
Other decrease							
4. 31 December 2021	3,399,743,938.32	7,186,620,770.33	77,436,939.55	676,330,008.31	80,007,277.24	390,110,177.22	11,810,249,110.97
II. Accumulated depreciation							
1. 31 December 2020	991,422,739.99	3,691,161,031.85	61,404,194.79	451,554,183.37	35,019,354.72	231,340,458.21	5,461,901,962.93
2. Increase in the current period	111,731,809.92	442,649,563.17	4,418,120.69	53,161,693.31	9,383,771.84	50,627,872.85	671,972,831.78
Provision made in the current period	111,328,800.47	442,649,563.17	4,418,120.69	53,161,693.31	9,383,771.84	50,627,872.85	671,569,822.33
Reclassification	185,698.36						185,698.36
Transferred from investment properties	217,311.09						217,311.09
Translation differences of foreign currency statements							
3. Decrease in the current period	44,889,119.39	95,213,246.18	8,720,244.52	14,321,192.44	3,955,389.05	4,854,159.73	171,953,351.31
Disposal or scrapping	33,936,849.98	93,705,223.88	8,720,244.52	12,159,504.43	3,955,389.05	4,854,159.73	157,331,371.59
Reclassification		185,698.36					185,698.36
Transferred to investment properties	1,604,643.29						1,604,643.29
Transferred to construction in progress	9,347,626.12	1,322,323.94		2,161,688.01			12,831,638.07
Decrease due to change of consolidation scope							
Fixed assets renovation expenses							

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Item	Plant & buildings	Machinery equipment	Transportation vehicles	Electronic equipment	Office equipment	Others	Total
Other decrease							
4. 31 December 2021	1,058,265,430.52	4,038,597,348.84	57,102,070.96	490,394,684.24	40,447,737.51	277,114,171.33	5,961,921,443.40
III. Impairment provision							
1. 31 December 2020	80,345.97	22,692,820.21		418,886.65		555,537.10	23,747,589.93
2. Increase in the current period		2,835,174.89		13,273.27	631.84		2,849,080.00
Provision made in the current period		2,835,174.89		13,273.27	631.84		2,849,080.00
Other increase							
3. Decrease in the current period						22,195.42	22,195.42
Disposal or scrapping						22,195.42	22,195.42
Other decrease							
4. 31 December 2021	80,345.97	25,527,995.10		432,159.92	631.84	533,341.68	26,574,474.51
IV. Book value							
1. 31 December 2021	2,341,398,161.83	3,122,495,426.39	20,334,868.59	185,503,164.15	39,558,907.89	112,462,664.21	5,821,753,193.06
2. 31 December 2020	1,996,498,529.26	2,957,508,754.11	18,204,529.59	185,721,105.15	30,190,513.39	92,888,140.96	5,281,011,572.46

Continued:

Item	Plant & buildings	Machinery equipment	Transportation vehicles	Electronic equipment	Office equipment	Others	Total
I. Original book value							
1. 31 December 2019	2,784,990,227.67	6,316,144,907.08	83,025,078.23	596,407,338.11	54,304,182.22	308,375,854.50	10,143,247,587.81
2. Increase in the current period	291,718,985.79	436,909,908.91	6,700,857.23	65,490,283.71	15,081,438.86	21,941,005.11	837,842,479.61
Purchase	9,057,246.18	65,415,112.41	6,700,857.23	34,269,826.38	10,434,803.59	14,072,149.16	139,949,994.95
Reclassification							
Transferred from construction in progress	282,618,685.62	371,494,796.50		31,220,457.33	4,646,635.27	7,868,855.95	697,849,430.67
Transferred from investment properties	43,053.99						43,053.99
Translation differences of foreign currency statements							
Donations received							
3. Decrease in the current period	88,707,598.24	81,692,209.82	10,117,211.08	24,203,446.65	4,175,752.97	5,532,723.34	214,428,942.10
Disposal or scrapping	46,956,879.51	81,111,435.96	10,117,211.08	23,629,675.04	4,175,752.97	5,532,723.34	171,523,677.90
Reclassification							
Transferred to investment properties	41,750,718.73						41,750,718.73
Disposal of subsidiaries							
Decrease due to change of consolidation scope							
Fixed assets renovation expenses		580,773.86		573,771.61			1,154,545.47
Audit reduction due to project settlement							
Transferred to construction in progress							
Completion settlement adjustment							

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Item	Plant & buildings	Machinery equipment	Transportation vehicles	Electronic equipment	Office equipment	Others	Total
Asset input tax adjustment							
Other decrease							
4. 31 December 2020	2,988,001,615.22	6,671,362,606.17	79,608,724.38	637,694,175.17	65,209,868.11	324,784,136.27	10,766,661,125.32
II. Accumulated depreciation							
1. 31 December 2019	921,496,152.21	3,372,162,909.06	67,127,803.86	410,825,173.46	30,854,801.04	203,645,924.35	5,006,112,763.98
2. Increase in the current period	103,932,804.20	387,320,240.30	3,842,341.91	60,092,398.62	7,080,050.15	32,465,126.73	594,732,961.91
Provision made in the current period	103,920,849.84	387,320,240.30	3,842,341.91	60,092,398.62	7,080,050.15	32,465,126.73	594,721,007.55
Reclassification							
Transferred from investment properties	11,954.36						11,954.36
Translation differences of foreign currency statements							
3. Decrease in the current period	34,006,216.42	68,322,117.51	9,565,950.98	19,363,388.71	2,915,496.47	4,770,592.87	138,943,762.96
Disposal or scrapping	9,522,815.03	67,758,766.86	9,565,950.98	18,806,830.24	2,915,496.47	4,770,592.87	113,340,452.45
Reclassification							
Transferred to investment properties	24,483,401.39						24,483,401.39
Transferred to construction in progress							
Decrease due to change of consolidation scope							
Fixed assets renovation expenses		563,350.65		556,558.47			1,119,909.12
Other decrease							
4. 31 December 2020	991,422,739.99	3,691,161,031.85	61,404,194.79	451,554,183.37	35,019,354.72	231,340,458.21	5,461,901,962.93
III. Impairment provision							
1. 31 December 2019	80,345.97	16,235,737.71		418,886.65		533,341.68	17,268,312.01
2. Increase in the current period		6,690,101.00				22,195.42	6,712,296.42
Provision made in the current period		6,690,101.00				22,195.42	6,712,296.42
Other increase							
3. Decrease in the current period		233,018.50					233,018.50
Disposal or scrapping		233,018.50					233,018.50
Other decrease							
4. 31 December 2020	80,345.97	22,692,820.21		418,886.65		555,537.10	23,747,589.93
IV. Book value							
1. 31 December 2020	1,996,498,529.26	2,957,508,754.11	18,204,529.59	185,721,105.15	30,190,513.39	92,888,140.96	5,281,011,572.46
2. 31 December 2019	1,863,413,729.49	2,927,746,260.31	15,897,274.37	185,163,278.00	23,449,381.18	104,196,588.47	5,119,866,511.82

Continued:

Item	Plant & buildings	Machinery equipment	Transportation vehicles	Electronic equipment	Office equipment	Others	Total
I. Original book value							
1. 1 January 2019	3,075,409,634.28	6,027,508,491.54	92,134,879.48	613,341,472.95	56,520,451.76	270,623,691.94	10,135,538,621.95
2. Increase in the current period	119,840,315.35	714,650,929.76	2,975,401.51	68,505,311.25	12,991,538.33	38,883,788.88	957,847,285.08
Purchase	9,592,764.45	345,576,928.59	2,975,401.51	22,774,487.38	9,700,338.33	26,718,491.38	417,338,411.64
Reclassification							
Transferred from construction in progress	99,158,381.03	369,074,001.17		45,730,823.87	3,291,200.00	12,165,297.50	529,419,703.57
Transferred from investment properties	11,089,169.87						11,089,169.87
Translation differences of foreign currency statements							
Donations received							
3. Decrease in the current period	410,259,721.96	426,014,514.22	12,085,202.76	85,439,446.09	15,207,807.87	1,131,626.32	950,138,319.22
Disposal or scrapping	1,054,254.96	38,988,460.79	5,992,793.34	3,266,264.92	689,637.38	989,126.32	50,980,537.71
Reclassification							
Transferred to investment properties	31,701,888.23						31,701,888.23
Disposal of subsidiaries							
Decrease due to change of consolidation scope	377,065,363.16	381,888,853.43	6,092,409.42	82,173,181.17	14,518,170.49		861,737,977.67
Fixed assets renovation expenses		5,137,200.00				142,500.00	5,279,700.00
Audit reduction due to project settlement	438,215.61						438,215.61
Transferred to construction in progress							
Completion settlement adjustment							
Asset input tax adjustment							
Other decrease							
4. 31 December 2019	2,784,990,227.67	6,316,144,907.08	83,025,078.23	596,407,338.11	54,304,182.22	308,375,854.50	10,143,247,587.81
II. Accumulated depreciation							
1. 1 January 2019	870,650,591.24	3,192,908,286.05	73,256,134.06	423,189,912.55	36,541,590.77	164,911,129.77	4,761,457,644.44
2. Increase in the current period	110,799,633.02	383,934,947.39	5,173,509.85	55,130,363.75	7,594,523.59	39,639,540.36	602,272,517.96
Provision made in the current period	107,881,523.35	382,420,720.81	5,173,509.85	55,130,363.75	7,594,523.59	39,639,540.36	597,840,181.71
Reclassification							
Transferred from investment properties	2,918,109.67						2,918,109.67
Translation differences of foreign currency statements							
3. Decrease in the current period	59,954,072.05	203,166,097.80	11,301,840.05	67,495,102.84	13,281,313.32	904,745.78	356,103,171.84
Disposal or scrapping	958,859.78	30,820,243.07	5,741,415.01	3,098,668.37	655,645.53	904,745.78	42,179,577.54
Reclassification							
Transferred to investment properties	2,128,172.02						2,128,172.02
Transferred to construction in progress							
Decrease due to change of consolidation scope	56,867,040.25	168,480,416.73	5,560,425.04	64,396,434.47	12,625,667.79		307,929,984.28
Fixed assets renovation expenses		3,865,438.00					3,865,438.00

Item	Plant & buildings	Machinery equipment	Transportation vehicles	Electronic equipment	Office equipment	Others	Total
Other decrease							
4. 31 December 2019	921,496,152.21	3,372,162,909.06	67,127,803.86	410,825,173.46	30,854,801.04	203,645,924.35	5,006,112,763.98
III. Impairment provision							
1. 1 January 2019	80,345.97	16,235,737.71		418,886.65		533,341.68	17,268,312.01
2. Increase in the current period							
Provision made in the current period							
Other increase							
3. Decrease in the current period							
Disposal or scrapping							
Other decrease							
4. 31 December 2019	80,345.97	16,235,737.71		418,886.65		533,341.68	17,268,312.01
IV. Book value							
1. 31 December 2019	1,863,413,729.49	2,927,746,260.31	15,897,274.37	185,163,278.00	23,449,381.18	104,196,588.47	5,119,866,511.82
2. 1 January 2019	2,204,678,697.07	2,818,364,467.78	18,878,745.42	189,732,673.75	19,978,860.99	105,179,220.49	5,356,812,665.50

2. *Temporarily idle fixed assets at 31 May 2022*

No.

3. *Fixed assets leased out through operating leases*

Category	Book value at 31 May 2022	Book value at 31 December 2021	Book value at 31 December 2020	Book value at 31 December 2019
Plant & buildings	8,892,612.68	11,908,660.83	671,601.97	16,047,821.32
Machinery equipment	11,919,695.64	12,780,203.45	1,188,073.36	17,412,420.13
Total	20,812,308.32	24,688,864.28	1,859,675.33	33,460,241.45

4. *Fixed assets for which the certificate of title has not been obtained as of 31 May 2022*

Item	Book value	Reason for not completing the title certificate
New surface treatment plant of Sichuan Lingfeng	19,906,605.31	In process
Sichuan Lingfeng No. 6 Assembly Experimental Plant	30,494,892.81	In process
Total	50,401,498.12	

(II) Fixed assets in liquidation

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Machinery equipment	94,927.86	83,605.74	9,123.93	
Electronic equipment	62,034.94	60,107.51		
Office equipment	11,487.50	7,913.52	840.50	
Others	3,701.43			
Total	172,151.73	151,626.77	9,964.43	

Note 16. Construction in progress

Items	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Construction in progress	1,145,911,490.32	1,166,502,171.18	1,821,403,091.14	1,938,692,522.47
Less: Impairment provision	2,022,138.49	2,022,138.49		
Total	1,143,889,351.83	1,164,480,032.69	1,821,403,091.14	1,938,692,522.47

(I) Construction in progress**1. Construction in progress**

Item	31 May 2022		
	Book balance	Impairment provision	Book value
XX Project 1	176,616,192.01		176,616,192.01
J025	99,154,977.17		99,154,977.17
Systematic platform construction project	82,998,708.61		82,998,708.61
Self-financing projects for independent technological reform	66,236,020.51		66,236,020.51
R&D platform project	41,604,577.76		41,604,577.76
XX Project 3	29,941,005.31		29,941,005.31
Others	649,360,008.95	2,022,138.49	647,337,870.46
Total	1,145,911,490.32	2,022,138.49	1,143,889,351.83

Continued:

Item	31 December 2021		
	Book balance	Impairment provision	Book value
XX Project 1	159,354,553.19		159,354,553.19
J025	96,971,164.72		96,971,164.72
Systematic platform construction project	78,546,018.91		78,546,018.91
Self-financing projects for independent technological reform	69,728,524.32		69,728,524.32
Construction project of overall relocation of AVIC Fenglei to Anshun Aviation Industrial Park (Phase I)	49,057,430.25		49,057,430.25
R&D platform project	39,233,928.76		39,233,928.76
XX project of Thirteenth Five-Year Plan	21,007,843.00		21,007,843.00
XX Project 3	26,760,170.04		26,760,170.04
Special project for X aircraft	16,216,537.72		16,216,537.72
Others	609,626,000.27	2,022,138.49	607,603,861.78
Total	1,166,502,171.18	2,022,138.49	1,164,480,032.69

Continued:

Item	31 December 2020		
	Book balance	Impairment provision	Book value
Aviation suspension launch system industrialization project	182,484,842.38		182,484,842.38
XX Project 1	132,034,907.30		132,034,907.30
Project 403	117,217,918.30		117,217,918.30
XX Project 2	113,565,174.44		113,565,174.44
"4.20" post-disaster relocation and reconstruction project	81,309,153.87		81,309,153.87
J025	73,451,584.87		73,451,584.87
Systematic platform construction project	71,912,228.17		71,912,228.17
Shantytown renovation project	62,951,577.00		62,951,577.00
Subcontracting phase II technical improvement project	44,829,881.37		44,829,881.37
XX Project 3	25,918,425.56		25,918,425.56
Project on improvement of production and maintenance capacity for aviation hydraulic actuators	25,262,920.87		25,262,920.87
XXXX R&D condition construction project	15,523,564.22		15,523,564.22
Others	874,940,912.79		874,940,912.79
Total	1,821,403,091.14		1,821,403,091.14

Continued:

Item	31 December 2019		
	Book balance	Impairment provision	Book value
"4.20" post-disaster relocation and reconstruction project	199,192,268.71		199,192,268.71
Aviation suspension launch system industrialization project	148,022,815.69		148,022,815.69
XX Project 1	117,956,886.81		117,956,886.81
XX Project 2	91,339,156.47		91,339,156.47
Project 403	85,799,298.53		85,799,298.53
J025	63,445,994.25		63,445,994.25
Shantytown renovation project	62,951,577.00		62,951,577.00
XX Project 3	53,298,911.26		53,298,911.26
Subcontracting phase II technical improvement project	45,111,685.57		45,111,685.57
Systematic platform construction project	41,633,585.09		41,633,585.09
XXXX R&D condition construction project	40,339,095.58		40,339,095.58
Project on improvement of production and maintenance capacity for aviation hydraulic actuators	22,897,689.95		22,897,689.95
Aviation products production capacity enhancement construction project	16,172,800.42		16,172,800.42
XX Project 4	11,799,499.89		11,799,499.89
Others	938,731,257.25		938,731,257.25
Total	1,938,692,522.47		1,938,692,522.47

2. *Changes of major construction in progress during the reporting period*

Project name	31 December 2021	Increase in the current period	Transferred to	Other decrease	31 May 2022
			fixed assets in the current period	in the current period	
XX Project 1	159,354,553.19	17,261,638.82			176,616,192.01
J025	96,971,164.72	2,183,812.45			99,154,977.17
Systematic platform construction project	78,546,018.91	4,452,689.70			82,998,708.61
Self-financing projects for independent technological reform	69,728,524.32	9,442,757.86	12,935,261.67		66,236,020.51
Construction project of overall relocation of AVIC Fenglei to Anshun Aviation Industrial Park (Phase I)	49,057,430.25	315,613.79	46,805,493.02	392,743.38	2,174,807.64
R&D platform project	39,233,928.76	2,370,649.00			41,604,577.76

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Project name	31 December 2021	Increase in the current period	Transferred to fixed assets in the current period	Other decrease in the current period	31 May 2022
XX Project 3	26,760,170.04	11,861,740.96	7,573,298.54	1,107,607.15	29,941,005.31
Total	519,651,790.19	47,888,902.58	67,314,053.23	1,500,350.53	498,726,289.01

Continued:

Project name	Budget (RMB0'000)	Investment in the project as a percentage of the budget (%)	Project progress (%)	Accumulated amount of interest capitalized	Including: capitalized amount of interest for the current period	Interest capitalization rate for the current period (%)	Sources of funds
XX Project 1	27,440.00	69.72	64.00				Capital appropriated from the national treasury and self- owned funds
J025	11,670.00	91.30	93.60				Capital appropriated from the national treasury and self- owned funds
Systematic platform construction project	16,380.00	82.00	82.00				Capital appropriated from the national treasury and self- owned funds
Self-financing projects for independent technological reform	2,800.00	98.00	98.00				Self-owned funds
Construction project of overall relocation of AVIC Fenglei to Anshun Aviation Industrial Park (Phase I)	5,800.00	93.00	93.00				Self-owned funds
R&D platform project	17,875.00	78.43	78.43	1,767,249.72		4.09	Capital appropriated from the national treasury and borrowings

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Project name	Budget (RMB0'000)	Investment in the project as a percentage of the budget (%)	Project progress (%)	Accumulated amount of interest capitalized	Including: capitalized amount of interest for the current period	Interest capitalization rate for the current period (%)	Sources of funds
XX Project 3	29,475.00	95.00	92.00	14,295,442.84	374,347.01	6.25	Capital appropriated from the national treasury and borrowings
Total	111,440.00	-	-	16,062,692.56	374,347.01	-	

Continued:

Project name	31 December 2020	Increase in the current period	Transferred to fixed assets in the current period	Other decrease in the current period	31 December 2021
XX Project 1	132,034,907.30	27,319,645.89			159,354,553.19
J025	73,451,584.87	23,519,579.85			96,971,164.72
Systematic platform construction project	71,912,228.17	23,541,126.86	7,706,336.12	9,201,000.00	78,546,018.91
Self-financing projects for independent technological reform	49,754,854.74	108,630,307.72	88,656,638.14		69,728,524.32
Construction project of overall relocation of AVIC Fenglei to Anshun Aviation Industrial Park (Phase I)	15,946,524.75	39,507,906.91	6,397,001.41		49,057,430.25
R&D platform project	27,676,572.65	11,557,356.11			39,233,928.76
XX project of Thirteenth Five-Year Plan	10,835,624.95	17,034,758.28	6,862,540.23		21,007,843.00
XX Project 3	25,918,425.56	14,465,049.42	13,623,304.94		26,760,170.04
Special project for X aircraft		16,216,537.72			16,216,537.72
XXXX R&D condition construction project	15,523,564.22	3,318,232.64	12,700,931.87	16,470.18	6,124,394.81
Project 403	117,217,918.30	17,335,978.01	134,217,750.79		336,145.52
Aviation suspension launch system industrialization project	182,484,842.38	32,171,763.97	203,922,232.66	10,734,373.69	
"4.20" post-disaster relocation and reconstruction project	81,309,153.87		72,005,458.25	9,303,695.62	
Project on improvement of production and maintenance capacity for aviation hydraulic actuators	25,262,920.87	59,130,400.30	63,936,321.17	20,457,000.00	
Total	829,329,122.63	393,748,643.68	610,028,515.58	49,712,539.49	563,336,711.24

Continued:

Project name	Budget (RMB0'000)	Investment in the project as a percentage of the budget (%)	Project progress (%)	Accumulated amount of interest capitalized	Including: capitalized amount of interest for the current period	Interest capitalization rate for the current period (%)	Sources of funds
XX Project 1	27,440.00	60.00	60.00				Capital appropriated from the national treasury and self- owned funds
J025	11,670.00	85.00	85.00				Capital appropriated from the national treasury and self- owned funds
Systematic platform construction project	16,380.00	81.00	81.00				Capital appropriated from the national treasury and self- owned funds
Self-financing projects for independent technological reform	2,800.00	97.00	97.00				Self-owned funds
Construction project of overall relocation of AVIC Fenglei to Anshun Aviation Industrial Park (Phase I)	5,800.00	84.58	84.58				Self-owned funds
R&D platform project	17,875.00	77.09	77.09	1,767,249.72	175,246.51	4.09	Capital appropriated from the national treasury and borrowings
XX project of Thirteenth Five- Year Plan	7,417.50	28.00	28.00				Capital appropriated from the national treasury and self- owned funds
XX Project 3	29,475.00	92.00	90.00	13,921,095.83	1,210,201.78	6.25	Capital appropriated from the national treasury and borrowings

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Project name	Budget (RMB0'000)	Investment in the project as a percentage of the budget (%)	Project progress (%)	Accumulated amount of interest capitalized	Including: capitalized amount of interest for the current period	Interest capitalization rate for the current period (%)	Sources of funds
Special project for X aircraft	2,339.50	10.00	10.00				Capital appropriated from the national treasury and self- owned funds
XXXX R&D condition construction project	13,190.00	89.00	85.00				Capital appropriated from the national treasury and self- owned funds
Project 403	35,000.00	97.00	98.00				Capital appropriated from the national treasury and self- owned funds
Aviation suspension launch system industrialization project	25,000.00	100.00	100.00	18,707,677.43			Capital appropriated from the national treasury and borrowings
"4.20" post-disaster relocation and reconstruction project	33,000.00	100.00	100.00				Self-owned funds
Project on improvement of production and maintenance capacity for aviation hydraulic actuators	10,120.00	100.00	100.00	7,650,194.26			Self-owned funds and borrowings
Total	237,507.00	-	-	42,046,217.24	1,385,448.29	-	

Continued:

Project name	31 December 2019	Increase in the current period	Transferred to fixed assets in the current period	Other decrease in the current period	31 December 2020
Aviation suspension launch system industrialization project	141,802,286.03	65,816,378.91	25,133,822.56		182,484,842.38
XX Project 1	117,956,886.81	14,078,020.49			132,034,907.30
Project 403	85,799,298.53	31,418,619.77			117,217,918.30

Project name	31 December 2019	Increase in the current period	Transferred to		31 December 2020
			fixed assets in the current period	Other decrease in the current period	
XX Project 2	91,339,156.47	22,226,017.97			113,565,174.44
"4.20" post-disaster relocation and reconstruction project	199,192,268.71	72,196,592.72	172,721,229.32	17,358,478.24	81,309,153.87
J025	63,445,994.25	10,005,590.62			73,451,584.87
Systematic platform construction project	41,633,585.09	30,278,643.08			71,912,228.17
Shantytown renovation project	62,951,577.00				62,951,577.00
Subcontracting phase II technical improvement project	45,111,685.57	2,399,539.49	2,601,806.64	79,537.05	44,829,881.37
XX Project 3	53,298,911.26	2,360,200.62	29,590,686.32	150,000.00	25,918,425.56
Project on improvement of production and maintenance capacity for aviation hydraulic actuators	22,897,689.95	20,054,817.38	17,689,586.46		25,262,920.87
XXXX R&D condition construction project	40,339,095.58	7,350,000.00	19,358,176.53	12,807,354.83	15,523,564.22
Aviation products production capacity enhancement construction project	16,172,800.42	4,550,282.54	14,495,729.54		6,227,353.42
XX Project 4	11,799,499.89		8,699,355.99		3,100,143.90
Total	993,740,735.56	282,734,703.59	290,290,393.36	30,395,370.12	955,789,675.67

Continued:

Project name	Budget (RMB0'000)	Investment in the project as a percentage of the budget (%)	Project progress (%)	Accumulated amount of interest capitalized	Including: capitalized amount of interest for the current period	Interest capitalization rate for the current period (%)	Sources of funds
Aviation suspension launch system industrialization project	25,000.00	76.02	76.02	18,707,677.43	2,591,838.86	4.63	Capital appropriated from the national treasury and borrowings
XX Project 1	27,440.00	52.34	52.34				Capital appropriated from the national treasury and self- owned funds
Project 403	35,000.00	97.00	98.00				Self-owned funds
XX Project 2	11,487.19	98.86	98.86				Capital appropriated from the national treasury and self- owned funds

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Project name	Budget (RMB0'000)	Investment in the project as a percentage of the budget (%)	Project progress (%)	Accumulated amount of interest capitalized	Including: capitalized amount of interest for the current period	Interest capitalization rate for the current period (%)	Sources of funds
"4.20" post-disaster relocation and reconstruction project	33,000.00	83.00	98.00				Self-owned funds
J025	11,670.00	70.55	70.55				Capital appropriated from the national treasury and self-owned funds
Systematic platform construction project	16,380.00	43.71	43.71				Capital appropriated from the national treasury and self-owned funds
Shantytown renovation project	34,209.00	94.00	94.00	990,583.33			Self-owned funds and borrowings
Subcontracting phase II technical improvement project	60,000.00	95.00	93.00	158,550,327.76			Capital appropriated from the national treasury and borrowings
XX Project 3	29,475.00	89.00	86.00	12,710,894.05	1,401,383.67	6.25	Capital appropriated from the national treasury and borrowings
Project on improvement of production and maintenance capacity for aviation hydraulic actuators	10,120.00	64.00	60.00	7,650,194.26	2,409,498.72	4.63	Self-owned funds and borrowings
XXXX R&D condition construction project	13,190.00	68.00	62.00				Capital appropriated from the national treasury and self-owned funds
Aviation products production capacity enhancement construction project	8,000.00	37.95	37.95	6,121,803.80	1,927,598.97	4.63	Self-owned funds and borrowings
XX Project 4	2,000.00	80.00	80.00				Self-owned funds
Total	328,603.36	-	-	209,250,086.86	9,872,399.40	-	-

Continued:

Project name	1 January 2019	Increase in the current period	Transferred to		31 December 2019
			fixed assets in the current period	Other decrease in the current period	
"4.20" post-disaster relocation and reconstruction project	172,955,291.67	26,236,977.04			199,192,268.71
Aviation suspension launch system industrialization project	90,690,476.17	57,332,339.52			148,022,815.69
XX Project 1	110,087,184.43	30,569,155.60	22,159,453.22	540,000.00	117,956,886.81
XX Project 2	75,185,090.40	16,154,066.07			91,339,156.47
Project 403	76,186,694.22	9,612,604.31			85,799,298.53
J025	48,776,711.73	28,528,382.52	12,589,100.00	1,270,000.00	63,445,994.25
Shantytown renovation project	58,360,000.00	4,591,577.00			62,951,577.00
XX Project 3	56,308,248.24	8,571,983.61	11,581,320.59		53,298,911.26
Subcontracting phase II technical improvement project	50,682,370.55	19,663,877.73	6,288,443.87	18,946,118.84	45,111,685.57
Systematic platform construction project	51,040,129.09	12,576,646.00	5,522,000.00	16,461,190.00	41,633,585.09
XXXX R&D condition construction project	57,815,424.16	29,550,000.00	47,026,328.58		40,339,095.58
Project on improvement of production and maintenance capacity for aviation hydraulic actuators	8,197,040.97	14,700,648.98			22,897,689.95
Aviation products production capacity enhancement construction project	5,397,399.25	19,101,197.72	8,325,796.55		16,172,800.42
XX Project 4	11,678,625.19	429,002.56	308,127.86		11,799,499.89
Total	873,360,686.07	277,618,458.66	113,800,570.67	37,217,308.84	999,961,265.22

Continued:

Project name	Budget (RMB0'000)	Investment in the project as a percentage of the budget (%)	Project progress (%)	Accumulated amount of interest capitalized	Including: capitalized amount of interest for the current period	Interest capitalization rate for the current period (%)	Sources of funds
"4.20" post-disaster relocation and reconstruction project	33,000.00	60.36	95.00				Self-owned funds
Aviation suspension launch system industrialization project	22,203.00	54.56	54.56	13,101,738.86	9,807,953.93	4.63	Self-owned funds, capital appropriated from the national treasury and borrowings
XX Project 1	27,440.00	51.26	42.99				Capital appropriated from the national treasury and self- owned funds

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Project name	Budget (RMB0'000)	Investment in the project as a percentage of the budget (%)	Project progress (%)	Accumulated amount of interest capitalized	Including: capitalized amount of interest for the current period	Interest capitalization rate for the current period (%)	Sources of funds
XX Project 2	23,846.48	38.30	21.69				Capital appropriated from the national treasury and self- owned funds
Project 403	10,000.00	99.00	98.00				Self-owned funds
J025	11,670.00	66.24	54.37				Capital appropriated from the national treasury and self- owned funds
Shantytown renovation project	34,209.00	92.00	92.00	990,583.33	457,000.00	1.50	Self-owned funds and borrowings
XX Project 3	29,475.00	88.00	85.00	10,488,101.60	2,368,986.67	6.25	Capital appropriated from the national treasury and borrowings
Subcontracting phase II technical improvement project	60,000.00	93.00	90.00	158,550,327.76	7,908,333.33	6.25	Capital appropriated from the national treasury and borrowings
Systematic platform construction project	16,380.00	43.71	43.71				Capital appropriated from the national treasury and self- owned funds
XXXX R&D condition construction project	13,190.00	66.00	60.00				Capital appropriated from the national treasury and self- owned funds
Project on improvement of production and maintenance capacity for aviation hydraulic actuators	10,120.00	29.40	30.00	5,240,695.54	3,923,181.57	4.63	Self-owned funds and borrowings

Project name	Budget (RMB0'000)	Investment in the project as a percentage of the budget (%)	Project progress (%)	Accumulated amount of interest capitalized	Including: capitalized amount of interest for the current period	Interest capitalization rate for the current period (%)	Sources of funds
Aviation products production capacity enhancement construction project	8,000.00	37.95	37.95	4,194,204.83	3,140,193.65	4.63	Self-owned funds and borrowings
XX Project 4	2,000.00	76.00	76.00				Self-owned funds
Total	301,533.48	-	-	192,565,651.92	27,605,649.15	-	-

3. *Impairment provision of construction in progress*

Project name	Balance at 1 January 2021		Decrease	Balance at 31 December 2021		January to May 2022		Balance at 31 May 2022	Reason for provision
	Increase	Increase		Increase	Increase	Increase	Increase		
Modification for Magna's production line of the fifth- generation recliner assy		2,022,138.49		2,022,138.49				2,022,138.49	Project cancellation
Total		2,022,138.49		2,022,138.49				2,022,138.49	

Note: During the reporting period, there is no impairment provision for construction in progress before January 1, 2021.

Note 17. Right-of-use asset

Item	Land use right	Plant & buildings	Machinery equipment	Transportation equipment	Others	Total
I. Original book value						
1. Balance at 31 December 2021	1,351,330.33	99,968,856.62	26,866,882.93	1,302,810.03	200,348.96	129,690,228.87
2. Increase in the current period						
New lease						
Translation differences of foreign currency statements						
3. Decrease in the current period						
Translation differences of foreign currency statements						
4. Balance at 31 May 2022	1,351,330.33	99,968,856.62	26,866,882.93	1,302,810.03	200,348.96	129,690,228.87
II. Accumulated depreciation						
1. Balance at 31 December 2021	810,798.21	34,303,176.90	10,941,523.46	868,540.02	50,087.24	46,974,125.83
2. Increase in the current period						
Provision	112,610.86	6,694,754.41	1,517,326.00	180,945.84	27,826.24	8,533,463.35
Translation differences of foreign currency statements	112,610.86	6,689,754.19	1,517,326.00	180,945.84	27,826.24	8,528,463.13
Translation differences of foreign currency statements		5,000.22				5,000.22
3. Decrease in the current period						
4. Balance at 31 May 2022	923,409.07	40,997,931.31	12,458,849.46	1,049,485.86	77,913.48	55,507,589.18
III. Impairment provision						
1. Balance at 31 December 2021						
2. Increase in the current period						
3. Decrease in the current period						
4. Balance at 31 May 2022						
IV. Book value						
1. Book value at 31 May 2022	427,921.26	58,970,925.31	14,408,033.47	253,324.17	122,435.48	74,182,639.69
2. Book value at 31 December 2021	540,532.12	65,665,679.72	15,925,359.47	434,270.01	150,261.72	82,716,103.04

Continued:

Item	Land use right	Plant & buildings	Machinery equipment	Transportation equipment	Others	Total
I. Original book value						
1. Balance at 31 December 2020	1,351,330.33	71,500,239.44	21,015,909.68	1,302,810.03		95,170,289.48
2. Increase in the current period		28,468,617.18	5,850,973.25		200,348.96	34,519,939.39
New lease		28,468,617.18	5,850,973.25		200,348.96	34,519,939.39
Translation differences of foreign currency statements						
3. Decrease in the current period						
Translation differences of foreign currency statements						
4. Balance at 31 December 2021	1,351,330.33	99,968,856.62	26,866,882.93	1,302,810.03	200,348.96	129,690,228.87
II. Accumulated depreciation						
1. Balance at 31 December 2020	540,532.14	19,586,178.89	7,573,832.02	434,270.01		28,134,813.06
2. Increase in the current period	270,266.07	14,716,998.01	3,367,691.44	434,270.01	50,087.24	18,839,312.77
Provision	270,266.07	14,707,711.20	3,367,691.44	434,270.01	50,087.24	18,830,025.96
Translation differences of foreign currency statements		9,286.81				9,286.81
3. Decrease in the current period						
4. Balance at 31 December 2021	810,798.21	34,303,176.90	10,941,523.46	868,540.02	50,087.24	46,974,125.83
III. Impairment provision						
1. Balance at 31 December 2020						
2. Increase in the current period						
3. Decrease in the current period						
4. Balance at 31 December 2021						
IV. Book value						
1. Book value at 31 December 2021	540,532.12	65,665,679.72	15,925,359.47	434,270.01	150,261.72	82,716,103.04
2. Book value at 31 December 2020	810,798.19	51,914,060.55	13,442,077.66	868,540.02		67,035,476.42

Continued:

Item	Land use right	Plant & buildings	Machinery equipment	Transportation equipment	Others	Total
I. Original book value						
1. Balance at 31 December 2019	1,351,330.33	60,623,025.52	21,015,909.68			82,990,265.53
2. Increase in the current period		10,877,213.92		1,302,810.03		12,180,023.95
New lease		10,877,213.92		1,302,810.03		12,180,023.95
Translation differences of foreign currency statements						
3. Decrease in the current period						
Translation differences of foreign currency statements						
4. Balance at 31 December 2020	1,351,330.33	71,500,239.44	21,015,909.68	1,302,810.03		95,170,289.48
II. Accumulated depreciation						
1. Balance at 31 December 2019	270,266.07	9,061,831.54	6,310,595.40			15,642,693.01
2. Increase in the current period	270,266.07	10,524,347.35	1,263,236.62	434,270.01		12,492,120.05
Provision	270,266.07	10,520,954.81	1,263,236.62	434,270.01		12,488,727.51
Translation differences of foreign currency statements		3,392.54				3,392.54
3. Decrease in the current period						
4. Balance at 31 December 2020	540,532.14	19,586,178.89	7,573,832.02	434,270.01		28,134,813.06
III. Impairment provision						
1. Balance at 31 December 2019						
2. Increase in the current period						
3. Decrease in the current period						
4. Balance at 31 December 2020						
IV. Book value						
1. Book value at 31 December 2020	810,798.19	51,914,060.55	13,442,077.66	868,540.02		67,035,476.42
2. Book value at 31 December 2019	1,081,064.26	51,561,193.98	14,705,314.28			67,347,572.52

Continued:

Item	Land use right	Plant & buildings	Machinery equipment	Transportation equipment	Others	Total
I. Original book value						
1. Balance at 1 January 2019	1,351,330.33	56,073,691.51	21,015,909.68			78,440,931.52
2. Increase in the current period		4,549,334.01				4,549,334.01
New lease		4,549,334.01				4,549,334.01
Translation differences of foreign currency statements						
3. Decrease in the current period						
Translation differences of foreign currency statements						
4. Balance at 31 December 2019	1,351,330.33	60,623,025.52	21,015,909.68			82,990,265.53
II. Accumulated depreciation						
1. Balance at 1 January 2019			4,542,678.86			4,542,678.86
2. Increase in the current period	270,266.07	9,061,831.54	1,767,916.54			11,100,014.15
Provision	270,266.07	9,057,619.04	1,767,916.54			11,095,801.65
Translation differences of foreign currency statements		4,212.50				4,212.50
3. Decrease in the current period						
4. Balance at 31 December 2019	270,266.07	9,061,831.54	6,310,595.40			15,642,693.01
III. Impairment provision						
1. Balance at 1 January 2019						
2. Increase in the current period						
3. Decrease in the current period						
4. Balance at 31 December 2019						
IV. Book value						
1. Book value at 31 December 2019	1,081,064.26	51,561,193.98	14,705,314.28			67,347,572.52
2. Book value at 1 January 2019 at 1 January 2019	1,351,330.33	56,073,691.51	16,473,230.82			73,898,252.66

Note 18. Intangible assets**1. Intangible assets**

Item	Land use right	Software	Patent right	Non-patented technology	Trademark right	Customer relationship	Total
I. Original book value							
1. Balance at 31 December 2021	1,113,681,769.75	592,195,778.24	79,001,307.54	13,905,459.09	269,080.00	25,320,500.00	1,824,373,894.62
2. Increase during the current period		5,841,386.58					5,841,386.58
(1) Purchase		1,656,388.32					1,656,388.32
(2) Transferred from investment properties							
(3) Transferred from construction in progress		4,120,709.03					4,120,709.03
(4) Translation difference of foreign currency financial statements		64,289.23					64,289.23
3. Decrease during the current period	2,385,934.63	638,071.37					3,024,006.00
(1) Disposal							
(2) Transferred to investment properties							
(3) Transferred to construction in progress							
(4) Decrease due to change of consolidation scope							
(5) Completion settlement adjustment	2,385,934.63	638,071.37					3,024,006.00
4. Balance at 31 May 2022	1,111,295,835.12	597,399,093.45	79,001,307.54	13,905,459.09	269,080.00	25,320,500.00	1,827,191,275.20
II. Accumulated amortization							
1. Balance at 31 December 2021	313,823,945.32	326,645,079.70	43,027,649.84	13,905,459.09	194,219.87	10,550,208.49	708,146,562.31
2. Increase during the current period	9,188,056.25	26,776,582.56	3,075,893.20		7,923.38	1,055,020.85	40,103,476.24
(1) Provision	9,188,056.25	26,716,284.97	3,075,893.20		7,923.38	1,055,020.85	40,043,178.65
(2) Transferred from investment properties							
(3) Translation difference of foreign currency financial statements		60,297.59					60,297.59
3. Decrease during the current period							
(1) Disposal							
(2) Transferred to investment properties							
(3) Transferred to construction in progress							
(4) Decrease due to change of consolidation scope							
4. Balance at 31 May 2022	323,012,001.57	353,421,662.26	46,103,543.04	13,905,459.09	202,143.25	11,605,229.34	748,250,038.55

Item	Land use right	Software	Patent right	Non-patented technology	Trademark right	Customer relationship	Total
III. Impairment provision							
1. Balance at 31 December 2021							
2. Increase during the current period							
3. Decrease during the current period							
4. Balance at 31 May 2022							
IV. Book value							
(1) Balance at 31 May 2022	788,283,833.55	243,977,431.19	32,897,764.50		66,936.75	13,715,270.66	1,078,941,236.65
(2) Balance at 31 December 2021	799,857,824.43	265,550,698.54	35,973,657.70		74,860.13	14,770,291.51	1,116,227,332.31

Continued:

Item	Land use right	Software	Patent right	Non-patented technology	Trademark right	Customer relationship	Total
I. Original book value							
1. Balance at 31 December 2020	1,114,887,921.69	474,130,900.39	83,914,164.70	13,905,459.09	269,080.00	25,320,500.00	1,712,428,025.87
2. Increase during the current period	2,385,934.63	119,225,628.23	30,000.00				121,641,562.86
(1) Purchase	2,385,934.63	58,817,539.05	30,000.00				61,233,473.68
(2) Transferred from investment properties							
(3) Transferred from construction in progress		60,408,089.18					60,408,089.18
(4) Translation difference of foreign currency financial statements							
3. Decrease during the current period	3,592,086.57	1,160,750.38	4,942,857.16				9,695,694.11
(1) Disposal		1,160,750.38	4,942,857.16				6,103,607.54
(2) Transferred to investment properties	2,766,008.33						2,766,008.33
(3) Transferred to construction in progress	826,078.24						826,078.24
(4) Decrease due to change of consolidation scope							
(5) Completion settlement adjustment							
4. Balance at 31 December 2021	1,113,681,769.75	592,195,778.24	79,001,307.54	13,905,459.09	269,080.00	25,320,500.00	1,824,373,894.62

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Item	Land use right	Software	Patent right	Non-patented technology	Trademark right	Customer relationship	Total
II. Accumulated amortization							
1. Balance at 31 December 2020	291,923,809.85	257,394,288.43	40,604,663.32	13,905,459.09	174,944.66	8,018,158.45	612,021,323.80
2. Increase during the current period	23,053,506.51	69,473,572.80	7,365,843.68		19,275.21	2,532,050.04	102,444,248.24
(1) Provision	23,053,506.51	69,473,572.80	7,365,843.68		19,275.21	2,532,050.04	102,444,248.24
(2) Transferred from investment properties							
(3) Translation difference of foreign currency financial statements							
3. Decrease during the current period	1,153,371.04	222,781.53	4,942,857.16				6,319,009.73
(1) Disposal		222,781.53	4,942,857.16				5,165,638.69
(2) Transferred to investment properties	1,152,378.42						1,152,378.42
(3) Transferred to construction in progress	992.62						992.62
(4) Decrease due to change of consolidation scope							
4. Balance at 31 December 2021	313,823,945.32	326,645,079.70	43,027,649.84	13,905,459.09	194,219.87	10,550,208.49	708,146,562.31
III. Impairment provision							
1. Balance at 31 December 2020							
2. Increase during the current period							
3. Decrease during the current period							
4. Balance at 31 December 2021							
IV. Book value							
(1) Balance at 31 December 2021	799,857,824.43	265,550,698.54	35,973,657.70		74,860.13	14,770,291.51	1,116,227,332.31
(2) Balance at 31 December 2020	822,964,111.84	216,736,611.96	43,309,501.38		94,135.34	17,302,341.55	1,100,406,702.07

Continued:

Item	Land use right	Software	Patent right	Non-patented technology	Trademark right	Customer relationship	Total
I. Original book value							
1. Balance at 31 December 2019	1,104,468,535.60	405,048,581.57	83,914,164.70	13,905,459.09	269,080.00	25,320,500.00	1,632,926,320.96
2. Increase during the current period	18,206,221.14	69,288,462.93					87,494,684.07
(1) Purchase	948,060.00	33,042,911.49					33,990,971.49
(2) Transferred from investment properties							
(3) Transferred from construction in progress	17,258,161.14	36,245,551.44					53,503,712.58
(4) Translation difference of foreign currency financial statements							
3. Decrease during the current period	7,786,835.05	206,144.11					7,992,979.16
(1) Disposal		206,144.11					206,144.11
(2) Transferred to investment properties	7,786,835.05						7,786,835.05
(3) Transferred to construction in progress							
(4) Decrease due to change of consolidation scope							
(5) Completion settlement adjustment							
4. Balance at 31 December 2020	1,114,887,921.69	474,130,900.39	83,914,164.70	13,905,459.09	269,080.00	25,320,500.00	1,712,428,025.87
II. Accumulated amortization							
1. Balance at 31 December 2019	269,770,124.37	202,587,794.81	33,110,198.70	13,406,948.70	158,047.64	5,486,108.35	524,519,222.57
2. Increase during the current period	23,581,427.26	54,960,583.70	7,494,464.62	498,510.39	16,897.02	2,532,050.10	89,083,933.09
(1) Provision	23,581,427.26	54,960,583.70	7,494,464.62	498,510.39	16,897.02	2,532,050.10	89,083,933.09
(2) Transferred from investment properties							
(3) Translation difference of foreign currency financial statements							
3. Decrease during the current period	1,427,741.78	154,090.08					1,581,831.86
(1) Disposal		154,090.08					154,090.08
(2) Transferred to investment properties	1,427,741.78						1,427,741.78
(3) Transferred to construction in progress							
(4) Decrease due to change of consolidation scope							
4. Balance at 31 December 2020	291,923,809.85	257,394,288.43	40,604,663.32	13,905,459.09	174,944.66	8,018,158.45	612,021,323.80

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Item	Land use right	Software	Patent right	Non-patented technology	Trademark right	Customer relationship	Total
III. Impairment provision							
1. Balance at 31 December 2019							
2. Increase during the current period							
3. Decrease during the current period							
4. Balance at 31 December 2020							
IV. Book value							
(1) Balance at 31 December 2020	822,964,111.84	216,736,611.96	43,309,501.38		94,135.34	17,302,341.55	1,100,406,702.07
(2) Balance at 31 December 2019	834,698,411.23	202,460,786.76	50,803,966.00	498,510.39	111,032.36	19,834,391.65	1,108,407,098.39

Continued:

Item	Land use right	Software	Patent right	Non-patented technology	Trademark right	Customer relationship	Total
I. Original book value							
1. Balance at 1 January 2019	1,143,227,574.67	317,172,839.98	83,914,164.70	21,308,146.95	174,003.77	25,320,500.00	1,591,117,230.07
2. Increase during the current period	33,868,371.68	100,631,766.20			95,076.23		134,595,214.11
(1) Purchase	25,828,548.90	37,720,886.85			95,076.23		63,644,511.98
(2) Transferred from investment properties	8,039,822.78						8,039,822.78
(3) Transferred from construction in progress		62,910,879.35					62,910,879.35
(4) Translation difference of foreign currency financial statements							
3. Decrease during the current period	72,627,410.75	12,756,024.61		7,402,687.86			92,786,123.22
(1) Disposal							
(2) Transferred to investment properties							
(3) Transferred to construction in progress							
(4) Decrease due to change of consolidation scope	72,627,410.75	12,756,024.61		7,402,687.86			92,786,123.22
(5) Completion settlement adjustment							
4. Balance at 31 December 2019	1,104,468,535.60	405,048,581.57	83,914,164.70	13,905,459.09	269,080.00	25,320,500.00	1,632,926,320.96
II. Accumulated amortization							
1. Balance at 1 January 2019	260,168,381.96	160,893,317.68	25,469,855.10	17,659,794.30	144,986.84	2,954,058.31	467,290,394.19
2. Increase during the current period	24,629,545.63	44,490,225.69	7,640,343.60	548,077.43	13,060.80	2,532,050.04	79,853,303.19
(1) Provision	23,289,575.27	44,490,225.69	7,640,343.60	548,077.43	13,060.80	2,532,050.04	78,513,332.83
(2) Transferred from investment properties	1,339,970.36						1,339,970.36
(3) Translation difference of foreign currency financial statements							
3. Decrease during the current period	15,027,803.22	2,795,748.56		4,800,923.03			22,624,474.81
(1) Disposal							
(2) Transferred to investment properties							
(3) Transferred to construction in progress							
(4) Decrease due to change of consolidation scope	15,027,803.22	2,795,748.56		4,800,923.03			22,624,474.81
4. Balance at 31 December 2019	269,770,124.37	202,587,794.81	33,110,198.70	13,406,948.70	158,047.64	5,486,108.35	524,519,222.57

Item	Land use right	Software	Patent right	Non-patented technology	Trademark right	Customer relationship	Total
III. Impairment provision							
1. Balance at 1 January 2019							
2. Increase during the current period							
3. Decrease during the current period							
4. Balance at 31 December 2019							
IV. Book value							
1. Balance at 31 December 2019	834,698,411.23	202,460,786.76	50,803,966.00	498,510.39	111,032.36	19,834,391.65	1,108,407,098.39
2. Balance at 1 January 2019	883,059,192.71	156,279,522.30	58,444,309.60	3,648,352.65	29,016.93	22,366,441.69	1,123,826,835.88

2. Land use right for which the title certificate has not been obtained

No.

Note 19. Development expenditure

Item	1 January 2022	Increase during the period		Included in current profit or loss	Transferred out during the period			31 May 2022
		Internal development expenditure	Others		Recognized as intangible assets	Recognized as inventory	Others	
MA700	148,536,686.65							148,536,686.65
Recliner		8,050,694.06		8,050,694.06				
Slippery course		11,711,718.43		11,711,718.43				
Shifting fork								
Height adjuster		1,410,110.73		1,410,110.73				
Seat frame system		4,994,303.68		4,994,303.68				
Others		433,425,047.96		433,425,047.96				
Total	148,536,686.65	459,591,874.86		459,591,874.86				148,536,686.65

Continued:

Item	1 January 2021	Increase during the period		Included in current profit or loss	Transferred out during the period			31 December 2021
		Internal development expenditure	Others		Recognized as intangible assets	Recognized as inventory	Others	
MA700	134,084,287.02	14,452,399.63						148,536,686.65
Recliner	2,650,987.70	26,258,700.65		28,909,688.35				
Slippery course	2,092,451.01	29,363,514.19		31,455,965.20				
Shifting fork	588,668.99	2,773,097.89		3,361,766.88				
Height adjuster	560,926.84	4,249,406.80		4,810,333.64				

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Item	1 January 2021	Increase during the period		Included in current profit or loss	Transferred out during the period			31 December 2021
		Internal development expenditure	Others		Recognized as intangible assets	Recognized as inventory	Others	
Seat frame system	284,531.72	5,690,015.51		5,974,547.23				
Others		701,196,350.80		701,196,350.80				
Total	140,261,853.28	783,983,485.47		775,708,652.10				148,536,686.65

Continued:

Item	1 January 2020	Increase during the period		Included in current profit or loss	Transferred out during the period			31 December 2020
		Internal development expenditure	Others		Recognized as intangible assets	Recognized as inventory	Others	
MA700	85,632,128.34	48,452,158.68						134,084,287.02
Recliner	8,483,056.33	28,069,713.93		28,323,453.23		5,578,329.33		2,650,987.70
Slippery course	6,711,928.76	25,096,278.37		24,541,058.97		5,174,697.15		2,092,451.01
Shifting fork	2,097,648.78	8,164,299.83		8,287,289.73		1,385,989.89		588,668.99
Height adjuster	2,547,429.68	9,249,246.48		10,169,927.85		1,065,821.47		560,926.84
Seat frame system	7,085,268.87	5,447,214.71		12,023,798.27		224,153.59		284,531.72
Domestic CNC system engineering	634,600.00	143,979.08		143,979.08			634,600.00	
Others		509,632,138.45		509,363,694.49		268,443.96		
Total	113,192,060.76	634,255,029.53		592,853,201.62		13,697,435.39	634,600.00	140,261,853.28

Continued:

Item	1 January 2019	Increase during the period		Included in current profit or loss	Transferred out during the period			31 December 2019
		Internal development expenditure	Others		Recognized as intangible assets	Recognized as inventory	Others	
MA700	65,840,936.48	19,791,191.86						85,632,128.34
Recliner	16,161,114.22	29,504,569.44		28,899,012.53		8,283,614.80		8,483,056.33
Slippery course	13,908,544.32	27,443,935.85		25,727,494.17		8,913,057.24		6,711,928.76
Shifting fork	1,754,785.63	1,411,330.46		1,068,467.31				2,097,648.78
Height adjuster	4,443,635.26	10,118,026.40		9,419,783.86		2,594,448.12		2,547,429.68
Seat frame system	3,433,499.18	6,668,346.19		2,314,953.49		701,623.01		7,085,268.87
Domestic CNC system engineering		4,443,985.68		3,809,385.68				634,600.00
Others		485,278,535.28		478,849,185.50		6,429,349.78		
Total	105,542,515.09	584,659,921.16		550,088,282.54		26,922,092.95		113,192,060.76

Note 20. Goodwill**1. Original book value of goodwill**

Name of investee or matters resulting in goodwill	1 January 2019	Change for 2019	31 December 2019	Change for 2020	31 December 2020	Change for 2021	31 December 2021	Change from	
								January to May 2022	31 May 2022
AVIC Qimling Aerospace (Xiamen) Co., Ltd. (廈門中航秦嶺宇航有 限公司)	59,487,100.22		59,487,100.22		59,487,100.22		59,487,100.22		59,487,100.22
Kunshan Branch of Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限 公司昆山分公司)	262,329,082.49		262,329,082.49		262,329,082.49		262,329,082.49		262,329,082.49
Xi'an Qing'an Avionics Co., Ltd. (西安慶安航空電子有限公司)	9,506,215.98		9,506,215.98		9,506,215.98		9,506,215.98		9,506,215.98
Total	331,322,398.69		331,322,398.69		331,322,398.69		331,322,398.69		331,322,398.69

2. Impairment provision of goodwill

Name of investee or matters resulting in goodwill	1 January 2019	Change for 2019	31 December 2019	Change for 2020	31 December 2020	Change for 2021	31 December 2021	Change from	
								January to May 2022	31 May 2022
AVIC Qimling Aerospace (Xiamen) Co., Ltd. (廈門中航秦嶺宇航有 限公司)						19,756,700.00	19,756,700.00		19,756,700.00
Kunshan Branch of Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限 公司昆山分公司)									
Xi'an Qing'an Avionics Co., Ltd. (西安慶安航空電子有限公司)									
Total						19,756,700.00	19,756,700.00		19,756,700.00

3. *Detail of provision for impairment of goodwill*

Item	AVIC Qinling Aerospace (Xiamen) Co., Ltd. (廈門中 航秦嶺宇航有限公司)	Kunshan Branch of Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉 麥格納座椅系統有限公司昆 山分公司)	Xi'an Qing'an Avionics Co., Ltd. (西安慶安航空電子有 限公司)
Book balance of goodwill ①	59,487,100.22	262,329,082.49	9,506,215.98
Balance of provision impairment of goodwill ②	19,756,700.00		
Book value of goodwill ③=①-②	39,730,400.22	262,329,082.49	9,506,215.98
Unverified Goodwill value attributable to minority interests ④			9,133,423.20
Post-adjust book value of total goodwill ⑤=④+③	39,730,400.22	262,329,082.49	18,639,639.18
Book value of asset group ⑥	37,839,231.97	57,896,640.95	2,189,033.20
Book value of asset group with total goodwill ⑦=⑤+⑥	77,569,632.19	320,225,723.44	20,828,672.38
Present value of estimated future cash flow of asset group (recoverable amount) ⑧	79,121,500.00	447,040,500.00	70,221,400.00
Loss on impairment of goodwill (more than 0) ⑨=⑦-⑧	No Impairment	No Impairment	No Impairment

4. *Information about the asset group or asset group portfolio where the goodwill belongs*

The asset group where the goodwill of AVIC Qinling Aerospace (Xiamen) Co., Ltd. (廈門中航秦嶺宇航有限公司) belongs includes long-term assets such as fixed assets and intangible assets and other operating assets, with book value of RMB37,839,231.97 (excluding goodwill);

The asset group where the goodwill of Kunshan Branch of Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司昆山分公司) belongs includes long-term assets such as fixed assets, construction-in-progress and intangible assets and other operating assets, with book value of RMB57,896,640.95 (excluding goodwill);

The asset group where the goodwill of Xi'an Qing'an Avionics Co., Ltd. (西安慶安航空電子有限公司) belongs includes long-term assets such as fixed assets and intangible assets and other operating assets, with book value of RMB2,189,033.20 (excluding goodwill).

5. *Process and methods of the goodwill impairment test*

At the end of the period, AVIC Electromechanical tested on the aforesaid asset groups related to goodwill. First, the goodwill is included in the asset group and the book value is adjusted, and then the adjusted book value of asset group is compared with its recoverable amount, so as to determine whether asset group (including goodwill) is impaired.

The recoverable amount of an asset group is determined as the present value of the estimated future cash flows of the asset group. The future cash flows of the asset group are based on the financial budget for a five-year period, and the perpetual cash flows beyond five years are determined at the level of the last year of the detailed forecast period. The discount rate used to calculate the present value is a pre-tax discount rate that reflects the risks specific to the relevant asset group. Other key assumptions used in making cash flow projections for asset groups include projected operating revenues, operating costs, growth rates and related expenses based on prior years' operating results, growth rates, industry levels and management's expectations of market developments for the asset group to which the goodwill relates.

6. *Impact of the goodwill impairment test*

According to Asset Appraisal Report on the Present Value of the Estimated Future Cash Flows of the Asset Group Where the Goodwill of AVIC Qinling Aerospace (Xiamen) Co., Ltd. Belongs in relation to the Goodwill Impairment Test Intended to Be Conducted by AVIC Electromechanical Systems Co., Ltd. (Zhong Lian Ping Bao Zi 2022 No.1216) issued by Hubei Zhonglian Assets Appraisal Co., Ltd. (湖北眾聯資產評估有限公司), the present value of the estimated future cash flows of the asset group (including goodwill) related to AVIC Qinling Aerospace (Xiamen) Co., Ltd. was RMB79,121,500.00, which was higher than the carrying value of the asset group (including goodwill) of RMB77,569,632.19, and therefore no impairment provision for goodwill was required.

According to Asset Appraisal Report on the Present Value of the Estimated Future Cash Flows of the Asset Group Where the Goodwill of Kunshan Branch of Hubei HAPM Magna Seating System Co., Ltd. Belongs in relation to the Goodwill Impairment Test Intended to Be Conducted by AVIC Electromechanical Systems Co., Ltd. (Zhong Lian Ping Bao Zi 2022 No.1217) issued by Hubei Zhonglian Assets Appraisal Co., Ltd., the present value of the estimated future cash flows of the asset group related to Kunshan Branch of Hubei HAPM Magna Seating System Co., Ltd. was RMB447,040,500.00, which was higher than the carrying value of the asset group (including goodwill) of RMB320,225,723.44, and therefore no impairment provision for goodwill was required.

According to Asset Appraisal Report on the Present Value of the Estimated Future Cash Flows of the Asset Group Where the Goodwill of Xi'an Qing'an Avionics Co., Ltd. Belongs in relation to the Goodwill Impairment Test Intended to Be Conducted by AVIC Electromechanical Systems Co., Ltd. (Zhong Lian Ping Bao Zi 2022 No.1215) issued by Hubei Zhonglian Assets Appraisal Co., Ltd., the present value of the estimated future cash flows of the asset group (including goodwill) related to Xi'an Qing'an Avionics Co., Ltd. was RMB70,221,400.00, which was higher than the carrying value of the asset group (including goodwill) of RMB20,828,672.38, and therefore no impairment provision for goodwill was required.

Note 21. Long-term deferred expenses

Item	31 December 2021	Increase in the period	Amortization amount in the period	Other decrease in the period	31 May 2022
Special tooling for production line	8,068,893.77	1,896,562.26	1,493,817.73		8,471,638.30
Renovation fee for plant	1,800,888.93	126,294.34	259,486.06		1,667,697.21
Three-coordinate transformation project	358,316.30		119,438.75		238,877.55
Field engineering fees for new plant		360,550.46			360,550.46
Entrusted loan fee					
Total	10,228,099.00	2,383,407.06	1,872,742.54		10,738,763.52

Continued:

Item	31 December 2020	Increase in the period	Amortization amount in the period	Other decrease in the period	31 December 2021
Special tooling for production line	6,842,147.61	4,011,347.36	2,784,601.20		8,068,893.77
Renovation fee for plant	739,183.20	2,315,269.65	1,253,563.92		1,800,888.93
Three-coordinate transformation project	644,969.30		286,653.00		358,316.30
Field engineering fees for new plant	412,500.00		412,500.00		
Entrusted loan fee					
Total	8,638,800.11	6,326,617.01	4,737,318.12		10,228,099.00

Continued:

Item	31 December 2019	Increase in the period	Amortization amount in the period	Other decrease in the period	31 December 2020
Special tooling for production line	6,964,221.20	2,653,290.87	2,775,364.46		6,842,147.61
Renovation fee for plant	2,033,516.71	2,866,617.58	4,160,951.09		739,183.20
Three-coordinate transformation project		859,959.05	214,989.75		644,969.30
Field engineering fees for new plant		450,000.00	37,500.00		412,500.00
Entrusted loan fee					
Total	8,997,737.91	6,829,867.50	7,188,805.30		8,638,800.11

Continued:

Item	1 January 2019	Increase in the period	Amortization amount in the period	Other decrease in the period	31 December 2019
Special tooling for production line	6,871,014.60	2,849,066.11	2,755,859.51		6,964,221.20
Renovation fee for plant	1,504,491.11	4,855,147.01	4,326,121.41		2,033,516.71
Three-coordinate transformation project					
Field engineering fees for new plant					
Entrusted loan fee	59,250.00		59,250.00		
Total	8,434,755.71	7,704,213.12	7,141,230.92		8,997,737.91

Note 22. Deferred income tax assets and deferred income tax liabilities**1. Deferred income tax assets before offsetting**

Item	31 May 2022		31 December 2021		31 December 2020		31 December 2019	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for asset impairment	310,107,812.99	47,122,921.40	284,665,115.86	43,430,221.17	280,099,177.11	42,714,839.24	324,971,894.13	48,443,757.58
Deductible losses	4,942,474.03	741,371.10	18,411,243.96	2,761,686.59			11,683,187.03	2,920,796.76
Expenses of Retired, Early Retired and Laid-off Employees – “Three Types of Employees”	479,023,935.05	71,853,590.24	503,388,882.67	75,508,332.39	536,875,045.45	80,531,255.92	512,763,263.23	77,766,562.49
Deferred income	37,918,010.78	8,717,708.34	36,343,989.45	8,628,676.71	41,203,675.34	9,710,601.37	44,821,792.52	10,139,099.55
Inventories	9,436,786.74	1,415,518.01	14,997,240.91	2,249,586.14	31,011,348.91	4,651,702.34	47,025,456.91	7,053,818.54
Fixed assets – depreciation	11,992,015.99	1,798,802.40	12,349,488.43	1,852,423.26	13,537,146.98	2,030,572.04	16,160,761.22	2,424,114.18
Fair value changes on financial assets through other comprehensive income	40,866,010.00	6,129,901.50	22,000,000.00	3,300,000.00	22,000,000.00	3,300,000.00	22,000,000.00	3,300,000.00
Total	894,287,045.58	137,779,812.99	892,155,961.28	137,730,926.26	924,726,393.79	142,938,970.91	979,426,355.04	152,048,149.10

2. *Deferred income tax liabilities before offsetting*

Item	31 May 2022		31 December 2021		31 December 2020		31 December 2019	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Financial assets held for trading	877,546.40	131,631.96	852,511.82	127,876.77	1,347,501.06	202,125.16	2,017,827.40	302,674.11
Fair value changes on financial assets through other comprehensive income	601,316,683.14	150,329,170.79	809,117,393.13	201,864,296.06	620,483,130.76	153,158,717.65	81,460,181.24	16,629,575.33
Fixed assets – appraisal appreciation	3,953,622.86	988,134.26	4,013,345.26	1,003,336.32	4,156,679.00	1,039,169.75	4,300,012.78	1,075,003.19
Intangible assets-appraisal appreciation	3,809,904.67	952,747.61	3,869,621.05	967,405.25	4,012,940.36	1,003,235.09	4,156,259.69	1,039,064.92
Fixed assets – depreciation	146,412,080.66	21,961,812.10	145,830,386.90	21,874,558.03	146,033,136.22	21,904,970.43	111,285,096.79	16,692,764.52
Total	756,369,837.73	174,363,496.72	963,683,258.16	225,837,472.43	776,033,387.40	177,308,218.08	203,219,377.90	35,739,082.07

3. *Details of unrecognized deferred income tax assets*

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Deductible temporary differences	12,880,061.24	11,245,396.81	11,021,937.93	15,388,199.20
Deductible loss	180,697,200.38	195,874,560.77	212,569,674.21	183,677,805.25
Total	193,577,261.62	207,119,957.58	223,591,612.14	199,066,004.45

4. *The deductible losses of unrecognized deferred income tax assets will expire in the following years*

Year	31 May 2022	31 December 2021	31 December 2020	31 December 2019
2022			469,191.23	469,191.23
2023	4,756,269.21	21,073,880.32	49,964,318.56	49,983,682.75
2024	110,247,948.63	110,247,948.63	110,247,948.63	118,048,201.61
2025	31,439,613.76	31,439,613.76	31,439,613.76	
2026	3,018,897.96	3,018,897.96	2,624,108.65	2,624,108.65
2027	3,075,461.00	3,075,461.00	3,075,461.00	3,075,461.00
2028	4,305,100.72	4,305,100.72	4,305,100.72	4,310,200.72
2029	3,441,006.25	3,441,006.25	3,441,006.25	5,166,959.29
2030	7,002,925.41	7,002,925.41	7,002,925.41	
2031	13,409,977.44	12,269,726.72		
Total	180,697,200.38	195,874,560.77	212,569,674.21	183,677,805.25

Note 23. Other non-current assets

Category and content	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Prepayment for long-term assets	402,648,190.49	263,587,022.82	267,443,510.98	236,613,384.39
Prepaid performance guarantee deposit	3,880,380.00	3,880,380.00		
Approved reserve materials			370,851.10	370,851.10
Others	62,951,577.00			
Total	469,480,147.49	267,467,402.82	267,814,362.08	236,984,235.49

Note 24. Short-term borrowings

1. *Classification of short-term borrowings*

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Secured borrowings	66,671,152.00	5,000,000.00	35,889,440.00	459,386,618.45
Credit borrowings	449,655,659.72	414,862,672.59	1,717,968,882.91	2,394,859,895.57
Total	516,326,811.72	419,862,672.59	1,753,858,322.91	2,854,246,514.02

2. *Overdue short-term borrowing*

As of 31 May 2022, there was no overdue and outstanding short-term borrowing.

Note 25. Notes payable**1. Classification of notes payable**

Category	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Banker's acceptance bill	611,920,817.01	643,054,317.77	568,795,414.88	369,782,892.65
Commercial acceptance bill	2,161,919,648.22	2,488,320,190.91	2,278,008,766.54	1,753,616,419.49
Total	2,773,840,465.23	3,131,374,508.68	2,846,804,181.42	2,123,399,312.14

2. Ageing of notes payable

The ageing of the AVIC Electromechanical's notes payable at the end of the year mentioned above was from 20 days to 365 days.

Note 26. Accounts payable

Items	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Materials costs payable	6,556,596,367.96	5,158,938,024.08	4,457,689,236.05	4,190,754,375.87
Equipment fees payable	12,224,910.72	49,427,258.73	374,180,273.56	465,187,872.48
Construction costs payable	34,848,856.30	57,283,831.75	92,361,191.85	42,159,254.40
Retention money payable	8,351,730.74	14,372,169.91	27,237,519.66	13,260,542.29
Others	296,883,052.23	223,999,438.21	251,256,928.09	254,910,982.49
Total	6,908,904,917.95	5,504,020,722.68	5,202,725,149.21	4,966,273,027.53

The ageing analysis of accounts payable based on their transaction dates

Aging	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Within 1 year	6,165,814,702.58	4,924,694,000.36	4,446,310,126.75	4,363,377,117.07
1-2 years	453,374,361.04	365,493,315.79	441,200,951.50	362,303,427.45
2-3 years	143,446,371.88	71,866,823.19	155,346,738.73	69,952,508.82
Over 3 years	146,269,482.45	141,966,583.34	159,867,332.23	170,639,974.19
Total	6,908,904,917.95	5,504,020,722.68	5,202,725,149.21	4,966,273,027.53

Important accounts payable aged over 1 year

Name of the company	31 May 2022	Reason for outstanding or carry-over
Company 1	24,619,820.70	Contract not completed
Company 2	20,743,580.00	Contract not completed
Company 3	15,682,382.72	Contract not completed
Company 4	9,321,331.84	Contract not completed
Company 5	8,640,933.97	Contract not completed
Company 6	7,878,645.40	Contract not completed
Company 7	6,980,222.15	Contract not completed
Total	93,866,916.78	—

Continued:

Name of the company	31 December 2021	Reason for outstanding or carry-over
Company 1	20,743,580.00	Contract not completed
Company 2	20,392,700.00	Contract not completed
Company 3	12,499,719.60	Contract not completed
Company 4	10,859,647.40	Contract not completed
Company 5	10,139,940.80	Contract not completed
Company 6	8,359,976.00	Contract not completed
Company 7	8,110,757.64	Contract not completed
Company 8	6,113,467.00	Contract not completed
Company 9	5,381,331.84	Contract not completed
Total	102,601,120.28	—

Continued:

Name of the company	31 December 2020	Reason for outstanding or carry-over
Company 1	22,761,432.00	Contract not completed
Company 2	14,916,009.06	Contract not completed
Company 3	14,558,392.56	Contract not completed
Company 4	13,642,378.55	Contract not completed
Company 5	13,513,397.20	Contract not completed
Company 6	13,251,245.00	Contract not completed
Company 7	10,734,057.00	Contract not completed
Company 8	10,637,699.00	Contract not completed
Company 9	7,021,223.57	Contract not completed
Total	121,035,833.94	—

Continued:

Name of the company	31 December 2019	Reason for outstanding or carry-over
Company 1	27,937,643.55	Contract not completed
Company 2	16,355,623.20	Contract not completed
Company 3	16,260,501.24	Contract not completed
Company 4	15,327,509.90	Contract not completed
Company 5	8,661,678.00	Contract not completed
Company 6	7,839,345.37	Contract not completed
Company 7	7,562,200.00	Contract not completed
Company 8	6,319,820.90	Contract not completed
Company 9	5,543,596.06	Contract not completed
Total	111,807,918.22	—

Note 27. Advances**Classification of advances**

Items	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Within 1 year (including 1 year)	21,041,807.49	44,880,963.91	42,398,221.80	12,086,316.83
Over 1 year	19,208,430.71	16,590,542.92	23,507,522.04	19,266,876.72
Total	40,250,238.20	61,471,506.83	65,905,743.84	31,353,193.55

Note 28. Contract liabilities**1. Details of contract liabilities**

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Advance payment for aviation products	2,436,849,353.20	2,324,148,266.70	292,847,576.32	151,906,379.23
Advance payment for non-aviation products	170,958,174.29	174,883,636.70	25,139,266.10	17,211,654.77
Total	2,607,807,527.49	2,499,031,903.40	317,986,842.42	169,118,034.00

2. Significant change in book value of contract liabilities in each period

Item	Changes from January to May 2022	Reasons for change
Advance payment for aviation products	112,701,086.50	Increase in orders on hand and customer prepayments
Advance payment for non-aviation products	-3,925,462.41	Part of the contracts fulfilled
Total	108,775,624.09	

Continued:

Item	Changes in 2021	Changes in 2020	Reasons for change
Advance payment for aviation products	2,031,300,690.38	140,941,197.09	Increase in orders on hand and customer prepayments
Advance payment for non-aviation products	149,744,370.60	7,927,611.33	
Total	2,181,045,060.98	148,868,808.42	

Note 29. Employee compensation payable**1. Classification of employee compensation payable**

Item	31 December 2021	Increase in the current period	Decrease in the current period	31 May 2022
Short-term compensation	554,420,893.51	1,220,009,767.48	1,340,585,404.04	433,845,256.95
Post-employment benefits-defined contribution plan	25,346,219.94	178,097,230.67	175,713,961.32	27,729,489.29
Dismission	19,306,696.88	9,531,346.57	10,915,795.26	17,922,248.19
Other benefits due within one year	51,190,000.00	25,649,684.36	25,649,684.36	51,190,000.00
Total	650,263,810.33	1,433,288,029.08	1,552,864,844.98	530,686,994.43

Continued:

Item	31 December 2020	Increase in the current period	Decrease in the current period	31 December 2021
Short-term compensation	501,788,063.31	3,509,443,861.72	3,456,811,031.52	554,420,893.51
Post-employment benefits-defined contribution plan	33,796,498.77	400,767,460.30	409,217,739.13	25,346,219.94
Dismission	20,587,053.72	23,862,600.47	25,142,957.31	19,306,696.88
Other benefits due within one year	54,799,900.00	57,021,957.14	60,631,857.14	51,190,000.00
Total	610,971,515.80	3,991,095,879.63	3,951,803,585.10	650,263,810.33

Continued:

Item	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020
Short-term compensation	411,993,610.49	3,111,598,133.70	3,021,803,680.88	501,788,063.31
Post-employment benefits-defined contribution plan	28,936,169.53	262,547,757.66	257,687,428.42	33,796,498.77
Dismission	2,510,000.00	25,327,023.80	7,249,970.08	20,587,053.72
Other benefits due within one year	63,773,058.58	48,675,825.17	57,648,983.75	54,799,900.00
Total	507,212,838.60	3,448,148,740.33	3,344,390,063.13	610,971,515.80

Continued:

Item	1 January 2019	Increase in the current period	Decrease in the current period	31 December 2019
Short-term compensation	356,850,367.85	2,953,616,954.56	2,898,473,711.92	411,993,610.49
Post-employment benefits-defined contribution plan	10,955,574.22	312,148,681.51	294,168,086.20	28,936,169.53
Dismission	3,779,501.54	15,576,614.99	16,846,116.53	2,510,000.00
Other benefits due within one year	69,510,000.00	64,545,154.52	70,282,095.94	63,773,058.58
Total	441,095,443.61	3,345,887,405.58	3,279,770,010.59	507,212,838.60

2. *Classification of short-term compensation*

Item	31 December 2021	Increase in the current period	Decrease in the current period	31 May 2022
Salary, bonus, allowance and subsidy	314,407,619.84	902,623,268.78	1,040,350,254.73	176,680,633.89
Employee benefit		52,847,318.58	52,847,318.58	
Social insurance premium	3,847,932.64	70,109,936.22	70,994,993.64	2,962,875.22
Including: Medical insurance premium and maternity insurance premium	3,507,225.65	64,556,845.44	65,500,293.74	2,563,777.35
Work-related injury insurance premium	340,706.99	5,553,090.78	5,494,699.90	399,097.87
Others				
Housing provident fund	1,382,414.89	95,447,403.35	92,872,464.36	3,957,353.88
Union funds and staff education funding	228,785,703.65	33,775,397.59	20,886,925.90	241,674,175.34
Other short-term compensation	5,997,222.49	65,206,442.96	62,633,446.83	8,570,218.62
Total	554,420,893.51	1,220,009,767.48	1,340,585,404.04	433,845,256.95

Continued:

Item	31 December 2020	Increase in the current period	Decrease in the current period	31 December 2021
Salary, bonus, allowance and subsidy	293,772,087.03	2,618,197,789.52	2,597,562,256.71	314,407,619.84
Employee benefit		213,789,875.14	213,789,875.14	
Social insurance premium	4,584,927.84	168,049,975.71	168,786,970.91	3,847,932.64
Including: Medical insurance premium and maternity insurance premium	2,868,275.69	157,117,109.51	156,478,159.55	3,507,225.65
Work-related injury insurance premium	1,716,652.15	10,932,866.20	12,308,811.36	340,706.99
Others				
Housing provident fund	2,805,544.07	216,837,418.45	218,260,547.63	1,382,414.89
Union funds and staff education funding	194,575,964.36	99,034,410.77	64,824,671.48	228,785,703.65
Other short-term compensation	6,049,540.01	193,534,392.13	193,586,709.65	5,997,222.49
Total	501,788,063.31	3,509,443,861.72	3,456,811,031.52	554,420,893.51

Continued:

Item	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020
Salary, bonus, allowance and subsidy	236,670,543.87	2,336,847,182.36	2,279,745,639.20	293,772,087.03
Employee benefit		185,450,833.66	185,450,833.66	
Social insurance premium	3,016,921.05	130,018,623.62	128,450,616.83	4,584,927.84
Including: Medical insurance premium and maternity insurance premium	1,901,423.93	124,665,438.17	123,698,586.41	2,868,275.69
Work-related injury insurance premium	1,115,497.12	5,342,348.15	4,741,193.12	1,716,652.15
Others		10,837.30	10,837.30	
Housing provident fund	1,273,209.87	198,004,675.99	196,472,341.79	2,805,544.07
Union funds and staff education funding	165,439,597.68	92,282,523.40	63,146,156.72	194,575,964.36
Other short-term compensation	5,593,338.02	168,994,294.67	168,538,092.68	6,049,540.01
Total	411,993,610.49	3,111,598,133.70	3,021,803,680.88	501,788,063.31

Continued:

Item	1 January 2019	Increase in the current period	Decrease in the current period	31 December 2019
Salary, bonus, allowance and subsidy	202,281,142.24	2,219,965,878.57	2,185,576,476.94	236,670,543.87
Employee benefit		162,495,930.53	162,495,930.53	
Social insurance premium	2,552,858.56	138,059,536.91	137,595,474.42	3,016,921.05
Including: Medical insurance premium and maternity insurance premium	1,738,547.81	128,818,289.77	128,655,413.65	1,901,423.93
Work-related injury insurance premium	814,310.75	9,230,280.91	8,929,094.54	1,115,497.12
Others		10,966.23	10,966.23	
Housing provident fund	2,372,001.54	170,958,430.73	172,057,222.40	1,273,209.87
Union funds and staff education funding	149,123,085.93	85,222,102.46	68,905,590.71	165,439,597.68
Other short-term compensation	521,279.58	176,915,075.36	171,843,016.92	5,593,338.02
Total	356,850,367.85	2,953,616,954.56	2,898,473,711.92	411,993,610.49

3. *Classification of defined contribution plan*

Item	31 December 2021	Increase in the current period	Decrease in the current period	31 May 2022
Basic pension insurance	23,763,525.83	139,721,838.11	139,527,226.12	23,958,137.82
Unemployment insurance	152,694.11	6,299,469.78	6,287,546.00	164,617.89
Annuity payments	1,430,000.00	32,075,922.78	29,899,189.20	3,606,733.58
Total	25,346,219.94	178,097,230.67	175,713,961.32	27,729,489.29

Continued:

Item	31 December 2020	Increase in the current period	Decrease in the current period	31 December 2021
Basic pension insurance	30,865,742.80	301,939,052.25	309,041,269.22	23,763,525.83
Unemployment insurance	1,630,371.47	13,286,372.42	14,764,049.78	152,694.11
Annuity payments	1,300,384.50	85,542,035.63	85,412,420.13	1,430,000.00
Total	33,796,498.77	400,767,460.30	409,217,739.13	25,346,219.94

Continued:

Item	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020
Basic pension insurance	15,219,541.49	159,122,394.88	143,476,193.57	30,865,742.80
Unemployment insurance	1,301,628.04	7,623,037.27	7,294,293.84	1,630,371.47
Annuity payments	12,415,000.00	95,802,325.51	106,916,941.01	1,300,384.50
Total	28,936,169.53	262,547,757.66	257,687,428.42	33,796,498.77

Continued:

Item	1 January 2019	Increase in the current period	Decrease in the current period	31 December 2019
Basic pension insurance	8,840,719.62	271,860,455.89	265,481,634.02	15,219,541.49
Unemployment insurance	974,854.60	10,979,840.65	10,653,067.21	1,301,628.04
Annuity payments	1,140,000.00	29,308,384.97	18,033,384.97	12,415,000.00
Total	10,955,574.22	312,148,681.51	294,168,086.20	28,936,169.53

Note: ① AVIC Electromechanical's employees participate in the basic social pension insurance and unemployment insurance implemented by the local labor and social security authorities. AVIC Electromechanical pays monthly insurance premiums to the local social security authorities at the base and ratio of the local basic social pension insurance and unemployment insurance contributions. Upon the retirement or unemployment of employees, the local labor and social security authorities are responsible for paying basic social pensions to retired employees or unemployment benefits to employees who have lost their jobs. AVIC Electromechanical recognizes the amount payable based on the above social security regulations as a liability in the accounting period in which the employees render services and includes it in current profit or loss or the cost of related assets.

② AVIC Electromechanical establishes an enterprise annuity plan in accordance with the relevant policies of the national enterprise annuity system. AVIC Electromechanical defines this post-employment benefit as a defined contribution plan, and employees of AVIC Electromechanical may voluntarily participate in this annuity plan. The fees required for the annuity are paid jointly by AVIC Electromechanical and the employees, and AVIC Electromechanical uses the average monthly amount of the previous period's total employee salaries as the contribution base. The Group makes contributions to the annuity plan at a rate of not more than 8% (January to May 2022 and 2021) and 5% (2020 and 2019) based on the average monthly amount of the employees' total salaries in the previous year, and the employees make monthly contributions to the annuity plan at a rate of not more than 5% based on the average monthly amount of their total salaries in the previous period.

4. Termination benefits payable

Item	1 January 2019	Increase in the period	Decrease in the period	31 December 2019	Increase in the period	Decrease in the period	31 December 2020
Early retirement benefits payable (the portion due within one year)	3,779,501.54	3,600,899.86	4,870,401.40	2,510,000.00	19,412,883.89	4,032,883.89	17,890,000.00
Other termination benefits		11,975,715.13	11,975,715.13		5,914,139.91	3,217,086.19	2,697,053.72
Total	3,779,501.54	15,576,614.99	16,846,116.53	2,510,000.00	25,327,023.80	7,249,970.08	20,587,053.72

Continued:

Item	31 December 2020	Increase in the period	Decrease in the period	31 December 2021	Increase in the period	Decrease in the period	31 May 2022
Early retirement benefits payable (the portion due within one year)	17,890,000.00	22,864,802.60	24,322,866.46	16,431,936.14	8,389,874.57	8,389,874.57	16,431,936.14
Other termination benefits	2,697,053.72	997,797.87	820,090.85	2,874,760.74	1,141,472.00	2,525,920.69	1,490,312.05
Total	20,587,053.72	23,862,600.47	25,142,957.31	19,306,696.88	9,531,346.57	10,915,795.26	17,922,248.19

Note: ① AVIC Electromechanical implements an employee early retirement plan for employees who meet certain conditions. According to the plan, the early retired employees included in the plan, although they do not terminate their employment contracts with the enterprise, will no longer provide services to the enterprise in the future, and the Group will recognize the internal retirement living expenses and social insurance contributions to be paid from the time the employees cease to provide services to the normal retirement date as employee compensation and recognize them as a lump sum in current profit or loss.

② Other termination benefits represent the costs paid by AVIC Electromechanical for the termination of employment relationship.

Note 30. Tax payable

Tax item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Value-added tax	27,314,235.03	38,908,918.99	21,431,305.54	18,651,012.73
Corporate income tax	67,872,304.14	80,518,124.14	109,326,948.17	92,226,014.62
Individual Income Tax	2,548,642.79	15,975,475.85	14,427,153.72	20,094,172.31
City maintenance and construction tax	1,636,491.55	2,689,800.79	2,097,429.63	1,462,924.72
Property tax	1,773,138.24	6,002,202.91	5,233,578.83	5,658,138.00
Land use tax	754,972.98	2,596,338.25	2,390,309.42	2,706,898.85
Resource tax	250,932.60	452,378.00	374,700.60	
Education surcharge	1,168,559.57	1,925,151.87	1,428,627.95	1,010,186.16
Other	777,532.86	1,304,143.68	1,046,127.90	2,021,415.43
Total	104,096,809.76	150,372,534.48	157,756,181.76	143,830,762.82

Note 31. Other payables

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Interests payable	877,000.00	1,177,000.00	817,000.00	9,584,764.57
Dividends payable	413,811,804.67	29,942,031.38	19,962,031.38	20,770,004.85
Other accounts payable	604,399,491.21	563,438,362.40	667,597,120.78	1,236,450,752.36
Total	1,019,088,295.88	594,557,393.78	688,376,152.16	1,266,805,521.78

Note: Other payables refer to other payables after deducting interests and dividends payable.

(I) Interests payable

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Interest on long-term borrowings with interest payments by installment and principal payments at due	877,000.00	1,177,000.00	817,000.00	2,060,550.01
Interest on corporate bonds				3,535,475.00
Interest payable on short-term borrowings				3,988,739.56
Total	877,000.00	1,177,000.00	817,000.00	9,584,764.57

Material overdue unpaid interest as of 31 May 2022:

No.

(II) Dividends payable

Name of the company	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Dividends payable on ordinary shares	413,811,804.67	29,942,031.38	19,962,031.38	20,770,004.85

*(III) Other accounts payable*1. *Classification of other accounts payable by nature*

Nature of amount	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Receivables in the name of fundraising house and shantytown renovation	270,204,722.99	269,530,437.26	275,811,750.81	269,826,021.64
Receivables and payables on behalf of employees	105,040,914.20	87,995,070.19	113,323,948.00	71,901,362.62
Intercourse funds	70,181,991.85	74,892,206.37	109,953,413.22	101,860,783.79
Special funds	43,667,491.67	43,927,990.21	49,909,641.81	132,878,384.75
Deposit and security	33,232,494.12	24,418,637.82	19,387,670.86	41,443,787.70
Water/Electricity/Gas Supply and Property Management fees	22,505,206.93	21,158,569.38	24,675,418.33	28,742,969.70
Factoring losses on accounts receivable	449,771.00	1,087,804.81	11,627,771.77	18,172,313.00
Equity acquisition payables				480,440,501.11
Others	59,116,898.45	40,427,646.36	62,907,505.98	91,184,628.05
Total	604,399,491.21	563,438,362.40	667,597,120.78	1,236,450,752.36

2. *Significant other accounts payable aged over 1 year*

Name of the company	31 May 2022	Reasons for outstanding or not being carried forward
Company 1	259,365,482.75	The fundraising houses have not completed for final accounting procedures
Company 2	6,853,515.00	Not yet settled
Company 3	1,000,000.00	Not yet settled
Company 4	1,260,000.00	Not yet settled
Company 5	1,000,000.00	Not yet settled
Company 6	6,844,613.12	Repayment in installments
Total	276,323,610.87	—

Continued:

Name of the company	31 December 2021	Reasons for outstanding or not being carried forward
Company 1	259,365,482.75	The fundraising houses have not completed for final accounting procedures
Company 2	6,853,515.00	Not yet settled
Company 3	6,844,613.12	Repayment in installments
Company 4	1,260,000.00	Not yet settled
Company 5	1,000,000.00	Not yet settled
Company 6	1,000,000.00	Not yet settled
Total	276,323,610.87	—

Continued:

Name of the company	31 December 2020	Reasons for outstanding or not being carried forward
Company 1	259,352,169.97	The fundraising houses have not completed for final accounting procedures
Company 2	13,610,008.53	Temporary collections
Company 3	7,538,266.56	Repayment in installments
Company 4	6,853,515.00	Not yet settled
Company 5	1,021,903.39	Temporary collections
Total	288,375,863.45	—

Continued:

Name of the company	31 December 2019	Reasons for outstanding or not being carried forward
Company 1	247,146,221.63	The fundraising houses have not completed for final accounting procedures
Company 2	30,770,501.11	Final payment of asset delivery
Company 3	27,042,302.04	Temporary collections
Company 4	9,041,962.71	Repayment in installments
Company 5	6,853,515.00	Not yet settled
Total	320,854,502.49	—

Note 32. Non-current liabilities due within one year

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Long-term borrowings due within one year	210,000,000.00	34,200,000.00	4,950,000.00	386,900,000.00
Lease liabilities due within one year	20,305,931.25	21,248,211.38	16,290,220.66	11,987,371.34
Other long-term liabilities due within one year	257,243,559.13	142,359,708.26	2,123,925.36	
Total	487,549,490.38	197,807,919.64	23,364,146.02	398,887,371.34

Note 33. Other current liabilities

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Notes receivable endorsed but not derecognized	269,411,909.16	191,245,520.48	203,529,940.18	268,471,649.95
Notes receivable discounted but not derecognized		16,711,589.51		
Tax pending for written back	18,868,726.41	19,925,081.00	16,850,783.60	11,489,188.18
Borrowings	19,351,640.00	19,265,528.33		3,500,000.00
Total	307,632,275.57	247,147,719.32	220,380,723.78	283,460,838.13

Note 34. Long-term borrowings

Borrowing category	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Mortgage borrowings	24,000,000.00	24,000,000.00	24,000,000.00	30,900,000.00
Credit borrowings	913,600,000.00	867,850,000.00	1,631,750,000.00	1,199,950,000.00
Less: Long-term borrowings due within one year	210,000,000.00	34,200,000.00	4,950,000.00	386,900,000.00
Total	727,600,000.00	857,650,000.00	1,650,800,000.00	843,950,000.00

Continued:

Borrowing category	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Within 1 year				
1-2 years	580,800,000.00	227,850,000.00	662,200,000.00	124,000,000.00
2-5 years	122,800,000.00	555,800,000.00	914,600,000.00	660,950,000.00
Over 5 years	24,000,000.00	74,000,000.00	74,000,000.00	59,000,000.00

Borrowing category	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Total	727,600,000.00	857,650,000.00	1,650,800,000.00	843,950,000.00

Note 1: For the types and amounts of assets pledged as collateral for mortgage borrowings, please refer to Note VI. 68 "Assets with restricted ownership or right to use".

Note 2: The interest rates of the AVIC Electromechanical's long-term borrowings for each period are as follows:
January to May 2022: 1.20%~3.95%;; 2021: 1.20%~4.35%; 2020: 1.50%~5.00%; 2019: 1.20%~6.20%.

Note 35. Bonds payable

1. Type of bonds payable

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Convertible corporate bonds				1,851,151,672.49
Less: Bonds payable due within one year				
Total				1,851,151,672.49

Continued:

Borrowing category	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Within 1 year				
1-2 years				
2-5 years				1,851,151,672.49
Over 5 years				
Total				1,851,151,672.49

2. Changes in bonds payable (excluding other financial instruments such as preference shares and perpetual bonds classified as financial liabilities)

Name of bonds	Nominal value	Issuance date	Term of bonds	Issuance amount	1 January 2020	Current annual issuance	Interest accrued at nominal value	Amortization of premium and discount	Repayment in the current period	Share conversion in the current period	31 December
											2020
Electromechanical											
Convertible Bonds											
(機電轉債)	2,100,000,000.00	2018-8-27	6 years	2,100,000,000.00	1,851,151,672.49			-44,293,956.61	2,761,900.00	1,892,683,729.10	

Name of bonds	Nominal value	Issuance date	Term of bonds	Issuance		Current annual issuance	Interest accrued at nominal value	Amortization of premium and discount	Repayment in the current period	Share conversion in the current period	31 December 2020
				amount	1 January 2020						
Subtotal	2,100,000,000.00	-	-	2,100,000,000.00	1,851,151,672.49			-44,293,956.61	2,761,900.00	1,892,683,729.10	
Less: Closing balance of the portion due within one year											
Total	2,100,000,000.00	-	-	2,100,000,000.00	1,851,151,672.49			-44,293,956.61	2,761,900.00	1,892,683,729.10	

Continued:

Name of bonds	Nominal value	Issuance date	Term of bonds	Issuance		Current annual issuance	Interest accrued at nominal value	Amortization of premium and discount	Repayment in the current period	Share conversion in the current period	31 December 2019
				amount	1 January 2019						
Electromechanical Convertible Bonds (機電轉債)	2,100,000,000.00	2018-8-27	6 years	2,100,000,000.00	1,775,237,274.74			-76,152,897.75		238,500.00	1,851,151,672.49
14 Electromechanical 01 (14機電01)	750,000,000.00	2014-3-25	5 years	750,000,000.00	749,940,000.00				749,940,000.00		
Subtotal	2,850,000,000.00	—	—	2,850,000,000.00	2,525,177,274.74			-76,152,897.75	749,940,000.00	238,500.00	1,851,151,672.49
Less: Closing balance of the portion due within one year					749,940,000.00				749,940,000.00		
Total	2,850,000,000.00	—	—	2,850,000,000.00	1,775,237,274.74			-76,152,897.75		238,500.00	1,851,151,672.49

3. *The conditions and timing of conversion of convertible corporate bonds*

The conversion period of the convertible bonds is from the first trading day after the expiration of six months from the end of the issuance of the convertible bonds to the maturity date of the convertible bonds.

The conditional redemption of “Electromechanical Convertible Bonds (機電轉債)” was triggered on 28 July 2020. On 30 July 2020, AVIC Electromechanical held the thirty-sixth meeting of the sixth session of the board of directors, on which the Proposal on Early Redemption of Issued Convertible Corporate Bonds – “Electromechanical Convertible Bonds (機電轉債)” was considered and approved, and decided to exercise the conditional redemption right for full redemption of the “Electromechanical Convertible Bonds (機電轉債)” registered after the market closes on the redemption registration date (the trading day before the redemption day: 10 September 2020). As of

10 September 2020, the accumulated Electromechanical Convertible Bonds (機電轉債) were decreased by 20,969,996 bonds due to conversion and decreased by 27,619 bonds due to redemption, reducing the total balance of bonds payable by RMB1,895,445,629.10.

Note 36. Lease liabilities

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Lease payment	88,022,563.92	93,227,108.70	76,400,843.83	78,756,485.20
Less: Unrecognized financing costs	11,254,777.78	13,587,066.40	10,308,861.50	13,087,346.24
Less: Lease liabilities due within one year	20,305,931.25	21,248,211.38	16,290,220.66	11,987,371.34
Total	56,461,854.89	58,391,830.92	49,801,761.67	53,681,767.62

The carrying amounts of the above lease liabilities shall be repaid within the following periods:

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Within 1 year	20,063,222.84	19,580,395.61	15,132,698.66	10,657,580.74
1–2 years	17,055,124.92	18,020,732.94	13,916,408.60	12,562,161.62
2–5 years	26,632,583.74	28,758,612.53	30,800,742.47	32,495,843.45
Over 5 years	13,016,854.64	13,280,301.22	6,242,132.60	9,953,553.15
Less: Lease liabilities due within one year	20,305,931.25	21,248,211.38	16,290,220.66	11,987,371.34
Total	56,461,854.89	58,391,830.92	49,801,761.67	53,681,767.62

Note 37. Long-term payables

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Long-term payables				
Special payables	-2,045,738,256.42	-2,042,140,057.67	-1,287,891,690.97	-725,744,482.69
Total	-2,045,738,256.42	-2,042,140,057.67	-1,287,891,690.97	-725,744,482.69

Note: Long-term payables in the above table refer to long-term payables after deducting special payables.

Special payables

Item	31 December 2021	Increase in the period	Decrease in the period	31 May 2022
Grants for infrastructure and research	-2,042,140,057.67	346,525,066.21	350,123,264.96	-2,045,738,256.42
Total	-2,042,140,057.67	346,525,066.21	350,123,264.96	-2,045,738,256.42

Continued:

Item	31 December 2020	Increase in the period	Decrease in the period	31 December 2021
Grants for infrastructure and research	-1,287,891,690.97	727,484,591.32	1,481,732,958.02	-2,042,140,057.67
Total	-1,287,891,690.97	727,484,591.32	1,481,732,958.02	-2,042,140,057.67

Continued:

Item	31 December 2019	Increase in the period	Decrease in the period	31 December 2020
Grants for infrastructure and research	-725,744,482.69	435,379,447.80	997,526,656.08	-1,287,891,690.97
Total	-725,744,482.69	435,379,447.80	997,526,656.08	-1,287,891,690.97

Continued:

Item	1 January 2019	Increase in the period	Decrease in the period	31 December 2019
Grants for infrastructure and research	-721,523,542.43	993,474,912.60	997,695,852.86	-725,744,482.69
Special fund borrowing from CCB in Guizhou Province	22,323,700.00		22,323,700.00	
Total	-699,199,842.43	993,474,912.60	1,020,019,552.86	-725,744,482.69

Note 38. Long-term employee compensation payable

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Post-employment benefits – net liabilities of the defined benefit plan	577,342,825.87	596,352,510.23	624,498,159.59	665,593,095.06
Long-term dismissal welfare	55,541,118.74	62,983,275.53	76,508,538.22	16,361,663.86
Other long-term welfare				
Less: Undiscounted long-term employee compensation payable due within one year	67,510,000.00	67,510,000.00	72,689,900.00	66,283,058.58
Total	565,373,944.61	591,825,785.76	628,316,797.81	615,671,700.34

(1) Changes in present value of the defined benefit plan obligation:

Item	January to May 2022	2021	2020	2019
I. Opening balance	596,352,510.23	624,498,159.59	665,593,095.06	746,337,581.12
II. Defined benefit cost included in current profit and loss	6,100,000.00	20,559,418.53	36,144,048.28	30,730,000.00
1. Current service cost		9,418.53	44,914,048.28	
2. Past service cost		760,000.00	-26,870,000.00	7,530,000.00
3. Settlement gains (losses are indicated by "-")				
4. Net interest	6,100,000.00	19,790,000.00	18,100,000.00	23,200,000.00
III. Defined benefit cost included in other comprehensive income	540,000.00	11,926,789.25	-19,590,000.00	-21,070,000.00
Recalculation of net liabilities (net assets) of defined benefit plan		11,926,789.25	-19,590,000.00	-21,070,000.00
1. Actuarial gains (losses are indicated by "-")	540,000.00	11,926,789.25	-19,590,000.00	-21,070,000.00
2. Return on planned assets				
3. Changes in the impact of asset cap				
IV. Other changes	-25,649,684.36	-60,631,857.14	-57,648,983.75	-90,404,486.06
1. Consideration paid at settlement				
2. Benefits paid	-25,649,684.36	-60,631,857.14	-57,648,983.75	-70,282,095.94
3. Decrease in scope of consolidation				-20,122,390.12
V. Closing balance	577,342,825.87	596,352,510.23	624,498,159.59	665,593,095.06

(2) Net liabilities of the defined benefit plan (net assets)

Item	January to May 2022	2021	2020	2019
I. Opening balance	596,352,510.23	624,498,159.59	665,593,095.06	746,337,581.12
II. Defined benefit cost included in current profit or loss	6,100,000.00	20,559,418.53	36,144,048.28	30,730,000.00
III. Defined benefit cost included in other comprehensive income	540,000.00	11,926,789.25	-19,590,000.00	-21,070,000.00
IV. Other changes	-25,649,684.36	-60,631,857.14	-57,648,983.75	-90,404,486.06
V. Closing balance	577,342,825.87	596,352,510.23	624,498,159.59	665,593,095.06

(3) *Description of the defined benefit plan*

The present value of the defined benefit plan obligations of AVIC Electromechanical during the reporting period was calculated by Towers Watson Management Consulting (Shenzhen) Co., Ltd (韜睿惠悅管理諮詢(深圳)有限公司). The main actuarial assumptions used in the actuary's report are as follows:

Material actuarial assumptions	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Discount rate (%)	2.75 CL5/CL6 (2010-2013)	2.75/3.0 CL5/CL6 (2010-2013)	3.00 CL5/CL6 (2010-2013)	3.00 CL5/CL6 (2010-2013)
Mortality rate (%)	up 2 years	up 2 years	up 2 years	up 2 years
Expected average life	74.90	74.90	75.40	74.10
Average annual growth rate of supplemental medical benefits	8.00%	8.00%	8.00%	8.00%
Average annual growth rate of living expenses for retired staff who left their jobs	4.50%	4.50%	4.50%	4.50%

Note 39. Provisions

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019	Reasons for formation
Renovation cost of "Water/ Electricity/Gas Supply and Property Management"	35,131,271.39	35,131,271.39	35,131,271.39	34,919,991.09	Note
Pending onerous contracts	3,883,695.60				
Total	39,014,966.99	35,131,271.39	35,131,271.39	34,919,991.09	

Note: Renovation cost of "Water/Electricity/Gas Supply and Property Management" represents expenses expected to be incurred by Sichuan Lingfeng and Fengyang Hydraulic for the renovation of water, electricity and gas in the living area.

Note 40. Deferred income

Item	31 December 2021	Increase in the period	Decrease in the period	31 May 2022	Reasons for formation
Assets-related government grants	385,864,631.16	6,032,800.00	9,605,822.89	382,291,608.27	Government grants
Revenue-related government grants	9,976,749.88	235,200.00	1,363,099.37	8,848,850.51	Government grants
Compensation for relocating employees	3,711,317.60		515,460.78	3,195,856.82	
Unrealized income on sale and leaseback transactions					
Total	399,552,698.64	6,268,000.00	11,484,383.04	394,336,315.60	

Continued:

Item	31 December 2020	Increase in the period	Decrease in the period	31 December 2021	Reasons for formation
Assets-related government grants	424,368,431.26	5,000,000.00	43,503,800.10	385,864,631.16	Government grants
Revenue-related government grants	11,776,779.30	4,332,500.00	6,132,529.42	9,976,749.88	Government grants
Compensation for relocating employees	4,948,423.48		1,237,105.88	3,711,317.60	
Unrealized income on sale and leaseback transactions					
Total	441,093,634.04	9,332,500.00	50,873,435.40	399,552,698.64	

Continued:

Item	31 December 2019	Increase in the period	Decrease in the period	31 December 2020	Reasons for formation
Assets-related government grants	413,431,042.72	22,427,600.00	11,490,211.46	424,368,431.26	Government grants
Revenue-related government grants	11,349,308.74	500,000.00	72,529.44	11,776,779.30	Government grants
Compensation for relocating employees	6,185,529.36		1,237,105.88	4,948,423.48	
Unrealized income on sale and leaseback transactions					
Total	430,965,880.82	22,927,600.00	12,799,846.78	441,093,634.04	

Continued:

Item	1 January 2019	Increase in the period	Decrease in the period	31 December 2019	Reasons for formation
Assets-related government grants	511,861,503.60	83,774,278.16	182,204,739.04	413,431,042.72	Government grants
Revenue-related government grants	6,238,928.18	5,880,000.00	769,619.44	11,349,308.74	Government grants
Compensation for relocating employees	7,422,635.24		1,237,105.88	6,185,529.36	
Unrealized income on sale and leaseback transactions	12,367,012.93		12,367,012.93		
Total	537,890,079.95	89,654,278.16	196,578,477.29	430,965,880.82	

Deferred revenue in relation to government grants

Liability item	31 December 2021	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Add: Other changes	Asset-related/ Income-related	
							31 May 2022	
"4.20" post-disaster reconstruction project subsidies	239,656,982.36			4,689,166.30		234,967,816.06	Asset-related	
New park relocation project	52,949,673.00	1,500,000.00		1,287,801.44		53,161,871.56	Asset-related	
Industrial development fund	23,450,003.70			814,236.00		22,635,767.70	Asset-related	
Solenoid valve capacity expansion project	10,000,000.00			178,169.15		9,821,830.85	Asset-related	
VIC electric vehicle powertrain system (phase I) project	8,391,666.60			88,333.35		8,303,333.25	Asset-related	
Special funds for technology transformation and upgrading allocated by Finance Bureau of Sichuan Ya'an Economic and Technological Development Zone	6,970,000.00					6,970,000.00	Asset-related	
J020 project subsidies	5,000,000.00					5,000,000.00	Asset-related	
Technology transformation subsidies	3,633,709.20			216,292.22		3,417,416.98	Asset-related	
Project funds for provincial science and technology plan	3,760,000.00			800,000.00		2,960,000.00	Income-related	
Accessories manufacturing and maintenance project subsidies of Department of Aviation	3,322,285.68			40,714.30		3,281,571.38	Asset-related	
Industrialization project of innovative achievements in ancillary products for utility helicopters	2,400,000.00			200,000.00		2,200,000.00	Asset-related	

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Liability item	31 December 2021	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Add: Other changes	31 May 2022	Asset-related/ Income-related
Subsidies of policy materialization	2,306,350.00			192,195.80			2,114,154.20	Asset-related
Provincial strategic emerging industry development special project 3	2,283,749.88			183,333.35			2,100,416.53	Asset-related
Provincial strategic emerging industry development special project 1	1,908,333.32			250,000.00			1,658,333.32	Asset-related
Equipment subsidies for technology transformation and quality improvement projects	1,980,720.00			206,325.00			1,774,395.00	Asset-related
Land acquisition subsidies from Xi'an Economic and Technological Development Zone	2,405,000.00			27,083.00			2,377,917.00	Asset-related
Isostatic pressing equipment manufacturing conditions construction project	2,090,000.00			45,833.33			2,044,166.67	Asset-related
Research and application of integrated hydraulic damper technology	2,000,000.00						2,000,000.00	Asset-related
Research and development project of new material landing gear for shipborne unmanned helicopter	1,409,916.67			78,750.00			1,331,166.67	Asset-related
Provincial strategic emerging industry development special project 2	1,244,583.12			208,333.35			1,036,249.77	Asset-related
High reliability ejection drive	1,458,000.00			67,500.00			1,390,500.00	Asset-related
Provincial strategic emerging industry development special project6	1,399,999.95			83,333.35			1,316,666.60	Asset-related
Special subsidies for industrial transformation and upgrading technological transformation of Xiamen City	1,289,999.88			126,470.60			1,163,529.28	Asset-related
Research and application of integrated aviation hydraulic damper technology	1,030,000.00			50,000.00			980,000.00	Asset-related
Provincial industrial development funds from Bureau of Economic and Information Technology of Xindu district, Chengdu (Optical Fiber BUX-23A)	1,200,000.00						1,200,000.00	Asset-related
Provincial strategic emerging industry development special project 5	857,821.06			66,666.65			791,154.41	Asset-related

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Liability item	31 December 2021	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Add: Other changes	31 May 2022	Asset-related/ Income-related
High precision fuel density sensor for aircraft	1,000,000.00						1,000,000.00	Income-related
Provincial strategic emerging industry development special project 4	763,000.12			45,416.65			717,583.47	Asset-related
Subsidies for technical innovation projects of Air Compressor Station - industrial energy saving subsidy	518,956.62			19,766.15			499,190.47	Asset-related
Subsidies for innovation capacity building of technology center	400,000.00			41,666.70			358,333.30	Asset-related
The 5th municipal financial science and technology project funds for 2020 from the Bureau of New Economy and Science and Technology of Xindu District, Chengdu	500,000.00						500,000.00	Income-related
Scientific and technological achievements transformation project funds allocated by Science and Technology and Intellectual Property Office of Ya'an City	400,000.00						400,000.00	Asset-related
2017 special subsidies for innovation	318,250.00			23,750.00			294,500.00	Income-related
Scientific and technological achievements transformation project funds allocated by National Defense Science and Technology Industry Office of Sichuan Province	300,000.00						300,000.00	Asset-related
Fixed asset investment subsidies for key industrial projects from the government of Xindu District	173,880.00			57,960.00			115,920.00	Asset-related
2015 technical transformation subsidies of Huli District, Xiamen City	65,999.88			6,470.60			59,529.28	Income-related
Deferral of provincial high-quality development special funds	2,670,000.00	3,200,000.00		340,476.20			5,529,523.80	Asset-related
"Special Support Plan" project of Shaanxi province	1,000,000.00			532,878.77			467,121.23	Income-related
Public platform of gear-oriented inspection service	392,500.00						392,500.00	Income-related
Mechanism model of aviation industry	1,940,000.00						1,940,000.00	Income-related

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Liability item	31 December 2021	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Add: Other changes	31 May 2022	Asset-related/ Income-related
Zhongyuan Fellowship Fund	1,000,000.00						1,000,000.00	Income-related
Research trial production expenses		235,200.00					235,200.00	Income-related
Aviation airborne hydraulic system and its key components production capacity construction project		1,332,800.00					1,332,800.00	Asset-related
Total	395,841,381.04	6,268,000.00		10,968,922.26			391,140,458.78	—

Continued:

Liability item	31 December 2020	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2021	Asset-related/ Income-related
“4.20” post-disaster reconstruction project subsidies	272,920,465.83			33,263,483.47				239,656,982.36	Asset-related
New park relocation project	52,860,173.00	2,000,000.00		1,910,500.00				52,949,673.00	Asset-related
Industrial development fund	25,404,170.10			1,954,166.40				23,450,003.70	Asset-related
Solenoid valve capacity expansion project	10,000,000.00							10,000,000.00	Asset-related
AVIC electric vehicle powertrain system (phase I) project	8,603,666.47			211,999.87				8,391,666.60	Asset-related
Special funds for technology transformation and upgrading allocated by Finance Bureau of Sichuan Ya'an Economic and Technological Development Zone	6,970,000.00							6,970,000.00	Asset-related
J020 project subsidies	5,000,000.00							5,000,000.00	Asset-related
XX technical research project subsidies	4,880,000.00			4,880,000.00					Income-related
Technology transformation subsidies	4,152,810.52			519,101.32				3,633,709.20	Asset-related
Funds for provincial science and technology plan project	3,760,000.00							3,760,000.00	Income-related
Accessories manufacturing and maintenance project subsidies of Department of Aviation	3,420,000.00			97,714.32				3,322,285.68	Asset-related

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Liability item	31 December 2020	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2021	Asset-related/ Income-related
Industrialization project of innovative achievements in ancillary products for utility helicopters	2,880,000.00			480,000.00				2,400,000.00	Asset-related
Subsidies of policy materialization	2,767,620.00			461,270.00				2,306,350.00	Asset-related
Provincial strategic emerging industry development special project 3	2,723,749.92			440,000.04				2,283,749.88	Asset-related
Provincial strategic emerging industry development special project 1	2,508,333.32			600,000.00				1,908,333.32	Asset-related
Equipment subsidies for technology transformation and quality improvement projects	2,475,900.00			495,180.00				1,980,720.00	Asset-related
Land acquisition subsidies from Xi'an Economic and Technological Development Zone	2,470,000.00			65,000.00				2,405,000.00	Asset-related
Isostatic pressing equipment manufacturing conditions construction project	2,200,000.00			110,000.00				2,090,000.00	Asset-related
Research and application of integrated hydraulic damper technology	2,000,000.00							2,000,000.00	Asset-related
Research and development project of new material landing gear for shipborne unmanned helicopter	1,890,000.00			480,083.33				1,409,916.67	Asset-related
Provincial strategic emerging industry development special project 2	1,744,583.16			500,000.04				1,244,583.12	Asset-related
High reliability ejection drive	1,620,000.00			162,000.00				1,458,000.00	Asset-related
Provincial strategic emerging industry development special project 6	1,599,999.99			200,000.04				1,399,999.95	Asset-related
Special subsidies for industrial transformation and upgrading technological transformation of Xiamen City	1,593,529.34			303,529.44				1,289,999.88	Asset-related
Research and application of integrated aviation hydraulic damper technology	1,200,000.00			170,000.00				1,030,000.00	Asset-related

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Liability item	31 December 2020	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2021	Asset-related/ Income-related
Provincial industrial development funds from Bureau of Economic and Information Technology of Xindu district, Chengdu (Optical Fiber BUX-23A)	1,200,000.00						1,200,000.00	Asset-related
Strategic emerging industry and high-end growth industry	1,180,000.00		1,180,000.00					Income-related
Provincial strategic emerging industry development special project5	1,017,821.02		159,999.96				857,821.06	Asset-related
High precision fuel density sensor for aircraft	1,000,000.00						1,000,000.00	Income-related
Provincial strategic emerging industry development special project 4	872,000.08		108,999.96				763,000.12	Asset-related
Subsidies for technical innovation projects of Air Compressor Station – industrial energy saving subsidy	566,395.38		47,438.76				518,956.62	Asset-related
Subsidies for innovation capacity building of technology center	500,000.00		100,000.00				400,000.00	Asset-related
The 5th municipal financial science and technology project funds for 2020 from the Bureau of New Economy and Science and Technology of Xindu District, Chengdu	500,000.00						500,000.00	Income-related
Scientific and technological achievements transformation project funds allocated by Science and Technology and Intellectual Property Office of Ya'an City	400,000.00						400,000.00	Asset-related
2017 special subsidies for innovation	375,250.00		57,000.00				318,250.00	Income-related
Scientific and technological achievements transformation project funds allocated by National Defense Science and Technology Industry Office of Sichuan Province	300,000.00						300,000.00	Asset-related

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Liability item	31 December 2020	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2021	Asset-related/ Income-related
New generation of high reliability aviation piping system connector industry	300,000.00			300,000.00					Asset-related
Fixed asset investment subsidies for key industrial projects from the government of Xindu District	173,880.00							173,880.00	Asset-related
2015 technical transformation subsidies of Huli District, Xiamen City	81,529.30			15,529.44				65,999.88	Income-related
R&D and Industrialization of electric vehicles powertrain system	33,333.13			33,333.13					Asset-related
Deferral of provincial high-quality development special funds		3,000,000.00		330,000.00				2,670,000.00	Asset-related
“Special Support Plan” project of Shaanxi province		1,000,000.00						1,000,000.00	Income-related
Public platform of gear-oriented inspection service		392,500.00						392,500.00	Income-related
Mechanism model of aviation industry		1,940,000.00						1,940,000.00	Income-related
Zhongyuan Fellowship Fund		1,000,000.00						1,000,000.00	Income-related
Total	436,145,210.56	9,332,500.00		49,636,329.52				395,841,381.04	

Continued:

Liability item	31 December 2019	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2020	Asset-related/ Income-related
“4.20” post-disaster reconstruction project subsidies	264,000,000.00	13,377,600.00		4,457,134.17				272,920,465.83	Asset-related
New park relocation project	52,860,173.00							52,860,173.00	Asset-related
Industrial development fund	27,358,336.68			1,954,166.58				25,404,170.10	Asset-related
AVIC electric vehicle powertrain system (phase I) project	8,815,666.51			212,000.04				8,603,666.47	Asset-related

Liability item	31 December 2019	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2020	Asset-related/ Income-related
Special funds for technology transformation and upgrading allocated by Finance Bureau of Sichuan Ya'an Economic and Technological Development Zone	6,970,000.00							6,970,000.00	Asset-related
J020 project subsidies	5,000,000.00							5,000,000.00	Asset-related
XX technical research project subsidies	4,880,000.00							4,880,000.00	Income-related
Technology transformation subsidies	4,671,911.84			519,101.32				4,152,810.52	Asset-related
Solenoid valve capacity expansion project	4,150,000.00	5,850,000.00						10,000,000.00	Asset-related
Funds for provincial science and technology plan project	3,760,000.00							3,760,000.00	Income-related
Accessories manufacturing and maintenance project subsidies of Department of Aviation	3,420,000.00							3,420,000.00	Asset-related
Industrialization project of innovative achievements in ancillary products for utility helicopters	3,360,000.00			480,000.00				2,880,000.00	Asset-related
Subsidies of policy materialization	3,228,890.00			461,270.00				2,767,620.00	Asset-related
Provincial strategic emerging industry development special project 3	3,163,749.96			440,000.04				2,723,749.92	Asset-related
Provincial strategic emerging industry development special project 1	3,108,333.32			600,000.00				2,508,333.32	Asset-related
Equipment subsidies for technology transformation and quality improvement projects	2,971,080.00			495,180.00				2,475,900.00	Asset-related
Land acquisition subsidies from Xi'an Economic and Technological Development Zone	2,535,000.00			65,000.00				2,470,000.00	Asset-related
Isostatic pressing equipment manufacturing conditions construction project	2,310,000.00			110,000.00				2,200,000.00	Asset-related
Provincial strategic emerging industry development special project 2	2,244,583.20			500,000.04				1,744,583.16	Asset-related
Provincial strategic emerging industry development special project 6	2,000,000.00			400,000.01				1,599,999.99	Asset-related

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Liability item	31 December 2019	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2020	Asset-related/ Income-related
Special subsidies for industrial transformation and upgrading technological transformation of Xiamen City	1,897,058.78			303,529.44				1,593,529.34	Asset-related
Research and development project of new material landing gear for shipborne unmanned helicopter	1,890,000.00							1,890,000.00	Asset-related
High reliability ejection drive	1,620,000.00							1,620,000.00	Asset-related
Research and application of integrated aviation hydraulic damper technology	1,200,000.00							1,200,000.00	Asset-related
Strategic emerging industry and high-end growth industry	1,180,000.00							1,180,000.00	Income-related
Provincial strategic emerging industry development special project 5	1,177,820.98			159,999.96				1,017,821.02	Asset-related
High precision fuel density sensor for aircraft	1,000,000.00							1,000,000.00	Income-related
Provincial strategic emerging industry development special project 4	981,000.04			108,999.96				872,000.08	Asset-related
Subsidies for innovation capacity building of technology center	600,000.00			100,000.00				500,000.00	Asset-related
Subsidies for technical innovation projects of Air Compressor Station – industrial energy saving subsidy	582,265.24			15,869.86				566,395.38	Asset-related
2017 special subsidies for innovation	432,250.00			57,000.00				375,250.00	Income-related
Scientific and technological achievements transformation project funds allocated by Science and Technology and Intellectual Property Office of Ya'an City	400,000.00							400,000.00	Asset-related
Scientific and technological achievements transformation project funds allocated by National Defense Science and Technology Industry Office of Sichuan Province	300,000.00							300,000.00	Asset-related

Liability item	31 December 2019	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2020	Asset-related/ Income-related
New generation of high reliability aviation piping system connector industry	300,000.00							300,000.00	Asset-related
Fixed asset investment subsidies for key industrial projects from the government of Xindu District	231,840.00			57,960.00				173,880.00	Asset-related
2015 technical transformation subsidies of Huli District, Xiamen City	97,058.74			15,529.44				81,529.30	Income-related
R&D and Industrialization of electric vehicles powertrain system	83,333.17			50,000.04				33,333.13	Asset-related
Provincial industrial development funds from Bureau of Economic and Information Technology of Xindu district, Chengdu (Optical Fiber BUX-23A)		1,200,000.00						1,200,000.00	Asset-related
The 5th municipal financial science and technology project funds for 2020 from the Bureau of New Economy and Science and Technology of Xindu District, Chengdu		500,000.00						500,000.00	Income-related
Research and application of integrated hydraulic damper technology		2,000,000.00						2,000,000.00	Asset-related
Total	424,780,351.46	22,927,600.00		11,562,740.90				436,145,210.56	

Continued:

Liability item	1 January 2019	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2019	Asset-related/ Income-related
"4.20" post-disaster reconstruction project subsidies	231,000,000.00	33,000,000.00						264,000,000.00	Asset-related
New park relocation project	27,330,173.00	25,530,000.00						52,860,173.00	Asset-related

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**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Liability item	1 January 2019	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2019	Asset-related/ Income-related
Industrial development fund	29,312,503.34			1,954,166.66				27,358,336.68	Asset-related
AVIC electric vehicle powertrain system (phase I) project	9,027,666.55			212,000.04				8,815,666.51	Asset-related
Special funds for technology transformation and upgrading allocated by Finance Bureau of Sichuan Ya'an Economic and Technological Development Zone	6,970,000.00							6,970,000.00	Asset-related
J020 project subsidies	5,000,000.00							5,000,000.00	Asset-related
XX technical research project subsidies		4,880,000.00						4,880,000.00	Income-related
Technology transformation subsidies		5,191,013.16		519,101.32				4,671,911.84	Asset-related
Solenoid valve capacity expansion project		4,150,000.00						4,150,000.00	Asset-related
Funds for provincial science and technology plan project	2,760,000.00	1,000,000.00						3,760,000.00	Income-related
Accessories manufacturing and maintenance project subsidies of Department of Aviation	3,420,000.00							3,420,000.00	Asset-related
Industrialization project of innovative achievements in ancillary products for utility helicopters	3,840,000.00			480,000.00				3,360,000.00	Asset-related
Subsidies of policy materialization	3,690,160.00			461,270.00				3,228,890.00	Asset-related
Provincial strategic emerging industry development special project 3	4,400,000.00			1,236,250.04				3,163,749.96	Asset-related
Provincial strategic emerging industry development special project 1	3,708,333.32			600,000.00				3,108,333.32	Asset-related
Equipment subsidies for technology transformation and quality improvement projects	3,466,260.00			495,180.00				2,971,080.00	Asset-related
Land acquisition subsidies from Xi'an Economic and Technological Development Zone	2,600,000.00			65,000.00				2,535,000.00	Asset-related
Isostatic pressing equipment manufacturing conditions construction project	2,420,000.00			110,000.00				2,310,000.00	Asset-related
Provincial strategic emerging industry development special project 2	2,744,583.24			500,000.04				2,244,583.20	Asset-related

APPENDIX IV

**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Liability item	1 January 2019	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2019	Asset-related/ Income-related
Provincial strategic emerging industry development special project 6	2,000,000.00							2,000,000.00	Asset-related
Special subsidies for industrial transformation and upgrading technological transformation of Xiamen City	2,200,588.22			303,529.44				1,897,058.78	Asset-related
Research and development project of new material landing gear for shipborne unmanned helicopter		1,890,000.00						1,890,000.00	Asset-related
High reliability ejection drive		1,620,000.00						1,620,000.00	Asset-related
Research and application of integrated aviation hydraulic damper technology		1,200,000.00						1,200,000.00	Asset-related
Strategic emerging industry and high- end growth industry	1,180,000.00							1,180,000.00	Income-related
Provincial strategic emerging industry development special project 5	1,600,000.00			422,179.02				1,177,820.98	Asset-related
High precision fuel density sensor for aircraft	1,000,000.00							1,000,000.00	Income-related
Provincial strategic emerging industry development special project 4	1,090,000.00			108,999.96				981,000.04	Asset-related
Subsidies for innovation capacity building of technology center	700,000.00			100,000.00				600,000.00	Asset-related
Subsidies for technical innovation projects of Air Compressor Station - industrial energy saving subsidy	182,000.20	413,265.00		12,999.96				582,265.24	Asset-related
2017 special subsidies for innovation	489,250.00			57,000.00				432,250.00	Income-related
Scientific and technological achievements transformation project funds allocated by Science and Technology and Intellectual Property Office of Ya'an City	400,000.00							400,000.00	Asset-related
Scientific and technological achievements transformation project funds allocated by National Defense Science and Technology Industry Office of Sichuan Province	300,000.00							300,000.00	Asset-related

Liability item	1 January 2019	Amount of new grants in the current period	Amount included in non-operating income in the current period	Amount included in other income in the current period	Amount of offsetting costs and expenses in the current period	Decrease in consolidation scope	Add: Other changes	31 December 2019	Asset-related/ Income-related
New generation of high reliability aviation piping system connector industry	300,000.00							300,000.00	Asset-related
Fixed asset investment subsidies for key industrial projects from the government of Xindu District	289,800.00			57,960.00				231,840.00	Asset-related
2015 technical transformation subsidies of Huli District, Xiamen City	112,588.18			15,529.44				97,058.74	Income-related
R&D and Industrialization of electric vehicles powertrain system	133,333.21			50,000.04				83,333.17	Asset-related
Aviation power production capacity improvement project		10,780,000.00				10,780,000.00			Asset-related
Surface treatment center project subsidies	1,273,333.33			191,000.00		1,082,333.33			Asset-related
Subsidies for civil aviation high-tech industry construction project of electric motors and appliance	900,000.00			300,000.00		600,000.00			Asset-related
Land acquisition for reserve	158,272,769.19			3,727,447.36		154,545,321.83			Asset-related
Subsidies for scientific and technological achievements transformation projects	697,090.00			697,090.00					Income-related
Shifting yoke project allocation	350,000.00			350,000.00					Asset-related
Secondary power supply production capacity improvement project	1,000,000.00			100,000.00		900,000.00			Asset-related
Re-routing of die-casting production line of Guangzhou Airlines	1,940,000.00			580,000.00		1,360,000.00			Asset-related
Total	518,100,431.78	89,654,278.16		13,706,703.32		169,267,655.16		424,780,351.46	

Note 41. Other non-current liabilities

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Contract liabilities	1,346,059,007.74	2,950,465,103.88		
Borrowings	936,198,630.18	1,041,615,218.39	836,463,441.85	104,084,136.76
Proposed debt-to-equity borrowings	83,840,000.00	83,840,000.00	83,840,000.00	83,840,000.00
Tax pending for written back	10,183,889.85	62,465.31		

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Special reserve funds			370,851.10	370,851.10
Total	2,376,281,527.77	4,075,982,787.58	920,674,292.95	188,294,987.86

Note 42. Share Capital

Item	31 December 2021	Issuance of new shares	Increase (+) and decrease (-) for the period				Subtotal	31 May 2022
			Shares converted from convertible corporate bonds	Bonus issue	Shares converted from reserves	Others		
I. Restricted shares	134,765.00						134,765.00	
1. Shareholding of state-owned legal persons								
2. Other domestic shareholdings	134,765.00						134,765.00	
II. Unrestricted shares	3,884,690,024.00						3,884,690,024.00	
1. RMB ordinary shares	3,884,690,024.00						3,884,690,024.00	
2. Other								
Total number of shares	3,884,824,789.00						3,884,824,789.00	

Continued:

Item	31 December 2020	Issuance of new shares	Increase (+) and decrease (-) for the period				Subtotal	31 December 2021
			Shares converted from convertible corporate bonds	Bonus issue	Shares converted from reserves	Others		
I. Restricted shares	134,765.00						134,765.00	
1. Shareholding of state-owned legal persons								
2. Other domestic shareholdings	134,765.00						134,765.00	
II. Unrestricted shares	3,884,690,024.00						3,884,690,024.00	
1. RMB ordinary shares	3,884,690,024.00						3,884,690,024.00	
2. Other								
III. Total number of shares	3,884,824,789.00						3,884,824,789.00	

Continued:

Item	Increase (+) and decrease (-) for the period							31 December 2020
	31 December 2019	Issuance of new shares	Shares converted from convertible corporate bonds	Bonus issue	Shares converted from reserves	Others	Subtotal	
I. Restricted shares	251,166.00					-116,401.00	-116,401.00	134,765.00
1. Shareholding of state-owned legal persons								
2. Other domestic shareholdings	251,166.00					-116,401.00	-116,401.00	134,765.00
II. Unrestricted shares	3,608,413,291.00		276,160,332.00			116,401.00	276,276,733.00	3,884,690,024.00
1. RMB ordinary shares	3,608,413,291.00		276,160,332.00			116,401.00	276,276,733.00	3,884,690,024.00
2. Other								
III. Total number of shares	3,608,664,457.00		276,160,332.00				276,160,332.00	3,884,824,789.00

Note: In 2020, 116,401 shares held by the senior management of AVIC Electromechanical were released from restriction.

Continued:

Item	Increase (+) and decrease (-) for the period							31 December 2019
	1 January 2019	Issuance of new shares	Shares converted from convertible corporate bonds	Bonus issue	Shares converted from reserves	Others	Subtotal	
I. Restricted shares	466,171,159.00					-465,919,993.00	-465,919,993.00	251,166.00
1. Shareholding of state-owned legal persons						-116,540,054.00	-116,540,054.00	
2. Other domestic shareholdings	349,631,105.00					-349,379,939.00	-349,379,939.00	251,166.00
II. Unrestricted shares	3,142,462,176.00		31,122.00			465,919,993.00	465,951,115.00	3,608,413,291.00
1. RMB ordinary shares	3,142,462,176.00		31,122.00			465,919,993.00	465,951,115.00	3,608,413,291.00
2. Other								
III. Total number of shares	3,608,633,335.00		31,122.00				31,122.00	3,608,664,457.00

Note: The main changes of restricted shares in 2019 are as follows: On 15 March 2019, the restricted shares in AVIC Electromechanical Parent Company's non-public offering shares were released, totaling 465,927,133 shares. Such shares were changed to unrestricted shares, thus increasing 465,927,133 new unrestricted shares.

Note 43. Other equity instrument

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Convertible corporate bonds				327,228,662.33
Total				327,228,662.33

Changes and reasons for other equity instrument

The conditional redemption of “Electromechanical Convertible Bonds (機電轉債)” was triggered on 28 July 2020. On 30 July 2020, AVIC Electromechanical Parent Company held the thirty-sixth meeting of the sixth session of the board of directors to review and approve the Proposal on Early Redemption of Issued Convertible Corporate Bonds – “Electromechanical Convertible Bonds (機電轉債)”, and decided to exercise the conditional redemption right for full redemption of the “Electromechanical Convertible Bonds (機電轉債)” registered after the market closes on the redemption registration date (the trading day before the redemption day: 10 September 2020). As of 10 September 2020, the accumulated Electromechanical Convertible Bonds (機電轉債) were decreased by 20,969,996 bonds due to conversion and decreased by 27,619 bonds due to redemption, reducing the total balance of bonds payable by RMB1,895,445,629.10.

Basis for classification as equity instruments

Other equity instruments represent the fair value of equity components that are spun off at the time of initial recognition of convertible corporate bonds in accordance with the relevant provisions of Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments based on the market interest rate of similar bonds that do not have conversion rights.

Note 44. Capital reserves

Item	31 December 2021	Increase in the period	Decrease in the period	31 May 2022
Capital premium (share capital premium)	2,417,741,036.56			2,417,741,036.56
Other capital reserves	319,732,753.97	604,257.52		320,337,011.49
Total	2,737,473,790.53	604,257.52		2,738,078,048.05

Note: For changes in the special reserves of associates in the current period, AVIC Electromechanical calculates its entitled share according to the shareholding ratio, and increases the capital reserve by RMB604,257.52.

Continued:

Item	31 December 2020	Increase in the period	Decrease in the period	31 December 2021
Capital premium (share capital premium)	2,417,741,036.56			2,417,741,036.56
Other capital reserves	311,558,389.57	8,174,364.40		319,732,753.97
Total	2,729,299,426.13	8,174,364.40		2,737,473,790.53

Note: 1. Xinxiang Aviation Group (新航集團) purchased 49% equity interest of its subsidiary Xinxiang Aviation Industry (Group) Rubber & Plastic Products Co., Ltd. (新鄉航空工業(集團)橡塑制品有限公司) held by minority shareholders, and increased capital reserve by RMB6,853,220.51 in accordance with the difference between the consideration paid and the share of net assets of the subsidiary calculated in proportion to the equity interest acquired.

2. For changes in the special reserves of associates, AVIC Electromechanical increased the capital reserve by RMB1,321,143.89 according to its shareholding ratio.

Continued:

Item	31 December 2019	Increase in the period	Decrease in the period	31 December 2020
Capital premium (share capital premium)	466,942,167.49	1,950,798,869.07		2,417,741,036.56
Other capital reserves	312,119,281.22		560,891.65	311,558,389.57
Total	779,061,448.71	1,950,798,869.07	560,891.65	2,729,299,426.13

Note: 1. The share capital premium was increased the by RMB1,950,798,869.07 due to conversion and redemption of Electromechanical Convertible Bonds (機電轉債) in 2020. For details, please refer to VI. Note. 35 "Bonds Payable".

2. For changes in the special reserves of associates in the year of 2020, AVIC Electromechanical decreased the capital reserve by RMB560,891.65 according to its shareholding ratio.

Continued:

Item	1 January 2019	Increase for the period	Decrease for the period	31 December 2019
Capital premium (share capital premium)	719,349,748.00	210,848.49	252,618,429.00	466,942,167.49
Other capital reserves	312,274,174.72		154,893.50	312,119,281.22
Total	1,031,623,922.72	210,848.49	252,773,322.50	779,061,448.71

Note: 1. AVIC Electromechanical acquired the equity of Nanjing Hangjian (南京航健), which is also controlled by the ultimate controller, at a consideration of RMB171,240,000.00. AVIC Electromechanical reduced the capital reserve by RMB171,240,000.00 in accordance with the standards for business combination involving entities under common control.

2. AVIC Electromechanical purchased 30.00% equity of Nanjing Hangjian (南京航健) held by natural person shareholders and paid the difference between the consideration and the share of net assets enjoyed by minority shareholders on the acquisition date as a transaction of purchasing minority shareholders' equity interests, reducing the capital reserve by RMB81,378,429.00.
3. Some "Electromechanical Convertible Bonds (機電轉債)" were converted into shares, increasing the share capital premium by RMB210,848.49.

Note 45. Treasury shares

Item	1 January 2019	Increase for the period	Decrease for the period	31 December 2019	Increase for the period	Decrease for the period	31 December 2020
Employee stock ownership plan or equity incentive		154,893,610.43		154,893,610.43			154,893,610.43
Total		154,893,610.43		154,893,610.43			154,893,610.43

Continued:

Item	31 December 2020	Increase for the period	Decrease for the period	31 December 2021	Increase for the period	Decrease for the period	31 May 2022
Employee stock ownership plan or equity incentive	154,893,610.43			154,893,610.43			154,893,610.43
Total	154,893,610.43			154,893,610.43			154,893,610.43

Note: AVIC Electromechanical held the thirty-seventh meeting of the sixth session of the board of directors on 25 August 2020, at which the Proposal on Adjusting the Use of Shares Repurchased was reviewed and approved to adjust the use of shares repurchased in the original repurchase plan. According to the adjusted plan, all the repurchased shares would be used for the employee stock ownership plan or equity incentive. If AVIC Electromechanical failed to use the repurchased shares within 36 months after the completion of the share repurchase, the repurchased shares that have not been used would be cancelled.

Note 46. Other comprehensive income

Item			Amount incurred for the current period							31 May 2022
	31 December 2021	Amount before income tax for the current period	Less: included in other comprehensive income in the previous period and transferred to financial assets at amortised cost in the current period	Less: included in other comprehensive income in the previous period and transferred to financial assets at amortised cost in the current period	Less: transfer from hedging reserves to relevant assets or liabilities	Less: income tax expenses	Amount attributable to parent company after tax	Less: carry-over in changes arising from re-measurement of the defined benefit plan	Less: included in other comprehensive income in the previous period and transferred to retained earnings in the current period	
I. Other comprehensive income that cannot be reclassified into profit or loss	514,828,342.07	-228,124,124.99				-54,446,026.77	-173,678,098.22		341,150,243.85	
1. Changes arising from re-measurement of the defined benefit plan	-76,937,500.00	-540,000.00				-81,000.00	-459,000.00		-77,396,500.00	
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method	3,212,745.00	-917,405.00					-917,405.00		2,295,340.00	
3. Changes in fair value of other equity instrument investments	588,553,097.07	-226,666,719.99				-54,365,026.77	-172,301,693.22		416,251,403.85	
4. Changes in fair value of the enterprise's credit risk										
II. Other comprehensive income that can be reclassified into profit or loss	-6,285,851.72	2,289,938.63					1,147,259.26	1,142,679.37	-5,138,592.46	
1. Other comprehensive income that can be reclassified into profit or loss under the equity method										
2. Changes in fair value of other debt investments										
3. Amount charged into other comprehensive income arising from reclassification of financial assets										
4. Provision for credit impairment of other debt investments										
5. Reserves for cash flow hedge										
6. Translation difference of foreign currency financial statements	-6,285,851.72	2,289,938.63					1,147,259.26	1,142,679.37	-5,138,592.46	
7. Disposal income from a package disposal of subsidiaries before the loss of control										
8. Conversion of other assets to investment property measured by fair value model										
Total other comprehensive income	508,542,490.35	-225,834,186.36				-54,446,026.77	-172,530,838.96	1,142,679.37	336,011,651.39	

Continued:

Item	31 December 2020	Amount before income tax for the current period	Less: included in other comprehensive income in the previous period and transferred to profit or loss in the current period	Less: included in other comprehensive income in the previous period and transferred to financial assets at amortised cost in the current period	Amount incurred for the current period				Less: included in other comprehensive income in the previous period and transferred to retained earnings in the current period	31 December 2021
					Less: transfer from hedge to relevant assets or liabilities	Less: income tax expenses	Amount attributable to parent company after tax	Amount attributable to minority shareholders after tax		
I. Other comprehensive income that cannot be reclassified into profit or loss	392,038,768.10	168,118,652.38			45,329,078.41	122,789,573.97				514,828,342.07
1. Changes arising from re-measurement of the defined benefit plan	-59,294,000.00	-21,020,000.00			-3,376,500.00	-17,643,500.00				-76,937,500.00
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method	2,708,355.00	504,390.00				504,390.00				3,212,745.00
3. Changes in fair value of other equity instrument investments	448,624,413.10	188,634,262.38			48,705,578.41	139,928,683.97				588,553,097.07
4. Changes in fair value of the enterprise's credit risk										
II. Other comprehensive income that can be reclassified into profit or loss	99,515.59	-12,745,244.13				-6,385,367.31	-6,359,876.82			-6,285,851.72
1. Other comprehensive income that can be reclassified into profit or loss under the equity method										
2. Changes in fair value of other debt investments										
3. Amount charged into other comprehensive income arising from reclassification of financial assets										
4. Provision for credit impairment of other debt investments										
5. Reserves for cash flow hedge										
6. Translation difference of foreign currency financial statements	99,515.59	-12,745,244.13				-6,385,367.31	-6,359,876.82			-6,285,851.72
7. Disposable income from a package disposal of subsidiaries before the loss of control										
8. Conversion of other assets to investment property measured by fair value model										
Total other comprehensive income	392,138,283.69	155,373,408.25			45,329,078.41	116,404,206.66	-6,359,876.82			508,542,490.35

Continued:

Item	31 December 2019	Amount before income tax for the current period	Less: included in other comprehensive income in the previous period and transferred to profit or loss in the current period	Less: included in other comprehensive income in the previous period and transferred to financial assets at amortised cost in the current period	Amount incurred for the current period				Less: included in other comprehensive income in the previous period and transferred to retained earnings in the current period	31 December 2020
					Less: transfer from hedge to relevant assets or liabilities	Less: income tax expenses	Amount attributable to parent company after tax	Amount attributable to minority shareholders after tax		
I. Other comprehensive income that cannot be reclassified into profit or loss	-30,801,894.08	561,321,304.50			138,480,642.32		422,840,662.18			392,038,768.10
1. Changes arising from re-measurement of the defined benefit plan	-76,932,500.00	19,590,000.00			1,951,500.00		17,638,500.00			-59,294,000.00
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method		2,708,355.00					2,708,355.00			2,708,355.00
3. Changes in fair value of other equity instrument investments	46,130,605.92	539,022,949.50			136,529,142.32		402,493,807.18			448,624,413.10
4. Changes in fair value of the enterprise's credit risk										
II. Other comprehensive income that can be reclassified into profit or loss	2,127,632.01	-4,048,136.56					-2,028,116.42	-2,020,020.14		99,515.59
1. Other comprehensive income that can be reclassified into profit or loss under the equity method										
2. Changes in fair value of other debt investments										
3. Amount charged into other comprehensive income arising from reclassification of financial assets										
4. Provision for credit impairment of other debt investments										
5. Reserves for cash flow hedge										
6. Translation difference of foreign currency financial statements	2,127,632.01	-4,048,136.56					-2,028,116.42	-2,020,020.14		99,515.59
7. Disposal income from a package disposal of subsidiaries before the loss of control										
8. Conversion of other assets to investment property measured by fair value model										
Total other comprehensive income	-28,674,262.07	557,273,167.94			138,480,642.32		420,812,545.76	-2,020,020.14		392,138,283.69

Continued:

Item	1 January 2019	Amount incurred for the current period										31 December 2019
		Amount before income tax for the current period	Less: included in other comprehensive income in the previous period and transferred to profit or loss in the current period	Less: included in other comprehensive income in the previous period and transferred to financial assets at amortised cost in the current period	Less: transfer from hedge to relevant assets or liabilities	Less: income tax expenses	Amount attributable to parent company after tax	Amount attributable to minority shareholders after tax	Less: carry-over in changes arising from re-measurement of the defined benefit plan	Less: included in other comprehensive income in the previous period and transferred to retained earnings in the current period		
I. Other comprehensive income that cannot be reclassified into profit or loss	-104,537,098.54	90,177,363.36				16,847,350.19	73,330,013.17				-405,191.29	-30,801,894.08
1. Changes arising from re-measurement of the defined benefit plan	-95,634,000.00	21,070,000.00				2,368,500.00	18,701,500.00					-76,932,500.00
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method												
3. Changes in fair value of other equity instrument investments	-8,903,098.54	69,107,363.36				14,478,850.19	54,628,513.17				-405,191.29	46,130,605.92
4. Changes in fair value of the enterprise's credit risk												
II. Other comprehensive income that can be reclassified into profit or loss	272,819.98	3,702,219.63					1,854,812.03	1,847,407.60				2,127,632.01
1. Other comprehensive income that can be reclassified into profit or loss under the equity method												
2. Changes in fair value of other debt investments												
3. Amount charged into other comprehensive income arising from reclassification of financial assets												
4. Provision for credit impairment of other debt investments												
5. Reserves for cash flow hedge												
6. Translation difference of foreign currency financial statements	272,819.98	3,702,219.63					1,854,812.03	1,847,407.60				2,127,632.01
7. Disposal income from a package disposal of subsidiaries before the loss of control												
8. Conversion of other assets to investment property measured by fair value model												
Total other comprehensive income	-104,264,278.56	93,879,582.99				16,847,350.19	75,184,825.20	1,847,407.60			-405,191.29	-28,674,262.07

Note 47. Special reserves

Item	31 December 2021	Increase for the period	Decrease for the period	31 May 2022
Safety production expenses	120,209,734.35	33,496,688.23	23,209,763.59	130,496,658.99
Total	120,209,734.35	33,496,688.23	23,209,763.59	130,496,658.99

Continued:

Item	31 December 2020	Increase for the period	Decrease for the period	31 December 2021
Safety production expenses	124,487,942.98	67,539,667.74	71,817,876.37	120,209,734.35
Total	124,487,942.98	67,539,667.74	71,817,876.37	120,209,734.35

Continued:

Item	31 December 2019	Increase for the period	Decrease for the period	31 December 2020
Safety production expenses	125,573,304.17	58,855,634.42	59,940,995.61	124,487,942.98
Total	125,573,304.17	58,855,634.42	59,940,995.61	124,487,942.98

Continued:

Item	1 January 2019	Increase for the period	Decrease for the period	31 December 2019
Safety production expenses	123,753,325.94	61,628,215.87	59,808,237.64	125,573,304.17
Total	123,753,325.94	61,628,215.87	59,808,237.64	125,573,304.17

Note 48. Surplus reserves

Item	31 December 2021	Increase for the period	Decrease for the period	31 May 2022
Statutory surplus reserve	479,067,788.19			479,067,788.19
Discretionary surplus reserve	211,531,875.60			211,531,875.60
Total	690,599,663.79			690,599,663.79

Continued:

Items	1 January 2020	Increase for the period	Decrease for the period	31 December 2021
Statutory surplus reserve	424,678,192.87	54,389,595.32		479,067,788.19
Discretionary surplus reserve	211,531,875.60			211,531,875.60
Total	636,210,068.47	54,389,595.32		690,599,663.79

Continued:

Item	31 December 2019	Increase for the period	Decrease for the period	31 December 2020
Statutory surplus reserve	392,613,510.69	39,650,794.20	7,604,640.17	424,659,664.72
Discretionary surplus reserve	211,531,875.60			211,531,875.60
Total	604,145,386.29	39,650,794.20	7,604,640.17	636,191,540.32

Continued:

Item	1 January 2019	Increase for the period	Decrease for the period	31 December 2019
Statutory surplus reserve	365,692,447.28	26,921,063.41		392,613,510.69
Discretionary surplus reserve	211,531,875.60			211,531,875.60
Total	577,224,322.88	26,921,063.41		604,145,386.29

Note: According to the provisions of the Company Law and the Articles of Association of the Company, AVIC Electromechanical Parent Company appropriates 10% of the net profit to the statutory surplus reserve to the extent that the accumulated amount of statutory surplus reserve reaches more than 50% of the registered capital of AVIC Electromechanical Parent Company.

Please refer to Note VI. Note 12 “Long-term Equity Investment” for details of the adjustment of the surplus reserve at the beginning of the period.

Note 49. Retained earnings

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Retained earnings at the end of the previous period before adjustment	6,204,347,469.81	5,301,006,808.09	4,488,514,684.10	3,653,477,005.58
Adjustment of total retained earnings at the beginning of the period (“+” for increase and “-” for decrease)		-5,169,097.62		14,492,334.32
Retained earnings at the beginning of the period after adjustment	6,204,347,469.81	5,295,837,710.47	4,488,514,684.10	3,667,969,339.90
Add: Net profits attributable to owners of parent company during the period	540,211,582.88	1,271,879,737.38	1,073,759,479.79	960,484,970.72
Less: Appropriation to statutory surplus reserves		54,389,595.32	39,650,794.20	26,921,063.41
Appropriation to discretionary surplus reserve				
Appropriation to general risk reserve				
Dividends payable on ordinary shares	386,225,478.40	308,980,382.72	221,616,561.60	112,613,371.82
Dividend on ordinary share converted to share capital				
Add: Recovery of losses by surplus reserves				
Retained earnings carried over from changes in defined benefit plan				
Retained earnings carried over from other comprehensive income				
Other internal carry-over in owners' equity				
Others (“+” for increase and “-” for decrease)				405,191.29
Retained earnings at the end of the period	6,358,333,574.29	6,204,347,469.81	5,301,006,808.09	4,488,514,684.10

I. Adjustment of opening retained earnings

There is no adjustment to the opening balances of retained earnings from January to May 2022.

Explanation on the adjustment of retained earnings at the beginning of 2021:

The investees Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安中航漢勝航空電力有限公司) and AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降裝備有限公司) have implemented the new revenue standards, new financial instrument standards and new lease standards (hereinafter referred to as the “New Standards”) from 1 January 2021 and adjusted the

opening balances in the financial statements according to the transitional requirements of the New Standards. AVIC Electromechanical made adjustments to the opening balances in the 2021 financial statements accordingly when adopting the equity method for accounting. The opening amount of long-term equity investments was reduced by RMB5,150,569.47 and the opening amount of owner's equity attributable to the parent company was reduced by RMB5,150,569.47 (among which, the opening amount of surplus reserve was increased by RMB18,528.15 and the opening amount of retained earnings was reduced by RMB5,169,097.62).

There is no adjustment to the retained earnings at the beginning of 2020.

Explanation on the adjustment of retained earnings at the beginning of 2019:

Due to the first implementation of the new financial instrument standards on 1 January 2019, the retained earnings at the beginning of 2019 was increased by RMB14,492,334.32.

2. *Other explanations of retained earnings*

As of 31 May 2022, as approved by the general meeting of shareholders held by AVIC Electromechanical Parent Company on 15 April 2022, it is proposed to distribute RMB1.00 (including tax) to all shareholders for every 10 shares, totaling RMB386,225,478.40, based on the total share capital of 3,862,254,784 shares (excluding the repurchased shares).

As of 31 December 2021, a cash distribution of RMB0.80 (tax inclusive) per 10 shares was paid to all shareholders based on the total share capital of AVIC Electromechanical Parent Company as of 22 June 2021 (excluding the repurchased shares) of 3,862,254,784 shares, totaling RMB308,980,382.72, and the remaining retained earnings would be carried forward to the next year.

As of 31 December 2020, a cash distribution of RMB0.60 (tax inclusive) per 10 shares was paid to all shareholders based on the total share capital of AVIC Electromechanical Parent Company as of 18 August 2020 (excluding the repurchased shares) of 3,693,609,360 shares, totaling RMB221,616,561.60, and the remaining retained earnings would be carried forward to the next year.

As of 31 December 2019, a cash distribution of RMB0.30 (tax inclusive) per 10 shares was paid to all shareholders based on the total share capital of AVIC Electromechanical Parent Company as of 28 May 2019 (excluding the repurchased shares) of 3,604,759,010 shares, totaling RMB108,142,770.30, and the remaining retained earnings would be carried forward to the next year.

Note 50. Operating revenue and operating costs**1. Operating revenue and operating costs**

Item	January to May 2022		January to May 2021 (unaudited)	
	Revenue	Cost	Revenue	Cost
Principal businesses	6,625,879,731.49	5,070,486,374.01	6,246,367,151.07	4,946,598,573.87
Other businesses	86,813,421.39	46,381,081.18	64,329,740.83	31,714,263.19

Continued:

Item	2021		2020		2019	
	Revenue	Cost	Revenue	Cost	Revenue	Cost
Principal businesses	14,801,496,671.32	11,243,281,343.89	12,071,079,476.24	8,884,819,025.18	11,946,856,084.28	8,826,742,087.66
Other businesses	190,708,174.08	88,737,470.43	153,019,361.72	70,010,785.38	184,526,986.44	77,198,222.20

2. Revenue from contracts from January to May 2022

Contract classification	January to May 2022		January to May 2021 (unaudited)	
	Revenue	Cost	Revenue	Cost
I. By product type				
Aviation products	5,215,661,225.33	3,871,869,680.31	4,977,979,344.70	3,855,637,594.90
Non-aviation products	1,446,185,509.93	1,219,636,543.17	1,293,619,775.89	1,104,064,205.48
Modern service industry and others	50,846,417.62	25,361,231.71	39,097,771.31	18,611,036.68
II. By operation region				
Domestic	6,666,451,487.05	5,077,051,796.03	6,158,555,367.79	4,857,248,117.63
Overseas	46,241,665.83	39,815,659.16	152,141,524.11	121,064,719.43
Total	6,712,693,152.88	5,116,867,455.19	6,310,696,891.90	4,978,312,837.06

Continued:

Contract classification	2021		2020		2019	
	Revenue	Cost	Revenue	Cost	Revenue	Cost
I. By product type						
Aviation products	11,163,346,959.08	8,144,022,067.30	9,013,695,967.03	6,327,758,006.18	8,377,126,372.85	5,880,785,202.47
Non-aviation products	3,719,913,024.16	3,134,514,518.48	3,112,763,290.65	2,566,661,178.87	3,641,826,640.96	2,982,038,898.32
Modern service industry and others	108,944,862.16	53,482,228.54	97,639,580.28	60,410,625.51	112,430,056.91	41,116,209.07
II. By operation region						
Domestic	14,515,144,648.72	10,959,926,325.85	11,603,303,763.37	8,442,913,283.10	11,485,940,854.38	8,341,093,405.92
Overseas	477,060,196.68	372,092,488.47	620,795,074.59	511,916,527.46	645,442,216.34	562,846,903.94
Total	14,992,204,845.40	11,332,018,814.32	12,224,098,837.96	8,954,829,810.56	12,131,383,070.72	8,903,940,309.86

3. Operating revenue by revenue recognition time

Contract classification	January to	January to	2021	2020	2019
	May 2022	May 2021 (Unaudited)			
Transferred at a point in time					
Aviation products	5,215,661,225.33	4,977,979,344.70	11,163,346,959.08	9,013,695,967.03	8,571,391,022.59
Non-aviation products	1,446,185,509.93	1,293,619,775.89	3,719,913,024.16	3,112,763,290.65	3,375,465,061.69
Modern service industry and others	36,311,962.45	20,178,507.33	63,456,723.85	97,639,580.28	184,526,986.44
Transferred over time					
Total	6,698,158,697.71	6,291,777,627.92	14,946,716,707.09	12,224,098,837.96	12,131,383,070.72

4. Description of performance obligations

The types of transactions involving performance obligations of AVIC Electromechanical are sales of goods and rendering of services. AVIC Electromechanical recognizes revenue when it has fulfilled its performance obligations under the contract, i.e., when the customer obtains control of the related goods or services. The business for sales of aviation military goods by AVIC Electromechanical usually and only includes performance obligations for the transfer of goods. AVIC Electromechanical recognizes revenue at the point when control of the merchandise passes upon goods are inspected and shipped to customers with the right to receive payment. The credit periods allowed by AVIC Electromechanical to its customers are consistent with industry practice and do not have a significant financing components. Some of the aviation military goods between AVIC Electromechanical and its customers are subject to military price review and other arrangements, which results in variable consideration. AVIC Electromechanical determines the best estimate of the variable consideration based on the expected value. However, the transaction price including variable

consideration is only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The business for sales of civilian goods by AVIC Electromechanical usually and only includes performance obligations for the transfer of goods. AVIC Electromechanical recognizes revenue at the point when control of the goods passes upon obtaining a product transfer certificate or a product receipt with the right to receive payment.

5. Description of the apportionment to the remaining obligation

No.

Note 51. Taxes and surcharges

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
City maintenance and construction tax	3,547,417.13	3,255,276.55	10,537,679.21	9,030,868.48	10,397,343.84
Education surcharge	2,480,733.83	2,329,130.84	7,522,212.76	6,251,073.94	7,174,782.35
Property tax	9,072,225.29	7,585,863.62	25,697,076.23	21,955,681.88	23,282,192.54
Land use tax	4,444,368.72	3,113,247.84	12,018,818.04	10,012,701.18	11,133,490.39
Vehicle usage tax	26,983.40	51,651.00	121,800.26	185,952.17	157,938.34
Stamp duties	2,763,747.09	1,097,953.48	2,847,069.76	2,633,096.38	2,710,895.10
Flood prevention fund	20,706.37	9,044.83	50,433.65	43,005.83	374,056.91
Others	2,064,677.66	1,488,899.68	5,103,266.87	4,427,710.25	4,109,252.20
Total	24,420,859.49	18,931,067.84	63,898,356.78	54,540,090.11	59,339,951.67

Note 52. Selling expenses

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Employee compensation	15,368,533.26	13,115,559.53	36,278,728.04	30,233,428.62	33,309,234.08
Repair costs	9,807,507.16	11,005,778.61	22,349,394.27	8,299,414.78	9,535,015.91
Operating expenses	2,013,615.01	6,016,423.13	15,052,653.07	14,063,580.81	12,025,626.95
Sales service expense	8,039,852.43	3,605,335.24	13,971,024.11	10,721,951.16	14,447,336.70
Travelling expenses	3,422,485.18	2,580,827.59	6,448,038.10	6,183,961.47	7,974,963.40
Warehousing and storage fee	2,148,890.84	2,450,078.90	5,063,881.89	5,603,441.69	6,364,791.16
Packaging fee	392,087.83	1,457,797.36	3,068,451.88	2,083,508.73	2,800,100.55
Sample and product losses	7,075,203.68	598,078.27	2,720,497.71	522,107.89	10,555,971.79
Office fees	140,714.95	187,571.09	985,924.13	2,156,620.88	525,108.15
Agency fee for commissioned sales			617,355.82	459,912.94	1,532,285.40
Exhibition fees	15,309.47		168,621.21	263,753.34	192,644.71
Advertising expenses	5,643.99	81,346.51	184,446.11	173,120.86	126,758.10
Others	2,296,580.15	3,381,498.18	5,585,003.79	7,243,635.61	9,364,828.26

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Total	50,726,423.95	44,480,294.41	112,494,020.13	88,008,438.78	108,754,665.16

Note 53. Administrative expenses

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Employee compensation	348,339,783.82	286,584,299.53	877,638,805.37	803,545,696.41	776,494,161.61
Amortization of intangible assets	29,495,874.62	27,505,683.30	74,312,199.53	73,360,462.49	68,191,005.12
Depreciation costs	27,395,017.59	22,313,552.97	61,029,877.75	62,258,055.96	64,522,379.77
Consulting fee	6,666,635.89	9,137,256.52	32,528,733.33	26,350,437.08	33,592,911.61
Business entertainment expenses	7,491,828.26	9,364,120.90	27,039,060.18	20,745,077.75	20,866,115.56
Travelling expenses	5,194,963.51	6,467,726.15	24,372,808.07	18,256,742.72	24,568,106.30
Afforestation fees	9,698,945.96	10,133,312.59	33,347,955.13	35,137,450.26	35,738,559.37
Safety production fee	9,143,764.80	8,598,721.36	17,188,269.56	17,041,626.54	29,732,700.96
Repair costs	4,484,405.25	6,700,295.64	22,088,948.91	15,278,668.17	21,862,164.38
Office fees	8,772,653.78	6,516,779.63	19,747,264.35	18,683,117.81	19,364,646.98
Utilities	6,538,571.78	5,035,506.00	13,373,648.58	12,736,729.30	12,241,158.28
Rental fees	2,601,861.28	3,801,533.16	7,094,466.38	10,327,267.64	7,955,194.70
Conference fees	3,093,444.49	2,888,545.00	7,617,577.49	6,016,854.61	7,881,608.54
Costs for employing intermediary institutions	2,846,200.13	2,612,683.03	8,684,658.54	6,789,837.56	6,935,222.01
Including: Annual accounts audit fees			2,900,000.00	2,900,000.00	2,600,000.00
Party building work expenses	2,170,844.11	2,769,050.32	7,694,746.26	4,706,643.68	4,424,370.66
Retirement placement costs		76,140.13		69,290,000.00	
Factory maintenance and renovation costs			28,832,200.30	24,867,484.07	
Others	32,103,444.37	33,637,447.55	50,531,272.67	58,120,108.49	44,165,848.61
Total	506,038,239.64	444,142,653.78	1,313,122,492.40	1,283,512,260.54	1,178,536,154.46

Note 54. Research and development expenses

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Direct labor cost	134,091,831.21	92,624,880.92	283,139,029.54	225,565,403.36	198,517,781.08
Materials expenses	173,850,922.73	69,821,533.34	246,625,769.57	198,028,724.95	162,297,241.06
External negotiation fee	41,915,296.78	14,421,950.69	87,858,642.62	25,497,654.01	21,673,970.75
Depreciation and amortization costs	22,285,268.11	14,370,094.78	36,365,334.58	32,932,880.13	31,030,613.83
Administrative expense	26,575,629.18	3,837,042.34	23,787,672.28	14,305,313.03	10,535,520.65
Experimental fees	9,670,140.27	1,923,478.57	19,494,231.91	25,478,602.90	23,813,859.80
Design fee	19,709,881.77	7,781,050.64	12,553,395.39	20,109,682.42	28,646,159.71
Special fees	13,086,413.74	4,776,205.27	12,546,428.76	5,379,936.80	6,488,851.53
Power and fuel expenses	6,549,600.97	3,545,189.86	10,413,749.41	5,933,046.22	6,434,163.55
Travelling expenses	3,904,008.42	2,925,039.69	8,682,851.93	5,735,828.21	4,797,789.80
Expert consultation fees	3,691,623.96	878,818.87	6,824,234.98	1,393,704.90	947,446.97
Conference fees	868,109.13	470,163.74	2,306,313.64	2,013,553.13	2,713,764.70
Others	3,393,148.59	10,678,713.66	25,110,997.49	30,478,871.56	52,191,119.11
Total	459,591,874.86	228,054,162.37	775,708,652.10	592,853,201.62	550,088,282.54

Note 55. Finance costs

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Interest expenses	30,463,332.43	44,581,248.58	93,430,550.75	202,913,907.72	273,393,528.08
Less: Interest incomes	62,341,499.56	20,445,942.43	108,176,485.05	60,996,372.34	49,570,892.53
Less: Amount of interest capitalized	374,347.01	217,690.67	1,385,448.29	11,636,491.59	34,609,684.21
Exchange gain or loss	-9,269,932.16	-6,627,780.78	16,785,325.17	16,580,847.26	-8,128,785.30
Bank charges	1,036,287.84	700,679.52	1,505,779.87	3,224,389.99	4,173,573.27
Others	6,660,000.00		18,270,000.00	21,805,596.18	20,875,598.23
Total	-33,826,158.46	31,246,075.78	20,429,722.45	171,891,877.22	206,133,337.54

Note 56. Other income**1. Details of other income**

Sources of other income	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Government grants	56,521,147.41	43,885,410.43	192,235,526.90	280,569,443.95	143,887,631.18
Input tax deductions	53,749.07		476,360.81	305,878.81	
Refund of individual tax handling fee	1,391,093.01	1,094,532.89	1,371,931.97	720,251.98	412,306.44
Total	57,965,989.49	44,979,943.32	194,083,819.68	281,595,574.74	144,299,937.62

2. Government grants included in other income

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019	Asset-related/ Income- related
Subsidies for employment stabilization	3,360,944.96	3,565.82	43,265,763.18	56,743,105.88	20,214,267.36	Income-related
“4.20” post-disaster reconstruction project subsidies	4,689,166.30		33,263,483.47	4,457,134.17		Asset-related
XX allowance	6,445,000.00	3,250,000.00	21,766,000.00	27,999,333.05	17,365,405.53	Income-related
XX project subsidies	5,520,000.00		14,020,000.00	12,360,000.00	14,421,800.00	Income-related
Refund of VAT	1,019,763.27	6,832,728.78	11,486,743.97	9,825,312.33	17,991,031.85	Income-related
Subsidies for bottleneck projects		3,090,000.00	7,970,000.00	4,524,000.00		Income-related
Headquarter operation contribution incentives		7,437,200.00	7,437,200.00	2,000,000.00	5,484,800.00	Income-related
XX research subsidies	899,000.00	1,740,000.00	6,005,000.00	6,260,000.00	7,992,000.00	Income-related
Joint research fund among the municipal government, universities and enterprises			2,979,872.20			Income-related
XX special funds	4,725,900.00	1,724,349.50	2,440,000.00	1,627,600.00	11,122,035.00	Income-related
Q1 scale reward			2,385,900.00			Income-related
Working subsidy		836,700.00	2,031,200.00	5,484,000.00		Income-related

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019	Asset-related/ Income- related
Operation contribution award for the 3rd year	2,382,900.00		2,000,000.00			Income-related
Industrial development fund	814,236.00	488,541.6	1,954,166.40	1,954,166.58	1,954,166.66	Asset-related
New park relocation project	1,287,801.44	1,042,500.00	1,910,500.00			Asset-related
Rail transit project subsidies		1,600,000.00	1,600,000.00			Asset-related
Special R&D grants from the Finance Bureau		1,600,000.00	1,600,000.00			Income-related
Special subsidy of Deyang military-civilian integration fund		1,550,000.00	1,550,000.00			Income-related
Technology improvement for key production process of hydrovalve			1,300,000.00			Income-related
Municipal smart manufacturing subsidies			1,289,000.00	6,445,080.00		Income-related
Subsidies for 2020 industrial internet projects			1,287,200.00			Income-related
Special funds for 2021 military-civilian integration development			1,200,000.00			Income-related
Financial funds for strategic emerging industry and high-end growth industry			1,180,000.00			Income-related
XX fees	3,580,000.00		980,000.00	6,130,000.00	6,920,000.00	Asset-related
Other scientific projects funds from Finance Bureau			918,000.00			Income-related

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019	Asset-related/ Income- related
Special subsidies for Anshun Zero Discharge Wastewater Project			700,000.00			Asset-related
Provincial strategic emerging industry development special project 1	250,000.00	250,000.00	600,000.00	600,000.00	600,000.00	Asset-related
Subsidies for Yibin R&D project of key technology of electro- hydraulic fusion for smart engineering machinery			600,000.00			Income-related
Subsidies of Nanjing municipal industrial and information technology development fund project		541,000.00	541,000.00			Income-related
Technology transformation subsidies	216,292.22		519,101.32	519,101.32	519,101.32	Asset-related
Provincial strategic emerging industry development special project2	208,333.35	208,333.35	500,000.04	500,000.04	500,000.04	Asset-related
Equipment subsidies for technology transformation and quality improvement projects	206,325.00	123,795.00	495,180.00	495,180.00	495,180.00	Asset-related
Industrialization project of innovative achievements in ancillary products for utility helicopters	200,000.00		480,000.00	480,000.00	480,000.00	Asset-related
Subsidies of policy materialization	192,195.80	115,317.50	461,270.00	461,270.00	461,270.00	Asset-related

APPENDIX IV

**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019	Asset-related/ Income- related
Provincial strategic emerging industry development special project3	183,333.35	183,333.35	440,000.04	440,000.04	1,236,250.04	Asset-related
Special subsidies for industrial transformation and upgrading technological transformation of Xiamen City	126,470.60		303,529.44	303,529.44	303,529.44	Asset-related
Special subsidies for industrial transformation and upgrading technological transformation of Xiamen City		126,470.60	303,529.44			Income-related
AVIC electric vehicle powertrain system (phase I) project	88,333.35	88,333.35	211,999.87	212,000.04	212,000.04	Asset-related
Provincial strategic emerging industry development special project6	83,333.35	83,333.35	200,000.04	400,000.01		Asset-related
Provincial strategic emerging industry development special project5	66,666.65	66,666.65	159,999.96	159,999.96	422,179.02	Asset-related
Isostatic pressing equipment manufacturing conditions construction project	45,833.33		110,000.00	110,000.00		Asset-related
Provincial strategic emerging industry development special project4	45,416.65	45,416.65	108,999.96	108,999.96		Asset-related

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019	Asset-related/ Income- related
Subsidies for innovation capacity building of technology center	41,666.70	25,000.00	100,000.00	100,000.00		Asset-related
Land acquisition subsidies from Xi'an Economic and Technological Development Zone	27,083.00		65,000.00	65,000.00		Asset-related
2017 special subsidies for innovation	23,750.00	23,750.00	57,000.00	57,000.00		Asset-related
R&D and Industrialization of electric vehicles powertrain system			33,333.13	50,000.04		Asset-related
Rewards and subsidies for R&D investment of enterprise	3,325,077.84	25,000.00	25,000.00	1,200,000.00	1,800,000.00	Income-related
2015 technical transformation subsidies of Huli District, Xiamen City	6,470.60	6,470.60	15,529.44	15,529.44		Asset-related
Special subsidies				77,121,000.00		Income-related
Patent subsidies				9,605,800.00		Income-related
Subsidies for plant construction of Jiangning Management Committee of Nanjing Airport Economic Hub				9,000,000.00		Income-related
First-year operational contribution award				8,227,200.00		Income-related
Subsidies for digital workshop projects				7,500,000.00		Income-related
Special reward and subsidy of Finance Bureau for industrial enterprise structural adjustment				2,330,000.00		Income-related

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019	Asset-related/ Income- related
Special contribution award for military- trade integration				1,104,000.00		Income-related
Joint scientific research subsidies of government, universities and enterprises					5,032,030.00	Income-related
Payable of land acquisition for reserve					3,727,447.36	Asset-related
Subsidies for restructuring of enterprises					3,410,000.00	Income-related
Subsidies for patent sales					2,377,300.00	Income-related
Headquarter business start-up incentives					2,000,000.00	Income-related
Others	16,459,853.65	10,777,604.33	11,385,025.00	13,594,101.65	16,845,837.52	
Total	56,521,147.41	43,885,410.43	192,235,526.90	280,569,443.95	143,887,631.18	

Note 57. Investment income

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Long-term equity investment incomes calculated at equity method	6,516,238.25		23,481,935.94	13,579,154.98	-2,454,815.71
Investment income from disposal of long-term equity investment					19,390,459.80
Investment income from holding financial assets held for trading				123,675.03	381,485.69
Dividend income from holding other equity instrument investments	5,856,825.45		8,098,662.66	5,754,767.85	1,416,809.81
Gain on derecognition of financial assets measured at amortized cost	-18,000.00	177,920.09	-1,126,179.66	-13,756,510.85	-26,687,934.99
Gain on derecognition of financial liabilities measured at amortized cost	4,180,736.37	-633,003.79	9,261,323.99	6,351,076.03	
Others	2,528,385.85		5,817,936.27	6,411,783.31	5,154,674.98

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Total	19,064,185.92	-455,083.70	45,533,679.20	18,463,946.35	-2,799,320.42

Note 58. Income from changes in fair value

Source of income from changes in fair value	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Financial assets held for trading	25,034.57		-494,989.24	-670,326.36	9,214,655.59
Total	25,034.57		-494,989.24	-670,326.36	9,214,655.59

Note 59. Credit impairment loss

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Loss on bad debts	-20,151,506.32	-6,977,718.29	6,062,208.95	14,937,910.58	-23,131,584.09
Total	-20,151,506.32	-6,977,718.29	6,062,208.95	14,937,910.58	-23,131,584.09

Note 60. Assets impairment loss

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Inventory depreciation loss and contract performance cost impairment losses	-12,945,564.47	-16,682.49	-36,740,895.71	-43,447,619.90	-24,731,525.51
Impairment losses of fixed assets			-2,849,080.00	-6,712,296.42	
Impairment losses of construction in progress			-2,022,138.49		
Goodwill impairment loss			-19,756,700.00		
Total	-12,945,564.47	-16,682.49	-61,368,814.20	-50,159,916.32	-24,731,525.51

Note 61. Income from assets disposal

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Gains from disposal of fixed assets, construction in progress and intangible assets not classified as held for sale (losses are indicated by "-")	-27,811.99	-13,278.69	-25,118,728.31	-4,329,966.00	146,389.30
Total	-27,811.99	-13,278.69	-25,118,728.31	-4,329,966.00	146,389.30

Note 62. Non-operating income

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Donations received	291,304.00				
Liquidated damages income	2,032,825.58		465,819.94	143,250.00	1,299,843.55

APPENDIX IV**ACCOUNTANTS' REPORT OF
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Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Gain on destruction and retirement of non-current assets	791,897.76	1,012,298.07	3,373,546.86	2,048,474.24	628,978.52
Unclaimed payables	663,744.98	491,717.77	2,018,138.99	10,869,054.63	18,547,737.15
Penalty income	1,033,588.94	1,553,868.95	3,990,521.70	3,163,215.80	4,779,215.31
Others	700,340.24	1,315,405.67	2,990,629.53	5,174,864.51	4,040,019.61
Total	5,513,701.50	4,373,290.46	12,838,657.02	21,398,859.18	29,295,794.14

Amount included in non-recurring gains and losses for each period

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Donations received	291,304.00				
Liquidated damages income	2,032,825.58		465,819.94	143,250.00	1,299,843.55
Gain on destruction and retirement of non-current assets	791,897.76	1,012,298.07	3,373,546.86	2,048,474.24	628,978.52
Unclaimed payables	663,744.98	491,717.77	2,018,138.99	10,869,054.63	18,547,737.15
Penalty income	1,033,588.94	1,553,868.95	3,990,521.70	3,163,215.80	4,779,215.31
Others	700,340.24	1,315,405.67	2,990,629.53	5,174,864.51	4,040,019.61
Total	5,513,701.50	4,373,290.46	12,838,657.02	21,398,859.18	29,295,794.14

Note 63. Non-operating expenses

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
External donation	107,667.37	32,438.20	946,470.98	2,004,148.20	1,707,961.00
Losses on destruction and retirement of non-current assets	1,838,681.12	678,893.75	14,909,187.02	7,712,067.94	5,539,239.21
Fines	21,845.21	200.00	92,333.07	342,052.09	3,744.94
Compensation	11,917.13	492,365.00	498,577.30	1,528,526.31	2,900,867.50
Estimated losses	3,883,695.60				
Others	750,535.10	86,910.80	276,943.16	1,534,892.14	2,348,309.04
	6,614,341.53	1,290,807.75	16,723,511.53	13,121,686.68	12,500,121.69

Amount included in non-recurring gains and losses for each period

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
External donation	107,667.37	32,438.20	946,470.98	2,004,148.20	1,707,961.00
Losses on destruction and retirement of non-current assets	1,838,681.12	678,893.75	14,909,187.02	7,712,067.94	5,539,239.21
Fines	21,845.21	200.00	92,333.07	342,052.09	3,744.94
Compensation	11,917.13	492,365.00	498,577.30	1,528,526.31	2,900,867.50
Estimated losses	3,883,695.60				
Others	750,535.10	86,910.80	276,943.16	1,534,892.14	2,348,309.04
Total	6,614,341.53	1,290,807.75	16,723,511.53	13,121,686.68	12,500,121.69

Note 64. Income tax expenses**1. Income tax expense statement**

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Current income tax expenses	78,510,005.29	62,097,377.42	169,106,863.28	190,576,855.10	167,537,425.21
Deferred income tax expenses	2,923,164.33	4,985,621.06	8,408,220.59	12,197,671.88	18,430,497.62
Total	81,433,169.62	67,082,998.48	177,515,083.87	202,774,526.98	185,967,922.83

2. Adjustment process of accounting profits and income tax expenses

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Total profit	631,704,145.38	606,129,463.52	1,529,345,108.79	1,346,577,554.62	1,244,384,594.43
Income tax expenses at statutory/applicable rates	157,926,036.35	151,532,365.88	382,336,277.20	336,644,388.65	311,096,148.61
The impact of different tax rates applied to subsidiaries	-58,426,012.99	-57,017,381.75	-143,601,049.76	-124,494,421.74	-121,082,643.39
The impact of adjustments to income taxes in previous periods	1,424,211.90	-1,273,000.66	9,010,711.25	-7,756,512.62	1,880,787.33
The impact of non-taxable revenue	-630,818.94		-13,737,803.53	-4,881,599.64	-10,880,561.62
The impact of non-deductible costs, expenses and losses	9,380,826.45	3,160,012.03	27,309,802.74	35,575,150.19	15,889,416.23
The impact of deductible losses on the use of deferred income tax assets not recognized in previous periods	-4,071,123.68	-2,021,930.78	-7,369,684.33	-2,495,462.28	-144,958.779
The impact of deductible temporary differences or deductible losses on deferred income tax assets not recognized in the current period	345,272.39	942,583.20	1,794,354.95	9,037,864.56	28,607,565.48
Others	-24,515,221.86	-28,239,649.44	-78,227,524.65	-38,854,880.14	-39,397,831.03
Income tax expenses	81,433,169.62	67,082,998.48	177,515,083.87	202,774,526.98	185,967,922.83

Note 65. Notes to the cash flow statement**1. Other cash received relating to operating activities**

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Intercourse funds	34,489,402.14	25,741,156.46	263,642,132.83	406,645,908.58	272,783,804.13
Receivables and payables on behalf of other parties	31,275,003.53	39,238,160.25	103,548,018.18	44,032,194.21	103,761,341.05
Research funds received	31,782,900.00	78,510,319.27	225,246,884.26	324,764,728.42	278,429,018.07
Deposit interest	21,029,627.81	16,011,985.95	67,138,488.68	38,810,239.90	30,022,797.17
Government grants	53,770,461.88	66,823,190.32	114,321,952.41	247,072,771.61	236,652,515.34
Security deposit	2,990,200.06	2,766,900.44	8,396,258.41	7,442,658.18	5,441,059.45
Lease income	5,229,688.20	6,273,097.09	14,537,455.60	15,388,479.67	15,797,267.10
Notes and letter of credit deposit	4,254,981.95		2,939,527.38	38,106,455.89	38,754,291.13
Collection of factoring receivables	30,000,094.50	28,237,244.81	336,865,746.29	490,374,586.82	649,067,642.14
Income from fines and compensation	1,878,914.25	2,530,685.95	4,862,212.66	1,525,126.86	5,653,180.57
Collected funds for house purchase			73,688.08	1,592,117.79	1,080,959.00
Grant received for Water/ Electricity/Gas Supply and Property Management (expensed portion)			14,318,100.00	8,680,000.00	29,860,750.00
Others	2,006,024.46	10,598,104.09	51,960,799.14	33,595,705.69	50,217,276.37
Total	218,707,298.78	276,730,844.63	1,207,851,263.92	1,658,030,973.62	1,717,521,901.52

2. *Other cash paid relating to operating activities*

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Intercourse funds	78,115,566.75	40,475,966.60	469,012,074.09	488,297,814.70	411,850,760.06
Receivables and payables on behalf of other parties	30,139,118.83	37,160,437.32	100,498,777.67	26,382,775.56	96,965,341.58
Research funds paid	22,593,279.62	20,380,894.44	148,279,823.57	106,991,523.95	156,033,332.77
Notes and letter of credit deposit	1,889,055.00	1,546,862.30	8,424,398.02	6,605,432.05	83,413,779.05
Pretty cash	18,819,374.41	15,497,596.37	42,944,673.58	47,942,165.30	38,873,851.74
Lease expense	342,809.74	987,382.87	1,184,315.48	290,893.00	632,958.00
Overall cost of employees who officially retired	30,175,970.64	34,315,027.30	79,768,497.78	52,732,076.52	57,540,576.19
Entertainment expenses, office fees and conference fees	33,245,016.26	29,190,653.89	87,450,211.43	68,278,512.34	70,472,895.85
Publicity expenses, labor costs and handling fee	27,265,846.61	25,546,391.60	59,686,982.05	22,639,344.71	23,879,373.32
Repair costs	12,873,443.86	25,206,309.27	31,975,939.79	71,816,671.62	51,263,380.81
Payment of fines and compensation	13,207.13	61,408.11	128,706.15	2,670,610.14	2,156,717.73
Union funds	14,388,949.56	14,680,809.04	38,509,159.77	33,745,867.87	34,293,913.71
Payment of factoring receivables	10,088,242.50	32,540,279.80	395,166,047.05	539,977,522.35	688,596,852.24
Others	60,795,440.89	68,582,485.33	209,757,396.31	192,396,275.65	155,399,191.13
Total	340,745,321.80	346,172,504.24	1,672,787,002.74	1,660,767,485.76	1,871,372,924.18

3. *Other cash received relating to investing activities*

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Term deposit and interest	653,071,001.73	55,912,529.81	846,413,412.50		
Total	653,071,001.73	55,912,529.81	846,413,412.50		

4. *Other cash paid relating to investing activities*

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Term deposit	1,196,399,963.24	300,718,309.21	2,126,161,161.36	433,000,000.00	
Net cash from disposals of subsidiaries					3,592,968.48
Total	1,196,399,963.24	300,718,309.21	2,126,161,161.36	433,000,000.00	3,592,968.48

5. *Other cash received relating to financing activities*

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Capital appropriated from the national treasury	45,610,774.91	29,914,202.37	143,440,000.00	69,479,248.23	163,196,791.78
Grant received for Water/ Electricity/Gas Supply and Property Management (capitalization portion)			9,197,900.00	38,204,000.00	59,255,200.00
Loan deposit				2,367,500.00	385,993.30
Total	45,610,774.91	29,914,202.37	152,637,900.00	110,050,748.23	222,837,985.08

6. *Other cash paid relating to financing activities*

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Purchase of minority interest in Rubber & Plastic Company (橡塑公司)			20,812,162.00		
Repayment of lease liabilities	5,208,352.93	2,383,549.35	20,059,356.67	29,294,030.01	27,589,431.73
Donation	61,499.00	26,638.20	946,470.98	1,982,148.20	1,607,961.00
Payment for the purchase of equity interest in Nanjing Hangjian				274,985,232.74	
Payment of the balance of business assets purchased in prior years				30,625,501.11	6,170,848.89
Payment for purchase of minority interest				26,486,100.00	
Financing issuance fee and handling fee	10,000.00			40,200.00	853,634.17
Repurchase treasury stock					155,052,703.56
Financial lease payments					16,801,194.96
Total	5,279,851.93	2,410,187.55	41,817,989.65	363,413,212.06	208,075,774.31

Note 66. Supplementary information to cash flow statement**1. Supplementary information to cash flow statement**

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
1. Adjust net profit to cash flow from operating activities					
Net profit	550,270,975.76	539,046,465.04	1,351,830,024.92	1,143,803,027.64	1,058,416,671.60
Add: Credit impairment losses	20,151,506.32	6,977,718.29	-6,062,208.95	-14,937,910.58	23,131,584.09
Provision for asset impairment	12,945,564.47	16,682.49	61,368,814.20	50,159,916.32	24,731,525.51
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of bearer biological assets	279,000,466.23	262,231,682.06	671,569,822.33	594,721,007.55	597,840,181.71
Depreciation of right-of-use assets	8,528,463.13	8,096,233.73	18,830,025.96	12,488,727.51	11,095,801.65
Amortization of intangible assets	40,478,654.45	43,247,565.07	103,512,440.21	90,012,259.78	79,571,122.39
Amortization of long-term deferred expenses	1,872,742.54	1,599,634.03	4,737,318.12	7,188,805.30	7,141,230.92
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains are listed with "-")	27,811.99	13,278.69	25,118,728.31	4,329,966.00	-146,389.30
Losses on scrapping of fixed assets (gains are listed with "-")	1,046,783.36	-333,404.32	11,535,640.16	5,663,593.70	4,599,038.69
Losses from changes in fair value (gains are listed with "-")	-25,034.57		494,989.24	670,326.36	-9,214,655.59
Financial costs (gains are listed with "-")	-4,562,886.33	12,073,524.12	46,077,121.48	138,123,283.94	259,384,731.62
Investment losses (gains are listed with "-")	-19,064,185.92	455,083.70	-45,533,679.20	-18,463,946.35	2,799,320.42
Decrease in deferred income tax assets (increase are listed with "-")	2,862,014.77	3,712,681.06	8,584,544.65	7,157,678.19	11,381,091.24

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Increase in deferred tax liabilities (decreases are listed with "-")	61,149.56	1,789,588.88	-176,324.06	5,039,993.69	7,049,406.38
Decrease in inventory (increase are listed with "-")	-350,751,785.22	48,771,306.27	-974,264,857.00	-773,397,695.41	-741,424,850.35
Decrease in operating receivable items (increase are listed with "-")	-1,858,588,920.61	-887,425,073.94	-407,526,787.55	-45,366,153.96	-93,210,446.48
Increase in operating payable items (decreases are listed with "-")	-851,156,114.79	5,250,686,317.18	5,547,743,567.28	58,383,692.30	284,729,317.70
Others	57,896,629.32	27,037,085.38	-42,538,634.85	56,498,794.54	59,782,460.94
Net cash flow from operating activities	-2,109,006,165.54	5,317,996,367.73	6,375,300,545.25	1,322,075,366.52	1,587,657,143.14
2. Significant investing and financing activities that do not involve cash receipts and payments					
Conversion of debt to capital					
Convertible corporate bonds due within one year					
Newly added right-of-use assets in the current period					
3. Net change in cash and cash equivalents					
Closing cash balance	3,367,946,842.21	7,914,462,824.25	6,229,593,109.32	3,910,140,172.33	4,386,760,426.60
Less: Opening balance of cash	6,229,593,109.32	3,910,140,172.33	3,910,140,172.33	4,386,760,426.60	2,977,625,954.54
Add: Closing balance of cash equivalents					
Less: Opening balance of cash equivalents					
Net increase in cash and cash equivalents	-2,861,646,267.11	4,004,322,651.92	2,319,452,936.99	-476,620,254.27	1,409,134,472.06

2. Net cash paid to acquire subsidiaries in the reporting period

No.

3. *Net cash received from disposal of subsidiaries in the reporting period*

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Cash or cash equivalents received during the current period from disposal of subsidiaries in the current period	-	-	-	-	97,532,736.74
Including: Guiyang Aviation Motor Co., Ltd. (貴陽航 空電機有限公司)	-	-	-	-	94,399,575.74
Xinxiang North Hydraulic Transmission Machinery Co., Ltd (新鄉北方液壓 傳動機械有限公司)	-	-	-	-	3,133,161.00
Less: Cash and cash equivalents held by the subsidiaries on the date of loss of control	-	-	-	-	98,501,751.24
Including: Guiyang Aviation Motor Co., Ltd. (貴陽航 空電機有限公司)	-	-	-	-	97,992,544.22
Xinxiang North Hydraulic Transmission Machinery Co., Ltd (新鄉北方液壓 傳動機械有限公司)	-	-	-	-	509,207.02
Add: cash or cash equivalents received in the current period on disposals of subsidiaries in previous periods	-	-	-	-	
Net cash received from disposal of subsidiaries	-	-	-	-	-969,014.50

4. *Composition of cash and cash equivalents*

Item	31 May 2022	31 December 2021	31 December 2020	31 December 2019
1. Cash	3,367,946,842.21	6,229,593,109.32	3,910,140,172.33	4,386,760,426.60
Including: Cash on hand	175,002.39	289,701.29	273,367.76	311,515.77
Bank deposits readily available for payment	3,367,771,839.82	6,229,303,408.03	3,909,866,804.57	4,386,448,884.42
Other monetary funds readily available for disbursement				26.41
2. Cash equivalents				
Including: Bond investments due within 3 months				
3. Closing balance of cash and cash equivalents	3,367,946,842.21	6,229,593,109.32	3,910,140,172.33	4,386,760,426.60
Including: Cash and cash equivalents with restrictions on use by the parent or subsidiaries within the Group				

Note 67. Notes to items of statement of changes in shareholders' equity

There are no other items with significant amounts in the statement of changes in shareholders' equity from January to May 2022.

Other items with significant amounts in the statement of changes in shareholders' equity for 2021:

The special reserve of AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降裝備有限公司), an associate of AVIC Electromechanical, changed and AVIC Electromechanical recognized its entitled share according to the shareholding ratio, resulting in other changes in the capital reserve of RMB1,321,143.89. AVIC Xinxiang Aviation Industry (Group) Co., Ltd. (新鄉航空工業(集團)有限公司), a subsidiary of AVIC Electromechanical, purchased minority interests in Xinxiang Aviation Industry (Group) Rubber & Plastic Products Co., Ltd. (新鄉航空工業(集團)橡塑製品有限公司) at a premium, resulting in other changes in the capital reserve of RMB6,853,220.51 and other changes in minority interests of RMB-27,665,382.51.

Other items with significant amounts in the statement of changes in shareholders' equity for 2020:

The special reserve of AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降裝備有限公司), an associate of AVIC Electromechanical, changed and AVIC Electromechanical recognized its entitled share according to the shareholding ratio, resulting in other changes in the capital reserve of RMB-560,891.65.

AVIC Xinxiang Aviation Industry (Group) Co., Ltd. (新鄉航空工業(集團)有限公司), a subsidiary of AVIC Electromechanical, purchased minority interests at a premium, resulting in other changes in the surplus reserve of RMB-7,604,640.17 and other changes in minority interests of RMB-18,881,459.83.

Other items with significant amounts in the statement of changes in shareholders' equity for 2019:

AVIC Electromechanical acquired the equity interest in Nanjing Hangjian, which is also controlled by the ultimate controlling party, for a consideration of RMB171,240,000.00. AVIC Electromechanical reduced capital reserve by RMB171,240,000.00 in accordance with the standards for business combinations involving entities under common control. The difference between the consideration paid and the minority shareholder's share of net assets at the acquisition date for AVIC Electromechanical's purchase of 30.00% equity interest in Nanjing Hangjian held by natural person shareholders was accounted for as a purchase of minority shareholder's equity interest transaction, which decreased capital reserve by RMB81,378,429.00.

AVIC Electromechanical disposed of Guiyang Aviation Motor Co., Ltd. (貴陽航空電機有限公司), resulting in other changes in special reserves of RMB-18,092,042.36 and other changes in minority interests of RMB-191,530,588.94.

Note 68. Assets with restricted ownership or right to use

Item	January to May 2022	31 December 2021	31 December 2020	31 December 2019	Reasons for restriction
Monetary funds	2,761,747,290.01	2,254,034,831.30	887,937,302.94	512,521,458.67	Bank acceptance notes deposit, letter of credit deposit, performance security deposit and term deposits
Notes receivable	56,671,152.00		15,700,000.00	83,129,912.37	Pledge for short-term borrowings, issuance of bills payable fixed assets
Intangible assets	2,941,627.65	3,159,102.07	3,681,040.63	17,763,947.61	Security for borrowings
Accounts receivable	10,000,000.00	5,000,000.00	23,989,440.00	30,407,866.72	Security for borrowings
Receivables financing		32,135,329.78		388,058,662.26	Pledge for borrowings
					Pledge for issuance of notes payable
Total	2,831,360,069.66	2,294,329,263.15	931,307,783.57	1,031,881,847.63	

Note: (1) As of 31 May 2022, the mortgage loan of AVIC Electromechanical was RMB24,000,000.00. Buildings and buildings with a book value of RMB2,941,627.65 are used as collateral for long-term loans of RMB24,000,000.00.

On 31 May 2022, the pledged loan of AVIC Electromechanical was RMB66,671,152.00, and the pledges were accounts receivable and notes receivable with a book value of RMB66,671,152.00

- (2) On 31 December 2021, the mortgage loan of AVIC Electromechanical was RMB24,000,000.00. Buildings and buildings with a book value of RMB3,159,102.07 are used as collateral for long-term loans of RMB24,000,000.00.

On 31 December 2021, the pledged loan of AVIC Electromechanical was RMB5,000,000.00, and the pledges were accounts receivable and notes receivable with a book value of RMB5,000,000.00.

- (3) On 31 December 2020, the mortgage loan of AVIC Electromechanical was RMB24,000,000.00. Buildings and buildings with a book value of approximately RMB3,681,040.63 are used as collateral for long-term loans of RMB24,000,000.00.

On 31 December 2020, the pledged loan of AVIC Electromechanical was RMB35,889,440.00, and the pledges were accounts receivable and notes receivable with a book value of RMB35,889,440.00. AVIC Electromechanical pledged RMB3,800,000.00 bills receivable to the bank for bank acceptance bills.

- (4) On 31 December 2019, the mortgage loan of AVIC Electromechanical was RMB30,900,000.00. Among them, buildings with a book value of approximately RMB17,763,947.61 are used as collateral for long-term loans of RMB27,400,000.00; land use rights with a book value of approximately RMB30,407,866.72 are used as collateral for long-term loans of RMB3,500,000.00.

As at 31 December 2019, the pledged loan of AVIC Electromechanical was RMB471,188,574.63, and the pledges were accounts receivable and notes receivable with a book value of RMB471,188,574.63. AVIC Electromechanical pledged RMB11,801,956.18 bills receivable to the bank for bank acceptance bills.

Note 69. Monetary items in foreign currency

Item	31 May 2022		31 December 2021		31 December 2020		31 December 2019					
	Balance of foreign currency	Conversion rate	Converted RMB balance	Balance of foreign currency	Conversion rate	Converted RMB balance	Balance of foreign currency	Conversion rate	Converted RMB balance			
Monetary funds			179,557,512.61			158,143,722.36			117,707,060.01			103,279,672.37
Including: USD	6,712,287.42	6.6607	44,708,532.82	7,502,160.16	6.3757	47,831,522.53	7,118,403.78	6.5249	46,446,872.82	3,021,667.86	6.9762	21,079,759.32
EUR	1,166,703.12	7.1747	8,370,744.88	683,121.39	7.2197	4,931,931.50	290,990.78	8.0250	2,335,201.01	54,784.96	7.8155	428,171.85
HKD	3,120.00	0.8487	2,647.94	3,120.00	0.8176	2,550.91	3,120.00	0.8416	2,625.79	3,120.00	0.8958	2,794.90
CAD	402,191.57	5.2618	2,116,251.60	1,199,732.27	5.0046	6,004,180.12	69,097.33	5.1161	353,508.85	116,973.86	5.3421	624,886.06
JPY	4,000.00	0.0521	208.40	4,000.00	0.0554	221.60	4,000.00	0.0632	252.80	4,000.00	0.0641	256.40
THB	636,757,758.12	0.1953	124,358,790.16	519,733,114.21	0.1912	99,372,971.44	314,677,572.88	0.2179	68,568,243.13	348,554,286.26	0.2328	81,143,437.84
GBP	40.00	8.4202	336.81	40.00	8.6064	344.26	40.00	8.8903	355.61	40.00	9.1501	366.00
Accounts receivable			210,469,148.56			236,984,594.56			165,886,080.70			154,451,210.31
Including: USD	20,341,990.83	6.6607	135,491,898.32	29,038,056.22	6.3757	185,137,935.04	18,293,739.30	6.5249	119,364,819.56	18,198,131.45	6.9762	126,953,804.62
EUR	523,584.79	7.1747	3,756,563.79	363,923.79	7.2197	2,627,420.59	439,002.58	8.0250	3,522,995.70	177,460.92	7.8155	1,386,945.82
CAD	13,064,062.81	5.2618	68,740,485.69	118,047.80	5.0046	590,782.02	648,914.86	5.1161	3,319,913.32	7,482.38	5.3421	39,971.62
THB	12,699,440.66	0.1953	2,480,200.76	254,332,933.63	0.1912	48,628,456.91	182,094,319.05	0.2179	39,678,352.12	111,986,633.36	0.2328	26,070,488.25
Other receivables			6,961,539.53			1,367,739.21			7,268.54			
Including: THB	35,645,363.70	0.1953	6,961,539.53	7,153,447.75	0.1912	1,367,739.21	33,357.25	0.2179	7,268.54			
Accounts payable			28,075,267.05			59,178,072.57			94,160,438.11			90,288,933.29
Including: USD	537,574.94	6.6607	3,580,625.40	1,414,653.38	6.3757	9,019,405.55	2,459,642.30	6.5249	16,048,920.04	11,047,098.03	6.9762	77,066,765.28
EUR	121,730.55	7.1747	873,380.18	15,596.65	7.2197	112,603.13	39,137.19	8.0250	314,075.95			
HKD												
CAD							9,926.19	5.1161	50,783.38			
JPY	596,700.00	0.0521	31,088.07	596,700.00	0.0554	33,057.18	179,352,500.00	0.0632	11,335,078.00	1,146,800.00	0.0641	73,509.88
THB	120,789,418.33	0.1953	23,590,173.40	261,574,302.88	0.1912	50,013,006.71	302,992,885.27	0.2179	66,022,149.70	56,480,490.25	0.2328	13,148,658.13
GBP												
CHF							52,621.55	7.4006	389,431.04			
Other payables			538,487.89			1,230,998.10			6,806.07			
Including: USD	80,845.54	6.6607	538,487.89	193,076.54	6.3757	1,230,998.10						
THB							31,234.81	0.2179	6,806.07			

Note 70. Government grants

Types of government grants	Amount in the current period	January to May 2022	
		Amount included in current profit or loss	Remark
Government grants included in deferred income	6,268,000.00	10,968,922.26	See VI. Note. 40 for details
Government grants included in other income	56,521,147.41	56,521,147.41	See VI. Note. 56 for details
Total	62,789,147.41	67,490,069.67	

Continued:

Types of government grants	Amount in the current period	January to May 2021 (unaudited)	
		Amount included in current profit or loss	Remark
Government grants included in deferred income	5,312,500.00	2,692,717.90	
Government grants included in other income	43,885,410.43	43,885,410.43	See VI. Note. 56 for details
Total	49,197,910.43	46,578,128.33	

Continued:

Types of government grants	Amount in the current period	2021	
		Amount included in current profit or loss	Remark
Government grants included in deferred income	9,332,500.00	49,636,329.52	See VI. Note. 40 for details
Government grants included in other income	192,235,526.90	192,235,526.90	See VI. Note. 56 for details
Total	201,568,026.90	241,871,856.42	

Continued:

Types of government grants	Amount in the current period	2020	Remark
		Amount included in current profit or loss	
Government grants included in deferred income	22,927,600.00	11,562,740.90	See VI. Note. 40 for details
Government grants included in other income	280,569,443.95	280,569,443.95	See VI. Note. 56 for details
Total	303,497,043.95	292,132,184.85	

Continued:

Types of government grants	Amount in the current period	2019	Remark
		Amount included in current profit or loss	
Government grants included in deferred income	89,654,278.16	13,706,703.32	See VI. Note. 40 for details
Government grants included in other income	143,887,631.18	143,887,631.18	See VI. Note. 56 for details
Total	233,541,909.34	157,594,334.50	

VII. CHANGES IN CONSOLIDATION SCOPE

The changes included in the scope of consolidated financial statements of AVIC Electromechanical during the reporting period are as follows:

AVIC Hubei Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司) merged its subsidiary AVIC Wuhan Fineblanking Technology Co., Ltd. on 31 December 2021.

Xinxiang Aviation Group (新航集團) merged its subsidiary Xinxiang Aviation Industry (Group) Rubber & Plastic Products Co., Ltd. on 31 October 2021.

AVIC Electromechanical disposed of its subsidiary Guiyang Aviation Motor Co, Ltd. (貴陽航空電機有限公司) on 31 December 2019. Guiyang Guanghang Casting Co., Ltd. (貴陽廣航鑄造有限公司) and Guiyang Huahang Electric Co., Ltd (貴陽華航電氣有限公司), subsidiaries of Guiyang Aviation Motor Co, Ltd. (貴陽航空電機有限公司), were no longer included in the consolidation scope after the disposal.

Xinxiang Aviation Group (新航集團) reduced its capital and exited Xinxiang North Hydraulic Transmission Machinery Co., Ltd (新鄉北方液壓傳動機械有限公司) on 31 October 2019.

Name of the subsidiary	Method of equity disposal	Proportion of equity disposed (%)	Timing of control loss	Basis to determine the timing of control loss
AVIC Wuhan Fineblanking Technology Co., Ltd. (武漢中航精沖技術有限公司)	Merger by absorption	100.00	2021-12-31	Transfer of control
Xinxiang Aviation Industry (Group) Rubber & Plastic Products Co., Ltd. (新鄉航空工業(集團)橡塑製品有限公司)	Merger by absorption	51.00	2021-10-31	Transfer of control
Guiyang Aviation Motor Co, Ltd. (貴陽航空電機有限公司)	Equity transfer	100.00	2019-12-31	Transfer of control
Guiyang Guanghang Casting Co., Ltd. (貴陽廣航鑄造有限公司)	Equity transfer	100.00	2019-12-31	Transfer of control
Guiyang Huahang Electric Co., Ltd (貴陽華航電氣有限公司)	Equity transfer	51.00	2019-12-31	Transfer of control
Xinxiang North Hydraulic Transmission Machinery Co., Ltd (新鄉北方液壓傳動機械有限公司)	Capital reduction and exit	51.00	2019-10-31	Transfer of control

VIII. INTERESTS IN OTHER ENTITIES

(I) Interests in subsidiaries

1. The composition of the enterprise group

No.	Name of the subsidiary	Type of the subsidiary	Principal place of business	Place of registration	Business nature	Issued paid up/ Registered capital	Level	Acquisition method
1	Qing'an Group Co., Ltd. (慶安集團有限公司)	Wholly-owned subsidiary	Xi'an, Shaanxi	Xi'an city	Manufacturing	1,992,304,191.62	Level 2	Under common control
2	Shaanxi Aero Electric Co., Ltd. (陝西航空電氣有限責任公司)	Wholly-owned subsidiary	Xingping, Shanxi	Xingping city	Manufacturing	619,576,155.00	Level 2	Under common control
3	Zhengzhou Aircraft Equipment Co., Ltd. (鄭州飛機裝備有限責任公司)	Wholly-owned subsidiary	Zhengzhou, Henan	Zhengzhou city	Manufacturing	644,771,400.00	Level 2	Under common control
4	Sichuan Lingfeng Aero Hydraulic Machinery Co., Ltd. (四川凌峰航空液壓機械有限公司)	Wholly-owned subsidiary	Guanghan, Sichuan	Guanghan city	Manufacturing	35,000,000.00	Level 2	Under common control
5	Sichuan Fanhua Aviation Instrument and Electric Co., Ltd. (四川泛華航空儀表電器有限公司)	Wholly-owned subsidiary	Ya'an, Sichuan	Ya'an city	Manufacturing	200,155,300.00	Level 2	Under common control
6	Sichuan AVIC Chuanxi Machinery Co., Ltd. (四川航空工業川西機械有限責任公司)	Wholly-owned subsidiary	Ya'an, Sichuan	Ya'an city	Manufacturing	207,475,400.00	Level 2	Under common control
7	AVIC Hubei Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司)	Wholly-owned subsidiary	Xiangyang, Hubei	Xiangyang city	Manufacturing	180,000,000.00	Level 2	Investment set-up
8	Guizhou Fenglei Aviation Ordnance Co., Ltd. (貴州風雷航空軍械有限責任公司)	Wholly-owned subsidiary	Anshun, Guizhou	Anshun city	Manufacturing	304,537,200.00	Level 2	Under common control
9	Guizhou Fengyang Hydraulic Co., Ltd. (貴州楓陽液壓有限責任公司)	Wholly-owned subsidiary	Guiyang, Guizhou	Guiyang city	Manufacturing	216,040,000.00	Level 2	Under common control
10	AVIC Xinxiang Aviation Industry (Group) Co., Ltd. (新鄉航空工業(集團)有限公司)	Wholly-owned subsidiary	Xinxiang, Henan	Xinxiang city	Manufacturing	428,000,000.00	Level 2	Under common control

No.	Name of the subsidiary	Type of the subsidiary	Principal place of business	Place of registration	Business nature	Issued paid up/ Registered capital	Level	Acquisition method
11	Yibin Sanjing Machinery Manufacturing Co., Ltd. (宜賓三江機械製造有限公司)	Wholly-owned subsidiary	Yibin, Sichuan	Yibin city	Manufacturing	206,698,044.00	Level 2	Under common control
12	Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	Holding subsidiary	Nanjing, Jiangsu	Nanjing city	Manufacturing	34,000,000.00	Level 2	Under common control
13	Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司)	Holding subsidiary	Xiangyang, Hubei	Xiangyang city	Manufacturing	497,000,000.00	Level 3	Investment set-up
14	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	Holding subsidiary	Xi'an, Shaanxi	Xi'an city	Manufacturing	227,784,900.00	Level 3	Investment set-up
15	Xi'an Qing'an Import & Export Co., Ltd. (西安慶安進出口有限公司)	Wholly-owned subsidiary	Xi'an, Shaanxi	Xi'an city	Manufacturing	1,000,000.00	Level 3	Investment set-up
16	Xi'an Qing'an Aviation Machinery Manufacturing Co., Ltd. (西安慶安航空機械製造有限公司)	Wholly-owned subsidiary	Xi'an, Shaanxi	Xi'an city	Manufacturing	100,000,000.00	Level 3	Investment set-up
17	Xi'an Qing'an Avionics Co., Ltd. (西安慶安航空電子有限公司)	Holding subsidiary	Xi'an, Shaanxi	Xi'an city	Manufacturing	13,470,000.00	Level 3	Not under common control
18	Xi'an Qing'an Civil Aviation Electric Power Co., Ltd. (西安秦嶺民用航空電力有限公司)	Wholly-owned subsidiary	Xi'an, Shaanxi	Xi'an city	Manufacturing	73,000,000.00	Level 3	Investment set-up
19	AVIC Qingling Aerospace (Xiamen) Co., Ltd. (廈門中航秦嶺宇航有限公司)	Wholly-owned subsidiary	Xiamen, Fujian	Xiamen city	Aircraft maintenance	79,662,212.47	Level 3	Not under common control
20	Zhengzhou Zhengfei Special Equipment Co., Ltd. (鄭州鄭飛特種裝備有限公司)	Wholly-owned subsidiary	Zhengzhou, Henan	Zhengzhou city	Manufacturing	295,000,000.00	Level 3	Investment set-up
21	Guizhou Halei Kongtian Environmental Engineering Co., Ltd. (貴州哈雷空天環境工程有限公司)	Holding subsidiary	Anshun, Guizhou	Anshun city	Manufacturing	5,000,000.00	Level 3	Under common control
22	Guizhou Anshun Tiancheng Aviation Equipment Co., Ltd. (貴州安順天成航空設備有限公司)	Wholly-owned subsidiary	Anshun, Guizhou	Anshun city	Manufacturing	3,000,000.00	Level 3	Under common control
23	Xinxiang Pingyuan Aviation Electric Co., Ltd. (新鄉市平原航空機電有限公司)	Wholly-owned subsidiary	Xinxiang, Henan	Xinxiang city	Manufacturing	41,000,000.00	Level 3	Under common control
24	Aviation Industry (Xinxiang) Metrology and Test Science Technology Co., Ltd. (航空工業(新鄉)計測科技有限公司)	Wholly-owned subsidiary	Xinxiang, Henan	Xinxiang city	Manufacturing	64,000,000.00	Level 3	Under common control
25	Hapm Magna Seating System (Thailand) Co., Ltd.	Wholly-owned subsidiary	Thailand	Thailand	Manufacturing	42,000,000.00	Level 4	Investment set-up
26	Xinxiang Aviation Industry (Group) Rubber & Plastic Products Co., Ltd. (新鄉航空工業(集團)橡塑製品有限公司)	-	Xinxiang, Henan	Xinxiang city	Manufacturing	-	-	-
27	AVIC Wuhan Fineblanking Technology Co., Ltd. (武漢中航精沖技術有限公司)	-	Wuhan, Hubei	Wuhan city	Manufacturing	-	-	-
28	Guiyang Aviation Motor Co., Ltd. (貴陽航空電機有限公司)	-	Guiyang, Guizhou	Guiyang city	Manufacturing	-	-	-
29	Guiyang Guanghang Casting Co., Ltd. (貴陽廣航鑄造有限公司)	-	Guiyang, Guizhou	Guiyang city	Retail	-	-	-
30	Guiyang Huahang Electric Co., Ltd. (貴陽華航電氣有限公司)	-	Guiyang, Guizhou	Guiyang city	Manufacturing	-	-	-
31	Xinxiang North Hydraulic Transmission Machinery Co., Ltd. (新鄉北方液壓傳動機械有限公司)	-	Xinxiang, Henan	Xinxiang city	Manufacturing	-	-	-

2. Shareholdings during the reporting period

No.	Name of the subsidiary	Proportion of voting right from			Proportion of voting right from			Proportion of voting right from			Proportion of voting right from		
		January to may 2022 (%)	Shareholding proportion from January to may 2022 (%)		January to may 2021 (%)	Shareholding proportion in 2021 (%)		January to may 2020 (%)	Shareholding proportion in 2019 (%)		January to may 2019 (%)	Shareholding proportion in 2019 (%)	
			Direct	Indirect		Direct	Indirect		Direct	Indirect		Direct	Indirect
1	Qing'an Group Co., Ltd. (慶安集團有限公司)	100	100		100	100		100	100		100	100	
2	Shaanxi Aero Electric Co., Ltd. (陝西航空電氣有限公司)	100	100		100	100		100	100		100	100	
3	Zhengzhou Aircraft Equipment Co., Ltd. (鄭州飛機裝備有限公司)	100	100		100	100		100	100		100	100	
4	Sichuan Lingfeng Aero Hydraulic Machinery Co., Ltd. (四川凌峰航空液壓機械有限公司)	100	100		100	100		100	100		100	100	
5	Sichuan Fanhua Aviation Instrument and Electric Co., Ltd. (四川泛華航空儀表電器有限公司)	100	100		100	100		100	100		100	100	
6	Sichuan AVIC Chuanxi Machinery Co., Ltd. (四川航空工業川西機器有限公司)	100	100		100	100		100	100		100	100	
7	AVIC Hubei Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司)	100	100		100	100		100	100		100	100	
8	Guizhou Fenglei Aviation Ordnance Co., Ltd. (貴州風雷航空軍械有限公司)	100	100		100	100		100	100		100	100	

No.	Name of the subsidiary	Proportion of voting right from			Proportion of voting right from		Proportion of voting right from		Proportion of voting right from				
		January to may 2022 (%)	Shareholding proportion from January to may 2022 (%)		January to may 2021 (%)	Shareholding proportion in 2021 (%)		January to may 2020 (%)	Shareholding proportion in 2019 (%)		January to may 2019 (%)	Shareholding proportion in 2019 (%)	
			Direct	Indirect		Direct	Indirect		Direct	Indirect		Direct	Indirect
9	Guizhou Fengyang Hydraulic Co., Ltd. (貴州風陽液壓有限責任公司)	100	100		100			100	100		100		100
10	AVIC Xinxiang Aviation Industry (Group) Co., Ltd. (新鄉航空工業(集團)有限公司)	100	100		100			100	100		100		100
11	Yibin Sanjing Machinery Manufacturing Co., Ltd. (宜賓三江機械製造有限公司)	100	100		100			100	100		100		100
12	Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	70	70		70			70	70		70		70
13	Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司)	50.1		50.1	50.1		50.1	50.1		50.1	50.1		50.10
14	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	65.62		65.62	65.62		65.62	65.62		65.62	65.62		65.62
15	Xi'an Qing'an Import & Export Co., Ltd. (西安慶安進出口有限公司)	100		100	100		100	100		100	100		100

No.	Name of the subsidiary	Proportion of voting right from			Proportion of voting right from		Proportion of voting right from		Proportion of voting right from				
		January to may 2022 (%)	Shareholding proportion from January to may 2022 (%)		January to may 2021 (%)	Shareholding proportion in 2021 (%)		January to may 2020 (%)	Shareholding proportion in 2019 (%)		January to may 2019 (%)	Shareholding proportion in 2019 (%)	
			Direct	Indirect		Direct	Indirect		Direct	Indirect		Direct	Indirect
16	Xi'an Qing'an Aviation Machinery Manufacturing Co., Ltd. (西安慶安航空機械製造有限公司)	100		100	100		100	100		100	100		100
17	Xi'an Qing'an Avionics Co., Ltd. (西安慶安航空電子有限公司)	51		51	51		51	51		51	51		51
18	Xi'an Qinling Civil Aviation Electric Power Co., Ltd. (西安秦嶺民用航空電力有限公司)	100		100	100		100	100		100	100		100
19	AVIC Qinling Aerospace (Xiamen) Co., Ltd. (廈門中航秦嶺宇航有限公司)	100		100	100		100	100		100	100		100
20	Zhengzhou Zhengfei Special Equipment Co., Ltd. (鄭州鄭飛特種裝備有限公司)	100		100	100		100	100		100	100		100
21	Guizhou Halei Kongtian Environmental Engineering Co., Ltd. (貴州哈雷空天環境工程有限公司)	45		45	45		45	45		45	45		45
22	Guizhou Anshun Tiancheng Aviation Equipment Co., Ltd. (貴州安順天成航空設備有限公司)	100		100	100		100	100		100	100		100

No.	Name of the subsidiary	Proportion of voting right from			Proportion of voting right from		Proportion of voting right from		Proportion of voting right from				
		January to may 2022 (%)	Shareholding proportion from January to may 2022 (%)		January to may 2021 (%)	Shareholding proportion in 2021 (%)		January to may 2020 (%)	Shareholding proportion in 2019 (%)		January to may 2019 (%)	Shareholding proportion in 2019 (%)	
			Direct	Indirect		Direct	Indirect		Direct	Indirect		Direct	Indirect
23	Xinxiang Pingyuan Aviation Electric Co., Ltd. (新鄉市平原航空機電有限公司)	100		100	100		100	100		100	52.28		52.28
24	Aviation Industry (Xinxiang) Metrology and Test Science Technology Co., Ltd. (航空工業(新鄉)計測科技有限公司)	100		100	100		100	100		100	100		100
25	Hapm Magna Seating System (Thailand) Co., Ltd.	100		100	100		100	100		100	100		100
26	Xinxiang Aviation Industry (Group) Rubber & Plastic Products Co., Ltd. (新鄉航空工業(集團)橡塑製品有限公司)	-		-	-		-	51		51	51		51
27	AVIC Wuhan Fineblanking Technology Co., Ltd. (武漢中航精沖技術有限公司)	-		-	-		-	100		100	100		100
28	Guiyang Aviation Motor Co., Ltd. (貴陽航空電機有限公司)	-		-	-		-	-		-	100		100
29	Guiyang Guanghang Casting Co., Ltd. (貴陽廣航鑄造有限公司)	-		-	-		-	-		-	100		100
30	Guiyang Huahang Electric Co., Ltd. (貴陽華航電氣有限公司)	-		-	-		-	-		-	51		51

No.	Name of the subsidiary	Proportion of voting right from		Proportion of voting right from		Proportion of voting right from		Proportion of voting right from		Proportion of voting right from			
		January to may 2022 (%)	Shareholding to may 2022 (%)	January to may 2021 (%)	Shareholding proportion in 2021 (%)	January to may 2020 (%)	Shareholding proportion in 2019 (%)	January to may 2019 (%)	Shareholding proportion in 2019 (%)	January to may 2019 (%)	Shareholding proportion in 2019 (%)		
		(%)	Direct	Indirect	(%)	Direct	Indirect	(%)	Direct	Indirect	(%)	Direct	Indirect
31	Xinxiang North Hydraulic Transmission Machinery Co., Ltd (新鄉北方液壓傳動機械有限公司)	-	-	-	-	-	-	-	-	-	51	-	51

Note: AVIC Electromechanical holds 45% equity interest in Guizhou Halei Kongtian Environmental Engineering Co., Ltd. (hereinafter referred to as Guizhou Halei), and the proportion of voting rights in Guizhou Halei is also 45%. Although AVIC Electromechanical does not hold more than half of the voting rights of Guizhou Halei, AVIC Electromechanical is able to control Guizhou Halei for the following reasons: AVIC Electromechanical is the largest shareholder and the remaining shareholdings are held by two minority shareholders (33% and 22% respectively); the other shareholders of Guizhou Halei are not actually involved in the operating activities; AVIC Electromechanical has the right to appoint and dismiss a majority of the board of directors of Guizhou Halei; AVIC Electromechanical has the right to dominate Guizhou Halei's operating activities and enjoys variable returns

3. Important non-wholly owned subsidiaries

Name of the subsidiary	Minority shareholding ratio (%)	31 May 2022/January to May 2022			Remark
		Profit or loss attributable to minority shareholders in the current period	Dividends distributed to minority shareholders in the current period	Balance of minority shareholders' equity at the end of the period	
Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司)	49.90	11,387,256.15		452,154,650.87	

Name of the subsidiary	Minority shareholding ratio (%)	31 May 2022/January to May 2022			Remark
		Profit or loss attributable to minority shareholders in the current period	Dividends distributed to minority shareholders in the current period	Balance of minority shareholders' equity at the end of the period	
Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	30.00	1,243,579.12	7,624,294.89	60,842,872.35	

Continued:

Name of the subsidiary	Minority shareholding ratio (%)	31 December 2021/2021			Remark
		Profit or loss attributable to minority shareholders in the current period	Dividends distributed to minority shareholders in the current period	Balance of minority shareholders' equity at the end of the period	
Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司)	49.90	53,454,111.81	9,980,000.00	439,325,894.04	
Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	30.00	16,942,877.54	7,160,356.45	67,224,686.78	

Continued:

Name of the subsidiary	Minority shareholding ratio (%)	31 December 2020/2020			Remark
		Profit or loss attributable to minority shareholders in the current period	Dividends distributed to minority shareholders in the current period	Balance of minority shareholders' equity at the end of the period	
Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納 座椅系統有限 公司)	49.90	42,856,324.24	24,950,000.00	402,583,878.68	
Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝 備技術服務有限 公司)	30.00	15,911,903.22	5,811,154.46	57,457,270.61	

Continued:

Name of the subsidiary	Minority shareholding ratio (%)	31 December 2019/2019			Remark
		Profit or loss attributable to minority shareholders in the current period	Dividends distributed to minority shareholders in the current period	Balance of minority shareholders' equity at the end of the period	
Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納 座椅系統有限 公司)	49.90	56,231,250.26	24,950,000.00	386,972,821.43	

Name of the subsidiary	Minority shareholding ratio (%)	31 December 2019/2019			Remark
		Profit or loss attributable to minority shareholders in the current period	Dividends distributed to minority shareholders in the current period	Balance of minority shareholders' equity at the end of the period	
Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	30.00	29,055,772.34	6,705,902.29	47,051,571.00	

4. Main financial information of important non-wholly-owned subsidiaries

Item	31 May 2022		31 December 2021		31 December 2020		31 December 2019	
	Nanjing Hangjian Aviation		Nanjing Hangjian Aviation		Nanjing Hangjian Aviation		Nanjing Hangjian Aviation	
	Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司)	Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司)	Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司)	Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	Hubei HAPM Magna Seating System Co., Ltd. (湖北航嘉麥格納座椅系統有限公司)	Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)
Current assets	1,108,548,255.60	367,391,872.49	1,240,642,507.90	355,784,075.29	1,214,887,352.15	216,190,555.16	1,181,352,305.32	163,835,836.42
Non-current assets	714,877,373.79	116,176,958.20	757,176,402.69	108,847,191.30	719,452,298.56	84,511,864.63	827,148,194.34	56,712,137.21
Total assets	1,823,425,629.39	483,568,830.69	1,997,818,910.59	464,631,266.59	1,934,339,650.71	300,702,419.79	2,008,500,499.66	220,547,973.63
Current liabilities	819,511,428.89	277,477,684.82	1,018,283,795.84	237,239,832.86	1,115,099,939.90	105,758,184.41	1,220,607,837.34	60,289,403.62
Non-current liabilities	97,792,655.68	3,281,571.38	99,122,501.47	3,322,285.68	12,458,390.84	3,420,000.00	12,396,026.21	3,420,000.00
Total liabilities	917,304,084.57	280,759,256.20	1,117,406,297.31	240,562,118.54	1,127,558,330.74	109,178,184.41	1,233,003,863.55	63,709,403.62
Operating income	518,739,930.07	54,825,861.57	1,668,861,542.72	246,090,421.87	1,585,725,154.19	203,184,166.17	1,733,646,926.05	180,421,963.34
Net profit	22,820,152.60	4,145,263.74	107,122,468.56	56,476,258.46	85,884,417.31	53,039,677.41	112,687,876.27	48,426,287.23
Total comprehensive income	25,110,091.23	4,145,263.74	94,377,224.43	56,476,258.46	81,836,280.75	53,039,677.41	116,390,095.90	48,426,287.23
Cash flows from operating activities	130,485,442.33	-31,885,192.04	185,120,407.56	37,221,684.67	184,013,097.64	-15,461,212.22	92,521,435.30	30,652,857.16

(II) Transaction changing shareholding in subsidiaries but not causing to loss of control over subsidiaries**1. Changing in shareholding in subsidiaries**

In 2021, AVIC Electromechanical purchased 49% equity of Xinxiang Aviation Industry (Group) Rubber & Plastic Products Co., Ltd. (新鄉航空工業(集團)橡塑製品有限公司) (hereinafter referred to as Rubber & Plastic Company) from its minority shareholders and the equity transfer took place on 31 May 2021. Upon completion of the above transaction, the Rubber & Plastic Company has become a wholly-owned subsidiary of AVIC Electromechanical. Xinxiang Aviation Group (新航集團) merged its subsidiary Xinxiang Aviation Industry (Group) Rubber & Plastic Products Co., Ltd. on 31 October 2021.

In 2020, Xinxiang Aviation Group (新航集團) purchased 47.72% of the equity its subsidiary in Xinxiang Pingyuan Aviation Electric Co., Ltd. (新鄉市平原航空機電有限公司) from minority shareholders. The date of equity delivery is 23rd November 2020. After the equity delivery, Xinxiang Pingyuan Aviation Electric Co., Ltd. became a wholly-owned subsidiary of AVIC Electromechanical.

2. Effect of the transactions on minority interest and equity attributable to the owners of the parent company

Item	January to	2021	2020	2019
	May 2022	Xinxiang Pingyuan Aviation Electric Co., Ltd. (新鄉市 平原航空機電有 限公司)	Xinxiang Pingyuan Aviation Electric Co., Ltd. (新鄉市 平原航空機電有 限公司)	No
Cash	No	20,812,162.00	26,486,100.00	No
The fair value of non-cash asset				
The fair value of liabilities issued or assumed				
The fair value of equity securities issued				
The fair value of the contingent consideration				
The fair value of the equity held before the purchase date on the purchase date				
Total acquisition cost/disposal consideration		20,812,162.00	26,486,100.00	
Less: Net asset share of the subsidiary calculated according to percentage of the acquired/disposed equity		27,665,382.51	18,881,459.83	

Item	January to	2021	2020	2019
	May 2022	Xinxiang Pingyuan Aviation Electric Co., Ltd. (新鄉市 平原航空機電有 限公司)	Xinxiang Pingyuan Aviation Electric Co., Ltd. (新鄉市 平原航空機電有 限公司)	
	No			No
Differences		-6,853,220.51	7,604,640.17	
Including: Adjustment to capital reserves		-6,853,220.51		
Adjustment to surplus reserve			7,604,640.17	
Adjustment to retained profit				

(III) Rights and interests in joint arrangements and associates**1. Significant joint ventures or associates**

Name of joint venture or associate	Principal place of business	Place of incorporation	Business nature	Shareholding ratio (%)		Accounting treatment
				Direct	Indirect	
AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降裝 備有限公司)	Nanjing	Nanjing	Airborne equipment and related aviation accessories manufacturing	36.55		Equity method
Guangzhou Huazhi Auto Parts Co., Ltd. (廣州華 智汽車部件有限公司)	Guangzhou	Guangzhou	Automotive parts manufacturing		40.00	Equity method
Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安 中航漢勝航空電力有 限公司)	Xi'an	Xi'an	Commercial aircraft power generation and related components manufacturing		50.00	Equity method

2. Major financial information of important joint ventures

Item	31 May 2022/ January to May 2022	31 December 2021/2021	31 December 2020/2020	31 December 2019/2019
	Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安中 航漢勝航空電力 有限公司)	Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安中 航漢勝航空電力 有限公司)	Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安中 航漢勝航空電力 有限公司)	Xi'an AVIC Hamilton Sundstrand Aviation Electric Co., Ltd. (西安中 航漢勝航空電力 有限公司)
Current assets	101,573,467.65	44,081,903.77	56,759,685.46	63,071,850.69
Including: Cash and cash equivalents	72,096,469.73	24,491,690.66	31,834,442.47	44,899,188.70
Non-current assets	135,493,461.26	137,354,595.30	40,782,480.77	44,938,398.35
Total assets	237,066,928.91	181,436,499.07	97,542,166.23	108,010,249.04
Current liabilities	11,679,831.23	13,298,324.30	33,977,502.35	36,841,095.72
Non-current liabilities	125,454,690.83	127,324,769.08		
Total liabilities	137,134,522.06	140,623,093.38	33,977,502.35	36,841,095.72
Minority equity				
Shareholders' equity attributable to parent company	99,932,406.85	40,813,405.69	63,564,663.88	71,169,153.32
Net assets share calculated based on the shareholding ratio	49,966,203.42	20,406,702.84	31,782,331.94	35,584,576.66
Adjustments	3,628,971.10	3,628,971.10	3,628,971.10	3,628,971.10
- Goodwill				
- Others	3,628,971.10	3,628,971.10	3,628,971.10	3,628,971.10
Book value of joint venture equity investment	53,595,174.52	24,035,673.94	35,411,303.04	39,213,547.76
Fair value of equity investment with quoted price				
Operating revenue	17,164,853.09	46,184,955.56	53,858,540.66	93,226,303.47
Finance costs	751,615.53	2,071,648.56	390,458.52	1,138,646.81
Income tax expenses		-110,316.84		
Net profit	-4,675,998.84	-12,079,556.19	-7,604,489.44	-19,686,549.74
Net profit from discontinuing operations				
Other comprehensive income				
Total comprehensive income	-4,675,998.84	-12,079,556.19	-7,604,489.44	-19,686,549.74
Dividends received by the Group from joint ventures in the current period				

3. Major financial information of important associates

Item	31 May 2022/January to May 2022		31 December 2021/2021	
	AVIC		AVIC	
	Hongguang Airborne Equipment Co., Ltd. (宏光空 降裝 備有限公司)	Guangzhou Huazhi Auto Parts Co., Ltd. (廣州華智汽車部 件有限公司)	Hongguang Airborne Equipment Co., Ltd. (宏光空 降裝 備有限公司)	Guangzhou Huazhi Auto Parts Co., Ltd. (廣州華智汽車部 件有限公司)
Current assets	836,687,836.86	420,048,139.70	995,732,840.41	416,634,723.68
Including: Cash and cash equivalents	116,919,383.91	137,516,013.16	279,959,783.29	83,781,458.78
Non-current assets	355,594,839.10	199,424,650.57	354,508,836.77	215,146,673.19
Total assets	1,192,282,675.96	619,472,790.27	1,350,241,677.18	631,781,396.87
Current liabilities	522,470,331.86	380,407,631.07	698,627,027.91	387,655,683.26
Non-current liabilities	158,720,924.81	130,128,108.48	159,543,504.67	126,611,401.56
Total liabilities	681,191,256.67	510,535,739.55	858,170,532.58	514,267,084.82
Minority equity	13,692,026.25		14,130,103.85	
Shareholders' equity attributable to parent company	497,399,393.04	108,937,050.72	477,941,040.75	117,514,312.05
Net assets share calculated based on the shareholding ratio	181,801,763.17	43,574,820.29	174,689,735.41	47,005,724.82
Adjustments	11,691,588.38		11,691,588.38	
– Goodwill	11,691,588.38		11,691,588.38	
– Others				
Book value of associates equity investment	193,493,351.55	43,574,820.29	186,381,323.79	47,005,724.82
Fair value of equity investment with quoted price				
Operating revenue	359,861,675.06	428,255,734.06	930,445,284.08	833,612,061.19
Finance costs	1,104,490.63	2,358,462.98	6,687,087.07	2,314,782.45
income tax expenses	-7,403,407.03	484,454.54	17,662,902.71	
Net profit	20,315,116.94	1,376,233.72	70,270,272.34	10,376,344.65
Net profit from discontinuing operations				
Other comprehensive income	-2,510,000.00		1,380,000.00	
Total comprehensive income	17,805,116.94	1,376,233.72	71,650,272.34	10,376,344.65
Dividends received by the Group from joint ventures in the current period			9,190,000.00	6,000,000.00

Continued:

Item	31 December 2020/2020		31 December 2019/2019	
	AVIC		AVIC	
	Hongguang Airborne Equipment Co., Ltd. (宏光空 降裝 備有限公司)	Guangzhou Huazhi Auto Parts Co., Ltd. (廣州華 智汽車部 件有限公司)	Hongguang Airborne Equipment Co., Ltd. (宏光空 降裝 備有限公司)	Guangzhou Huazhi Auto Parts Co., Ltd. (廣州華 智汽車部 件有限公司)
Current assets	1,120,176,942.69	256,409,164.29	820,991,924.52	273,930,188.27
Including: Cash and cash equivalents	574,518,024.27	26,462,454.97	226,701,719.15	29,521,941.86
Non-current assets	351,619,606.80	130,888,317.66	204,882,513.24	79,347,516.14
Total assets	1,471,796,549.49	387,297,481.95	1,025,874,437.76	353,277,704.41
Current liabilities	903,387,323.55	238,757,677.57	606,028,911.12	228,154,993.41
Non-current liabilities	126,530,898.32	41,401,836.98	175,241,580.84	
Total liabilities	1,029,918,221.87	280,159,514.55	781,270,491.96	228,154,993.41
Minority equity	13,102,521.60		11,812,402.50	
Shareholders' equity attributable to parent company	428,775,806.02	107,137,967.40	232,791,543.30	125,122,711.00
Net assets share calculated based on the shareholding ratio	156,721,172.11	42,855,186.96	85,085,309.08	50,049,084.40
Adjustments	11,691,588.38		64,914,690.92	
– Goodwill	11,691,588.38			
– Others			64,914,690.92	
Book value of associates equity investment	168,412,760.49	42,855,186.96	150,000,000.00	50,049,084.40
Fair value of equity investment with quoted price				
Operating revenue	842,441,651.71	554,305,142.38	615,355,177.58	415,783,408.06
Finance costs	11,607,640.51	2,596,040.85		
income tax expenses	16,870,388.36	741,880.27		
Net profit	52,523,849.71	3,502,748.16	15,626,049.89	9,326,758.07
Net profit from discontinuing operations				
Other comprehensive income	7,410,000.00			
Total comprehensive income	59,933,849.71	3,502,748.16	15,626,049.89	9,326,758.07
Dividends received by the Group from joint ventures in the current period	2,310,000.00			

4. *Aggregated financial information of unimportant joint ventures and associates*

Item	31 May 2022/ January to	31 December	31 December	31 December
	May 2022	2021/2021	2020/2020	2019/2019
Total book value of investments of associates	4,583,395.26	3,723,428.30		
Total of the following in proportion to shareholdings	-	-	-	-
Net profit	859,966.96	223,428.30		
Other comprehensive income				
Total comprehensive income	859,966.96	223,428.30		

IX. RISK DISCLOSURE RELATED TO FINANCIAL INSTRUMENTS

The main financial instruments of AVIC Electromechanical include equity investments, accounts receivable, notes receivable, accounts payable. Please refer to Note IV for the detailed description of each financial instrument. The risks associated with these financial instruments and the risk management policies adopted by AVIC Electromechanical to mitigate these risks are described below. The management of AVIC Electromechanical manages and monitors these risk exposures to ensure that the above risks are controlled within a limited range.

AVIC Electromechanical adopts sensitivity analysis to analyze the potential impact of possible reasonable changes in risk variables on current profits and losses or owner's equity. As risk variables seldom change alone and the correlation between variables greatly accounts for the final effect from a change in a certain risk variable, the following assume that the change of each variable is independent.

AVIC Electromechanical's risk management objectives are to achieve a proper balance between risks and yield, minimize the adverse impacts of risks on AVIC Electromechanical's operation performance, and maximize the benefits of the shareholders and other stakeholders. Based on these risk management objectives, AVIC Electromechanical's basic risk management strategy is to identify and analyze AVIC Electromechanical's exposure to various risks, establish an appropriate maximum tolerance to risk, implement risk management, and monitors regularly and effectively these exposures to ensure the risks are monitored at a certain level.

(I) Credit risk

Credit risk is the risk that AVIC Electromechanical will incur financial losses as a result of a counterparty's failure to meet its contractual obligations, the management has established appropriate credit policies and continuously monitors exposure to credit risk.

As at 31 May 2022, the largest exposure to credit risk that could give rise to financial losses for AVIC Electromechanical arises mainly from losses incurred on AVIC Electromechanical's financial assets as a result of the failure of the other party to the contract to perform its obligations.

The bank deposits of AVIC Electromechanical are mainly deposited at AVIC Finance Co., Ltd., a subsidiary of the ultimate controller Aviation Industry Corporation of China, Ltd., and state-owned banks. AVIC Electromechanical does not expect that there will be any significant losses from non-performance by these counterparties.

In order to reduce credit risk, AVIC Electromechanical reviews the collection of receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. Therefore, the Group's management believes that the credit risk assumed by AVIC Electromechanical has been significantly reduced.

Please refer to Note III. (XI) "Determination method and accounting treatment of expected credit loss" for the methods to assess whether the credit risk has increased since initial recognition, the basis to determine whether a credit impairment has happened to the financial assets, the combination methods to divide, and the policies to write down the financial instruments directly.

For ECLs measurement, with the consideration of whether credit risk has significantly increased or impaired, AVIC Electromechanical measures impairment provision for different assets upon the ECLs during 12 months or entire lifetime. The key measuring parameters of the ECL include probability of default, loss given default and exposure at default. Considering the quantitative analysis and forward-looking information of historical statistical data, AVIC Electromechanical establishes a default probability, default loss rate and default risk exposure model.

Both the assessment of a significant increase in credit risk and the calculation of ECL involve forward-looking information. Through the analysis of historical data, AVIC Electromechanical identified the key economic indicators that affect the credit risk of each business type and ECL.

For quantitative data of AVIC Electromechanical's credit risk exposure and loss provision due to notes receivable, accounts receivable and other receivables, please refer to the disclosure in Note VI.(3) "Notes receivable", Note VI.(4) "Accounts receivable" and Note VI.(7) "other receivables".

(II) Liquidity risk

The subsidiaries are responsible for their own cash flow forecast, according to which the finance department of AVIC Electromechanical Parent Company continuously monitors the short-term and long-term capital needs. So that AVIC Electromechanical maintains adequate cash reserve portfolio and available securities at any time. At the same time this department continuously monitors compliance with the provisions of the loan agreement, obtaining commitment from the main financial institutions of funds to meet the short-term and long-term funding requirements.

As at 31 May 2022, AVIC Electromechanical's financial liabilities and off-balance-sheet guarantee items are presented as follows based on the remaining contractual terms using undiscounted contractual cash flows:

Item	31 May 2022				Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	
Non-derivative financial liabilities					
Short-term borrowings	516,326,811.72				516,326,811.72
Notes payable	2,773,840,465.23				2,773,840,465.23
Accounts payable	6,652,327,834.61	225,985,394.04	24,883,283.01	5,708,406.29	6,908,904,917.95
Interests payables	877,000.00				877,000.00
Non-current liabilities due within 1 year	11,061,469.13				11,061,469.13
Other current liabilities	287,263,549.16				287,263,549.16
Long-term borrowings	210,000,000.00	580,800,000.00	122,800,000.00	24,000,000.00	937,600,000.00
Lease payments	22,128,095.90	24,753,780.58	27,450,636.94	13,690,050.50	88,022,563.92
Other non-current liabilities	246,182,090.00	735,738,630.18	200,460,000.00		1,182,380,720.18
Subtotal of non-derivative financial liabilities	10,720,007,315.75	1,567,277,804.80	375,593,919.95	43,398,456.79	12,706,277,497.29
Derivative financial liabilities					
Financial guarantees					
Total	10,720,007,315.75	1,567,277,804.80	375,593,919.95	43,398,456.79	12,706,277,497.29

(III) Market risk

1. Exchange rate risk

Foreign currency risk is the risk of loss caused by fluctuation in exchange rates. The main foreign currency risks for AVIC Electromechanical involve USD, and the principal operating activities of AVIC Electromechanical are settled in RMB, while purchases and sales are settled in USD.

As at 31 May 2022, the amounts of foreign currency financial assets and foreign currency financial liabilities held by AVIC Electromechanical translated into RMB are as follows:

Item	USD item	31 May 2022	
		Other foreign currency item	Total
Foreign currency financial assets:			
Monetary funds	44,708,532.82	134,848,979.79	179,557,512.61
Accounts receivable	135,491,898.32	74,977,250.24	210,469,148.56
Other receivables		6,961,539.53	6,961,539.53
Subtotal	180,200,431.14	216,787,769.56	396,988,200.70
Foreign currency financial assets:			
Accounts payable	3,580,625.40	24,494,641.65	28,075,267.05
Other payables	538,487.89		538,487.89
Subtotal	4,119,113.29	24,494,641.65	28,613,754.94

On 31 May 2022, for AVIC Electromechanical's various US dollar financial assets and US dollar financial liabilities, if the RMB appreciates or depreciates by 10% against the US dollar and other factors remain unchanged, AVIC Electromechanical will increase or decrease the net profit by approximately RMB14,966,912.02 (31 December 2021: approximately RMB18,931,119.58).

2. Interest rate risk

AVIC Electromechanical's interest rate risk mainly arises from interest-bearing debts such as short-term borrowings and long-term borrowings with floating interest rates. Financial liabilities with floating interest rates expose AVIC Electromechanical to cash flow interest rate risk and financial liabilities with fixed interest rates expose AVIC Electromechanical to fair value interest rate risk. AVIC Electromechanical determines the relative proportion of fixed-rate and floating-rate contracts based on the prevailing market conditions. As at 31 May 2022, AVIC Electromechanical's short-term interest-bearing debts are mainly denominated in RMB with an amount of RMB1,010,671,263.53 (31 December 2021: RMB634,601,241.50) VI (Note. 24) "Short-term borrowings", VI (Note. 31) "Other payables", VI (Note. 33) "Other current liabilities"; AVIC Electromechanical's long-term interest-bearing debts are mainly RMB-denominated floating rate borrowing contracts with an amount of RMB1,720,260,485.07 (31 December 2021: RMB1,957,657,049.31) VI (Note. 34) "Long-term borrowings", VI (Note. 36) "Lease liabilities", VI (Note. 41) "Other non-current liabilities".

The finance department of the headquarter of AVIC Electromechanical monitors the interest rate level on an ongoing basis. The increase in interest rates will increase the cost of new interest-bearing debt and the interest expense of AVIC Electromechanical's outstanding interest-bearing debt with floating interest rates, and will have a greater adverse impact on AVIC Electromechanical's financial results. The management will make adjustments in a

timely manner based on the latest market conditions, which may be an arrangement for interest rate swap to reduce the interest rate risk. AVIC Electromechanical has no interest rate swap arrangements from January to May 2022 and in 2021 and 2020 and 2019.

As at 31 May 2022, if the interest rate on bank deposits calculated using floating interest rate had increased or decreased by 50 basis points with other factors held constant, the net profit of AVIC Electromechanical would have decreased or increased by approximately RMB11,606,459.93 (31 December 2021: approximately RMB11,017,097.74).

3. *Price risk*

Price risk represents the risk of fluctuations in market prices other than exchange rate risk and interest rate risk arising primarily from changes in commodity prices, stock market indices, equity instrument prices and other risk variables.

AVIC Electromechanical's price risk primarily arises from investments held by AVIC Electromechanical (classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income). Some of these financial assets are publicly tradable on recognized stock exchanges. At 31 May 2022, if the financial assets held by AVIC Electromechanical at fair value through profit or loss and the financial assets at fair value through other comprehensive income had been 10% (2021: 10%) higher or lower, assuming other variables had remained unchanged, AVIC Electromechanical's net profit would have increased or decreased by approximately RMB160,438.50 (2021: RMB202,512.59) and AVIC Electromechanical's net other comprehensive income after tax would increase or decrease by approximately RMB98,125,185.21 (2021: RMB84,132,316.81)

X. FAIR VALUE

(I) Financial instruments measured at fair value

AVIC Electromechanical presents the carrying value of financial asset instruments measured at fair value at the end of each reporting period by the three levels of fair value. The overall classification of fair value into the three levels is based on the lowest of the three levels to which each significant input used in measuring fair value belongs. The three levels are defined as follows:

Level 1: is the unadjusted quoted price in an active market for identical assets or liabilities that is available at the measurement date;

Level 2: is an input other than a Level 1 input that is directly or indirectly observable for the relevant asset or liability;

Level 2 inputs include: 1) quoted prices for identical assets or liabilities in active markets; 2) quoted prices for the same or identical assets or liabilities in inactive markets; 3) observable inputs other than quoted prices, including interest rates and yield curves, implied volatilities and credit spreads that are observable during normal quotation intervals; and 4) inputs for market validation, etc.

Level 3; is the unobservable input value of the related asset or liability.

(II) Fair value measurement

1. Continuous fair value measurement

Item	Level 1	Fair value at 31 May 2022		Total
		Level 2	Level 3	
Subtotal of financial assets classified at fair value through profit or loss	1,912,546.39			1,912,546.39
Debt instrument investments				
Equity instrument investments	1,912,546.39			1,912,546.39
Subtotal of financial assets designated at fair value through profit or loss				
Debt instrument investments				
Hybrid instrument investments				
Accounts receivable financing		345,697,881.94		345,697,881.94
Other debt investments				
Other equity instrument investments	1,061,696,266.89			1,061,696,266.89

Continued:

Item	Fair value at 31 December 2021			Total
	Level 1	Level 2	Level 3	
Subtotal of financial assets classified at fair value through profit or loss	1,887,511.82			1,887,511.82
Debt instrument investments				
Equity instrument investments	1,887,511.82			1,887,511.82
Subtotal of financial assets designated at fair value through profit or loss				
Debt instrument investments				
Hybrid instrument investments				
Accounts receivable financing		469,035,135.81		469,035,135.81
Other debt investments				
Other equity instrument investments	1,288,362,986.88			1,288,362,986.88

Continued:

Item	Fair value at 31 December 2020			Total
	Level 1	Level 2	Level 3	
Subtotal of financial assets classified at fair value through profit or loss	2,382,501.06			2,382,501.06
Debt instrument investments				
Equity instrument investments	2,382,501.06			2,382,501.06
Subtotal of financial assets designated at fair value through profit or loss				
Debt instrument investments				
Hybrid instrument investments				
Accounts receivable financing		267,271,483.79		267,271,483.79
Other debt investments				
Other equity instrument investments	1,099,728,724.50			1,099,728,724.50

Continued:

Item	Fair value at 31 December 2019			Total
	Level 1	Level 2	Level 3	
Subtotal of financial assets classified at fair value through profit or loss	3,052,827.42			3,052,827.42
Debt instrument investments				
Equity instrument investments	3,052,827.42			3,052,827.42
Subtotal of financial assets designated at fair value through profit or loss				
Debt instrument investments				
Hybrid instrument investments				
Accounts receivable financing		232,326,155.88		232,326,155.88
Other debt investments				
Other equity instrument investments	560,705,775.00			560,705,775.00

(III) Basis for determining the market price of Item continuously measured with fair value at level 1

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement. Level 1 inputs is the unadjusted quoted price in an active market for identical assets or liabilities acquired by AVIC Electromechanical at the measurement date. AVIC Electromechanical determines the fair value of financial instruments traded in an active market based on their quoted prices in the active market.

(IV) For Item continuously measured with fair value at level 2, qualitative and quantitative information on valuation technique and important parameters used

The closing balance of receivables financing is the bank acceptance bills with high credit rating held by some of AVIC Electromechanical's subsidiaries, because the term of these bills is due within 1 year, and the acceptor has relatively high credit without any risks of default and dishonor. It is estimated that the recovery of the future cash flows is equal to the carrying amount, and therefore the fair value is judged to be consistent with the carrying amount.

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Information of the parent company of AVIC Electromechanical

Parent company	Registration place	Nature of business	Registered capital	Shareholding in	Proportion of the
			(RMB in ten thousand)	AVIC Electromechanical	voting right in AVIC Electromechanical
				(%)	(%)
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	Beijing	Manufacturing of aviation and aerospace related equipments	873,118.32	35.87	35.87

(II) The details of the subsidiaries is set out in VIII(I) Interests in subsidiaries.

(III) Joint ventures and associates of AVIC Electromechanical

Details of AVIC Electromechanical's significant joint ventures or associates are set out in VIII(III) "Interests in joint venture arrangements or associates".

(IV) Information on other related parties

Related parties of AVIC Electromechanical are mainly other subsidiaries and associates and joint ventures within the scope of AVIC, joint ventures and associates of AVIC Electromechanical, and other related parties that can exert significant influence on the non-wholly owned subsidiary of AVIC Electromechanical.

(V) Related party transactions

- For the subsidiaries which are controlled by AVIC Electromechanical and consolidated into the consolidated financial statements, the internal transactions and transactions with the parent company have been offset.
- Related party transactions of purchasing goods and receiving services*

Related party	Content of related transactions	January to	January to	2021	2020	2019
		May 2022	May 2021 (Unaudited)			
Associates of AVIC Electromechanical	Purchasing goods	249,313.00		174,766.00		290,892.00
Associates of AVIC	Purchasing goods	67,564.00	144,734.00	556,870.00	11,035,206.86	18,003,313.46
Subsidiaries of AVIC	Purchasing goods	981,946,220.44	730,231,636.76	2,175,013,544.47	1,512,674,375.03	1,444,589,092.93

Related party	Content of related transactions	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Others	Purchasing goods	109,993.69	1,879,680.73	2,273,894.75		
AVIC	Receiving services	2,000,000.00				
Subsidiaries of AVIC	Receiving services	36,763,557.69	2,925,433.37	57,308,605.24	51,967,004.86	45,426,119.24
Others	Receiving services	1,810,400.88	1,023,581.89	3,358,596.48	9,298,248.50	
Total		1,022,947,049.70	736,205,066.75	2,238,686,276.94	1,584,974,835.25	1,508,309,417.63

3. Related party transactions of selling goods and rendering services

Related party	Content of related transactions	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Subsidiaries of AVIC	Sales of goods	4,121,242,155.64	3,649,698,771.71	7,772,286,824.69	5,416,294,885.69	5,641,768,607.30
Associates of AVIC	Sales of goods	46,206,793.57	7,324,129.76	86,764,799.56		
Electromechanical						
Associates of AVIC	Sales of goods	149,056.60		394,591.15	63,087.73	255,501.65
Others	Sales of goods	147,816,278.41	173,812,674.04	471,558,573.67	342,747,976.25	
Subsidiaries of AVIC	Rendering services	36,934,456.93	42,621,908.83	121,868,412.35	21,706,572.77	5,108,942.58
Associates of AVIC	Rendering services	670,533.18	518,775.23	1,918,775.23		73,826,387.23
Electromechanical						
Others	Rendering services	694,799.49	22,349.06	1,958,575.23		
Total		4,353,714,073.82	3,873,998,608.63	8,456,750,551.88	5,780,812,522.44	5,720,959,438.76

4. Related party trustee management

(1) Trustee management of AVIC Electromechanical

Name of the trustor	Name of the trustee entrusted	Type of assets entrusted	Trustee start date	Trustee termination date	Custody income pricing basis	January to May 2022	January to May 2021 (Unaudited)	Custody income recognized in 2021	Custody income recognized in 2020	Custody income recognized in 2019
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	AVIC Electromechanical Systems Co., Ltd. (中航工業機電系統股份有限公司)	Equity Trusteeship	July 2014	See Note	Market pricing	13,851,962.26	9,207,036.20	22,096,886.87	17,676,981.19	17,044,015.62

Note: The above trustee management period is from the effective date of the trusteeship agreement to the first of the following dates: (1) the date of the trustee equity transferred to and registered in the name of AVIC Electromechanical Parent Company;

or (2) the date of the trustee equity sold by AVIC Airborne Systems Company Limited or China Aviation Industry General Aircraft Co., Ltd. to and registered in the name of a third party; or (3) the date of termination of the operations of Aerospace Lifesaving Equipment Co., Ltd.(航宇救生裝備有限公司) etc.; or (4) the date of termination of this agreement by consensus.

5. Related lease

(1) AVIC Electromechanical as lessor

Name of lessee	Types of leased assets	Rental fees	Rental fees	Rental fees	Rental fees	Rental fees
		recognized from January to May 2022	recognized from January to May 2021 (Unaudited)	recognized in 2021	recognized in 2020	recognized in 2019
Xi'an Qing'an Aviation Experimental Equipment Co., Ltd. (西安慶安航空試驗設備有限責任公司)	Plant & buildings	64,181.65	113,728.79	153,646.79	115,235.09	153,646.79
Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司)	Plant & buildings				69,724.77	69,724.77
Xi'an Qing'an Industrial Development Co., Ltd. (西安慶安產業發展有限公司)	Plant & buildings	1,146,788.99	4,296,000.00	7,000,802.00	3,941,284.40	10,017,900.00
Xi'an Qing'an Zhihang General Equipment Co., Ltd. (西安慶安智航通用設備有限公司)	Plant & buildings	17,660.55	25,240.71	149,908.26		
Xi'an Qing'an Electric Control Co., Ltd. (西安慶安電氣控制有限責任公司)	Machinery equipment	922,522.88		4,192,144.20		1,979,428.93
AVIC Xi'an Hospital (中航工業西安醫院)	Land use right			12,369.72	12,369.72	12,369.72
Koki TECHNIK Transmission Systems (China) Co., Ltd. (科奇汽車傳動系統(中國)有限公司)	Plant & buildings	1,449,341.65	1,449,341.65	3,478,419.96	3,454,916.01	4,798,781.64
Zhengzhou Zhengfei Casting Co., Ltd. (鄭州鄭飛鐵鑄有限責任公司)	Plant & buildings	130,753.97		313,809.52	228,095.24	313,809.52
Yuxin Automotive Thermal Management Technology Co., Ltd. (豫新汽車熱管理科技有限責任公司)	Machinery equipment				192,030.00	182,015.00
Xi'an Qing'an Machinery Manufacturing Co., Ltd. (西安慶安機械製造有限公司)	Plant & buildings					27,522.94
Zhengzhou Zhengfei Aircraft Technology Co., Ltd. (鄭州鄭飛機電技術有限責任公司)	Plant & buildings				259,904.76	355,142.86
Zhengzhou Zhengfei Machinery Co., Ltd. (鄭州鄭飛機械有限責任公司)	Plant & buildings				221,619.05	297,809.52
Zhengzhou Zhengfei Rubber & Plastic Products Co., Ltd. (鄭州鄭飛橡膠製品有限責任公司)	Plant & buildings				62,666.67	91,238.10
Total		3,731,249.69	5,884,311.15	15,301,100.45	8,557,845.71	18,299,389.79

(2) AVIC Electromechanical as lessee

Name of lessee	Types of leased assets	Rental fees recognized from January to May 2022	Rental fees recognized from January to May 2021 (Unaudited)	Rental fees recognized in 2021	Rental fees recognized in 2020	Rental fees recognized in 2019
Xi'an Qing'an Industrial Development Co., Ltd. (西安慶安產業發展有限公司)	Machinery equipment	90,310.04		226,283.12	400,738.05	895,665.55
Xinxiang Xinhang Electromechanical Technology Co., Ltd. (新鄉市新航機電科技有限公司)	Plant & buildings	1,367,768.65	1,286,177.99	3,064,665.12		
Xinxiang Xinhang Electromechanical Technology Co., Ltd. (新鄉市新航機電科技有限公司)	Land use right	128,729.43	133,886.14	321,848.44		
Xinxiang Xinhang Electromechanical Technology Co., Ltd. (新鄉市新航機電科技有限公司)	Transportation vehicles	191,609.78	199,817.21	480,102.19		
Yuxin Automotive Thermal Management Technology Co., Ltd. (豫新汽車熱管理科技有限公司)	Plant & buildings	123,509.29	76,751.88	256,477.44		
AVIC International Leasing Co., Ltd. (中航國際租賃有限公司)	Machinery equipment	783,447.12	1,606,068.11	1,905,628.82	5,266,000.00	8,768,000.00
Total		2,685,374.31	4,987,890.96	6,255,005.13	5,666,738.05	9,663,665.55

6. Related party guarantees

(1) AVIC Electromechanical as guarantor

Guarantor	Guaranteed party	Guaranteed amount	Starting date of guarantee	Due date of guarantee	Has the guarantee been fulfilled
AVIC Electromechanical Parent Company	Qing'an Group Co., Ltd. (慶安集團有限公司)	56,000,000.00	2015-12-24	2021-04-02	Yes
AVIC Electromechanical Parent Company	Sichuan Lingfeng Aero Hydraulic Machinery Co., Ltd. (四川凌峰航空液壓機械有限公司)	6,148,000.00	2017-03-08	2020-02-01	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	10,000,000.00	2019-01-14	2020-01-14	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	20,000,000.00	2019-01-28	2020-01-28	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	30,000,000.00	2019-02-01	2020-02-01	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	30,000,000.00	2019-02-28	2020-02-28	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	20,000,000.00	2019-06-28	2020-06-28	Yes

Guarantor	Guaranteed party	Guaranteed amount	Starting date of guarantee	Due date of guarantee	Has the guarantee been fulfilled
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	10,000,000.00	2019-07-22	2020-07-22	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Aviation Machinery Manufacturing Co., Ltd. (西安慶安航空機械製造有限公司)	5,000,000.00	2019-05-07	2020-05-07	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	20,000,000.00	2020-06-29	2021-06-29	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	30,000,000.00	2020-03-06	2021-03-06	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	20,000,000.00	2020-01-20	2021-01-20	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	30,000,000.00	2020-01-17	2021-01-17	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	10,000,000.00	2020-01-09	2021-01-09	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	30,000,000.00	2020-04-10	2021-04-10	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	10,000,000.00	2020-07-13	2021-07-13	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Aviation Machinery Manufacturing Co., Ltd. (西安慶安航空機械製造有限公司)	3,000,000.00	2020-09-22	2021-09-22	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	30,000,000.00	2021-03-09	2022-03-09	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	20,000,000.00	2021-01-21	2022-01-21	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	30,000,000.00	2021-01-18	2022-01-18	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	10,000,000.00	2021-01-15	2022-01-15	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	20,000,000.00	2021-01-25	2022-01-25	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	30,000,000.00	2021-07-14	2022-05-27	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	30,000,000.00	2021-10-15	2022-05-30	Yes
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	10,000,000.00	2022-04-27	2023-04-27	No
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	50,000,000.00	2022-05-25	2023-05-25	No
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	20,000,000.00	2022-05-27	2023-05-25	No

Guarantor	Guaranteed party	Guaranteed amount	Starting date of guarantee	Due date of guarantee	Has the guarantee been fulfilled
Qing'an Group Co., Ltd. (慶安集團有限公司)	Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司)	30,000,000.00	2022-05-31	2023-05-31	No
Total		650,148,000.00	-	-	

(2) *AVIC Electromechanical as the guaranteed party*

No.

7. *Fund borrowing and lending from related parties*(1) *Borrowing funds from related parties*

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	January to May 2022	2021 (Unaudited)						
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	200,000,000.00	200,000,000.00	200,000,000.00	200,000,000.00		2020/6/30	2023/6/30	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	160,000,000.00	160,000,000.00	160,000,000.00	160,000,000.00		2020/6/30	2023/6/30	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	100,000,000.00	100,000,000.00	100,000,000.00	100,000,000.00		2020/7/30	2023/6/30	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	90,147,620.18	90,147,620.18	90,147,620.18			2021/4/20	2023/6/24	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	86,460,000.00		86,460,000.00			2021/10/27	2024/6/29	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	55,309,658.15	55,309,658.15	55,309,658.15			2021/4/20	2023/5/1	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	51,545,751.36	51,545,751.36	51,545,751.36	51,545,751.36	51,545,751.36	2019/9/26	2022/9/26	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	50,000,000.00		50,000,000.00			2021/6/29	2024/6/29	

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	2022	(Unaudited)						
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	48,709,415.68	48,709,415.68	48,709,415.68	48,709,415.68		2020/11/18	2023/5/1	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	40,000,000.00	40,000,000.00	40,000,000.00	40,000,000.00		2020/6/30	2023/6/30	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	39,000,000.00		39,000,000.00			2021/11/25	2024/10/27	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	33,204,351.06	33,204,351.06	33,204,351.06	33,204,351.06		2020/6/24	2023/5/1	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	27,084,119.39	27,084,119.39	27,084,119.39	27,084,119.39	27,084,119.39	2019/9/29	2022/9/26	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	23,862,139.00	23,862,139.00	23,862,139.00	23,862,139.00		2020/10/26	2023/5/1	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	22,608,972.63	22,608,972.63	22,608,972.63	22,608,972.63		2020/3/24	2022/9/26	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	20,593,707.29	20,593,707.29	20,593,707.29	20,593,707.29		2020/9/23	2023/5/1	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	14,072,392.40	14,072,392.40	14,072,392.40	14,072,392.40		2020/4/23	2022/9/26	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	14,000,000.00		14,000,000.00			2021/12/17	2024/10/27	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	13,244,320.95	13,244,320.95	13,244,320.95	13,244,320.95	13,244,320.95	2019/12/10	2022/9/26	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	13,000,000.00	13,000,000.00	13,000,000.00	13,000,000.00		2020/8/28	2023/5/1	
AVIC Airborne Systems Company Limited (中航機載系統有限公司)	12,788,076.51	12,788,076.51	12,788,076.51	12,788,076.51		2020/7/29	2023/5/1	

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	2022	(Unaudited)						
AVIC Airborne Systems Company Limited (中航機 載系統有限公司)	11,000,000.00		11,000,000.00			2021/12/17	2024/10/27	
AVIC Airborne Systems Company Limited (中航機 載系統有限公司)	6,433,320.46	6,433,320.46	6,433,320.46	6,433,320.46		2020/8/28	2023/5/1	
AVIC Airborne Systems Company Limited (中航機 載系統有限公司)	5,200,000.00	5,200,000.00	5,200,000.00	5,200,000.00	5,200,000.00	2019/9/26	2022/9/26	
AVIC Airborne Systems Company Limited (中航機 載系統有限公司)	3,573,100.00	3,573,100.00	3,573,100.00	3,573,100.00		2020/8/28	2023/5/1	
AVIC Airborne Systems Company Limited (中航機 載系統有限公司)	14,935,581.04	14,935,581.04	14,935,581.04	14,935,581.04		2023/5/1	2022/9/26	
AVIC Airborne Systems Company Limited (中航機 載系統有限公司)	18,598,249.02	18,598,249.02	18,598,249.02	18,598,249.02		2023/5/1	2022/9/26	
AVIC Airborne Systems Company Limited (中航機 載系統有限公司)	19,250,000.00		19,250,000.00			2021/7/27	2022/9/26	
AVIC Airborne Systems Company Limited (中航機 載系統有限公司)	7,009,945.06	7,009,945.06	7,009,945.06	7,009,945.06	7,009,945.06	2019/10/30	2022/9/26	
AVIC Finance Co., Ltd. (中 航工業集團財務有限責任 公司)				100,000,000.00	100,000,000.00	2018/3/19	2020/7/20	
AVIC Finance Co., Ltd. (中 航工業集團財務有限責任 公司)				100,000,000.00	100,000,000.00	2017/4/27	2020/4/27	
AVIC Finance Co., Ltd. (中 航工業集團財務有限責任 公司)				110,000,000.00	110,000,000.00	2017/2/14	2020/2/14	
AVIC Finance Co., Ltd. (中 航工業集團財務有限責任 公司)				50,000,000.00	50,000,000.00	2019/11/8	2020/11/8	
AVIC Finance Co., Ltd. (中 航工業集團財務有限責任 公司)				60,000,000.00	60,000,000.00	2019/10/18	2020/10/18	

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	2022	(Unaudited)						
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			120,000,000.00	120,000,000.00		2019/9/19	2020/9/19	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			60,000,000.00	60,000,000.00		2019/8/20	2020/8/20	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			100,000,000.00	100,000,000.00		2019/7/18	2020/7/18	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			50,000,000.00	50,000,000.00		2019/6/27	2020/6/27	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			40,000,000.00	40,000,000.00		2019/5/28	2020/5/28	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			150,000,000.00	150,000,000.00		2019/3/21	2020/3/21	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			25,000,000.00	25,000,000.00		2019/3/20	2020/3/20	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			60,000,000.00	60,000,000.00		2019/3/13	2020/3/12	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			65,000,000.00	65,000,000.00		2019/2/20	2020/2/20	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	100,000,000.00	100,000,000.00	100,000,000.00	100,000,000.00		2020/10/15	2023/10/15	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	68,800,000.00	68,800,000.00	68,800,000.00	68,800,000.00		2020/12/28	2023/12/28	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	60,800,000.00	60,800,000.00	60,800,000.00	60,800,000.00		2020/6/18	2023/6/18	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	60,000,000.00	60,000,000.00	60,000,000.00	60,000,000.00		2020/5/19	2023/5/19	

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	January to May 2022	(Unaudited) 2021						
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	50,000,000.00					2022/3/30	2025/3/30	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	50,000,000.00					2022/5/25	2023/5/25	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	37,800,000.00					2022/5/24	2025/5/24	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	31,200,000.00	31,200,000.00	31,200,000.00			2021/4/19	2023/12/28	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	30,000,000.00	30,000,000.00	30,000,000.00	30,000,000.00		2020/12/9	2023/12/9	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	30,000,000.00					2022/5/31	2023/5/31	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	24,100,000.00					2022/1/27	2022/7/25	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	20,020,000.00		20,020,000.00			2021/12/21	2022/12/21	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	20,000,000.00					2022/5/25	2023/5/25	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	20,000,000.00					2022/5/27	2023/5/27	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	11,011,000.00		11,011,000.00			2021/10/25	2022/10/25	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	7,007,000.00		7,007,000.00			2021/9/2	2022/9/2	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	5,167,033.00					2022/1/27	2022/10/26	

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	2022	(Unaudited)						
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	5,000,000.00		5,000,000.00			2021/12/21	2022/12/21	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	5,000,000.00					2022/4/24	2023/4/24	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	1,470,000.00					2022/1/27	2022/9/27	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	1,386,022.00					2022/1/27	2022/10/26	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)		20,020,000.00	20,020,000.00			2021/5/25	2022/5/25	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	34,200,000.00	34,200,000.00	34,200,000.00	34,200,000.00		2020/5/28	2022/5/28	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			30,000,000.00			2021/7/14	2022/7/14	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	30,000,000.00	30,000,000.00	30,000,000.00			2021/3/9	2022/3/9	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	10,000,000.00	10,000,000.00	10,000,000.00			2021/1/15	2022/1/15	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)		20,000,000.00	20,000,000.00	20,000,000.00		2020/4/26	2021/4/26	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)		2,000,000.00	2,000,000.00	2,000,000.00		2020/12/23	2021/5/23	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)		3,900,000.00	3,900,000.00	3,900,000.00		2020/9/24	2021/3/24	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)		10,000,000.00	10,000,000.00	10,000,000.00		2020/9/15	2021/9/14	

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	2022	(Unaudited)						
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	18,000,000.00	18,000,000.00	18,000,000.00			2020/7/3	2021/7/3	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	28,000,000.00	28,000,000.00	28,000,000.00			2020/1/20	2021/1/20	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	5,000,000.00	5,000,000.00	5,000,000.00			2020/12/23	2021/12/23	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	20,000,000.00	20,000,000.00	20,000,000.00			2020/9/25	2021/9/25	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	100,000,000.00	100,000,000.00	100,000,000.00			2020/9/18	2021/9/18	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	4,950,000.00	4,950,000.00	4,950,000.00	4,950,000.00		2018/12/3	2021/10/30	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	90,000,000.00	90,000,000.00	90,000,000.00			2020/6/18	2021/6/8	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	50,000,000.00	50,000,000.00	50,000,000.00			2020/9/15	2021/9/15	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	70,000,000.00	70,000,000.00	70,000,000.00			2020/7/31	2021/7/31	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	50,000,000.00	50,000,000.00	50,000,000.00			2020/5/29	2021/4/28	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	70,000,000.00	70,000,000.00	70,000,000.00			2020/4/28	2021/4/28	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	70,000,000.00	70,000,000.00	70,000,000.00			2020/2/27	2021/2/27	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	10,000,000.00	10,000,000.00	10,000,000.00			2020/7/13	2021/7/13	

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	2022	(Unaudited)						
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	20,000,000.00	20,000,000.00	20,000,000.00			2020/6/29	2021/6/29	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	30,000,000.00	30,000,000.00	30,000,000.00			2020/3/6	2021/3/6	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	10,000,000.00	10,000,000.00	10,000,000.00			2020/1/9	2021/1/9	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	100,000,000.00	100,000,000.00	100,000,000.00			2020/10/30	2021/5/27	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	100,000,000.00	100,000,000.00	100,000,000.00			2020/7/20	2021/5/27	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	50,000,000.00	50,000,000.00	50,000,000.00			2020/4/17	2021/5/14	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	90,000,000.00	90,000,000.00	90,000,000.00			2020/3/20	2021/5/14	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	40,000,000.00	40,000,000.00	40,000,000.00			2020/10/20	2021/10/20	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	70,000,000.00	70,000,000.00	70,000,000.00			2020/9/18	2021/9/18	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	130,000,000.00	130,000,000.00	130,000,000.00			2020/9/14	2021/9/14	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	70,000,000.00	70,000,000.00	70,000,000.00			2020/8/19	2021/8/19	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	100,000,000.00	100,000,000.00	100,000,000.00			2020/7/9	2021/7/9	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	60,000,000.00	60,000,000.00	60,000,000.00			2020/6/30	2021/6/30	

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	2022	(Unaudited)						
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	20,000,000.00	20,000,000.00	20,000,000.00			2020/6/1	2021/6/1	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	40,000,000.00	40,000,000.00	40,000,000.00			2020/5/28	2021/5/28	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	3,000,000.00	3,000,000.00	3,000,000.00			2020/12/18	2021/9/30	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	50,000,000.00	50,000,000.00	50,000,000.00			2020/8/14	2021/8/14	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			13,000,000.00	13,000,000.00		2019/5/10	2020/5/10	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			20,000,000.00	20,000,000.00		2019/4/26	2020/4/26	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			20,000,000.00	20,000,000.00		2019/12/24	2020/12/24	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			5,000,000.00	5,000,000.00		2019/12/26	2020/12/26	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			28,000,000.00	28,000,000.00		2019/6/24	2020/1/23	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			65,000,000.00	65,000,000.00		2019/12/24	2020/12/24	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			50,000,000.00	50,000,000.00		2019/12/24	2020/12/24	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			50,000,000.00	50,000,000.00		2019/10/24	2020/10/24	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			100,000,000.00	100,000,000.00		2019/9/20	2020/9/20	

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	2022	(Unaudited)						
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			50,000,000.00	50,000,000.00		2019/3/25	2020/3/25	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			10,000,000.00	10,000,000.00		2018/12/3	2020/10/30	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			27,000,000.00	27,000,000.00		2019/8/12	2020/8/12	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			90,000,000.00	90,000,000.00		2019/9/28	2020/9/28	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			90,000,000.00	90,000,000.00		2019/11/15	2020/11/15	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			90,000,000.00	90,000,000.00		2019/10/18	2020/10/18	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			50,000,000.00	50,000,000.00		2019/8/19	2020/8/19	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			50,000,000.00	50,000,000.00		2019/7/24	2020/7/24	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			90,000,000.00	90,000,000.00		2019/5/14	2020/5/14	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			70,000,000.00	70,000,000.00		2019/4/25	2020/4/25	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			50,000,000.00	50,000,000.00		2019/4/18	2020/4/18	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			50,000,000.00	50,000,000.00		2019/3/15	2020/3/15	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)			10,000,000.00	10,000,000.00		2019/7/22	2020/7/22	

Related party	January to May		2021	2020	2019	Starting date	Expiration date	Note
	2022	(Unaudited)						
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)				20,000,000.00	20,000,000.00	2019/6/28	2020/6/28	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)				30,000,000.00	30,000,000.00	2019/2/28	2020/2/28	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)				10,000,000.00	10,000,000.00	2019/1/14	2020/1/14	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)				165,000,000.00	165,000,000.00	2019/3/18	2020/3/18	
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)				18,000,000.00	18,000,000.00	2019/7/3	2020/7/3	
Xi'an Qing'an Industrial Development Co., Ltd. (西安慶安產業發展有限公司)	30,000,000.00	30,000,000.00	30,000,000.00			2021/12/8	2022/12/8	
Xi'an Qing'an Industrial Development Co., Ltd. (西安慶安產業發展有限公司)				30,000,000.00	30,000,000.00	2019/11/6	2020/11/6	
Shaanxi Qinling Aviation Electric Co., Ltd. (陝西秦嶺航空電氣有限責任公司)				10,000,000.00	10,000,000.00	2019/11/25	2020/11/25	
Total	1,944,591,775.18	3,061,790,720.18	3,354,538,720.18	5,246,113,441.85	2,560,034,136.76			

(2) *Lending of funds to related parties*

No.

8. *Other financial services of related parties*(1) *Interest income*

Related party	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
AVIC Finance Co., Ltd. (中航工業集團 財務有限責任公司)	18,756,116.50	14,921,303.90	91,463,078.37	28,221,049.30	37,010,363.99
Total	18,756,116.50	14,921,303.90	91,463,078.37	28,221,049.30	37,010,363.99

(2) *Interest expense*

Related party	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
AVIC Finance Co., Ltd. (中國航空工業 集團財務有限責任公 司)	5,607,787.51	14,879,882.48	39,002,414.29	76,542,628.64	99,059,434.98
Xi'an Qing'an Industrial Development Co., Ltd. (西安慶安產業 發展有限公司)				1,222,983.33	1,097,500.00
AVIC Airborne Systems Company Limited (中航機載系 統有限公司)	7,722,550.09	4,114,636.71	22,381,369.54	10,004,518.00	1,491,838.83
Shaanxi Qinling Aviation Electric Co., Ltd. (陝西秦嶺 航空電氣有限責任公 司)				314,166.67	838,583.32
Total	13,330,337.60	18,994,519.19	61,383,783.83	88,084,296.64	102,487,357.13

(3) *Discount of notes receivable*

Related party	January to May 2022		January to May 2021 (Unaudited)		2021		2020		2019	
	Discounted amount	Discounted interest	Discounted amount	Discounted interest	Discounted amount	Discounted interest	Discounted amount	Discounted interest	Discounted amount	Discounted interest
AVIC Finance Co., Ltd. (中國航空工業集團財務有限責任公司)	32,123,055.00	592,727.31	13,480,000.00	35,029.30	13,480,000.00	158,598.40	143,979,352.38	1,686,112.37	132,760,683.30	4,283,381.53
Total	32,123,055.00	592,727.31	13,480,000.00	35,029.30	13,480,000.00	158,598.40	143,979,352.38	1,686,112.37	132,760,683.30	4,283,381.53

(4) *Acceptance of notes receivable*

Related party	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
AVIC Finance Co., Ltd. (中國航空工業集團財務有限責任公司)	75,855,289.09	83,423,018.08	150,407,037.10	129,232,915.28	228,514,289.90
Total	75,855,289.09	83,423,018.08	150,407,037.10	129,232,915.28	228,514,289.90

(5) *Factored accounts receivable*

Related party	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
AVIC Finance Co., Ltd. (中國航空工業集團財務有限責任公司)			47,426,637.02	395,166,047.05	489,330,087.30
Total			47,426,637.02	395,166,047.05	489,330,087.30

(6) *Acquisition of wealth management products*

No.

(7) *Commission expenditure*

No.

9. *Director, supervisor and senior management compensation and five highest paid employees*(1) *Director, supervisor and senior management compensation*

Item	Fees	Salaries, allowances and other expenses	Contribution to pension schemes	Bonus	Total	Note
Amount for January to May 2022						
Directors						
Wang Shugang		337,775.00	55,132.00		392,907.00	
Jiang Yunsheng						Get compensation from the related party
Yang Xianye						Get compensation from the related party
Zhou Yong		272,151.00	47,549.00		319,700.00	
Li Yunliang		187,103.00	16,081.00		203,184.00	
Xia Baoqi		268,114.00	47,170.00		315,284.00	
Wang Xiufen						The independent director's fee is paid at the end of the year
Zhang Jinchang						The independent director's fee is paid at the end of the year
Jing Xu						The independent director's fee is paid at the end of the year
Supervisors						
Wang Wei						Get compensation from the related party
Wang Xuebai						Get compensation from the related party
Zhang Pengbin						Get compensation from the related party
Zhang Maosong		417,959.00	21,844.00		439,803.00	
Pang Xueli		162,181.00	16,026.00		178,207.00	
Total		1,645,283.00	203,802.00		1,849,085.00	
Amount for January to May 2021						
Directors						
Zhang Kunhui						Get compensation from the related party
Ji Ruidong						Resign on 8 May 2021; Get compensation from the related party

Item	Fees	Salaries, allowances and other expenses	Contribution to pension schemes	Bonus	Total	Note
Wang Jiangan						Get compensation from the related party
Chen Yuanming						Get compensation from the related party
Zhou Chunhua						Get compensation from the related party
Wang Shugang		303,270.00	54,972.00		358,242.00	
Zhang Guohua						The independent director's fee is paid at the end of the year
Jing Xu						The independent director's fee is paid at the end of the year
Zhang Jinchang						The independent director's fee is paid at the end of the year
Supervisors						
Wu Xingquan						Get compensation from the related party
Wang Xuebai						Get compensation from the related party
Zhang Pengbin						Get compensation from the related party
Pang Xueli		155,553.00	13,458.00		169,011.00	
Zhang Maosong		461,405.00	21,890.00		483,295.00	
senior management						
Zhou Yong		271,621.00	46,343.00		317,964.00	
Li Yunliang		180,563.00	13,427.00		193,990.00	
Xia Baoqi		266,784.00	45,943.00		312,727.00	
Total		1,639,196.00	196,033.00		1,835,229.00	
Amount for 2021						
Directors						
Wang Shugang		743,644.00	137,893.00		881,537.00	Take office on 22 June 2021
Jiang Yunsheng						Take office on 27 December 2021; Get compensation from the related party
Yang Xianye						Take office on 27 December 2021; Get compensation from the related party

Item	Fees	Salaries, allowances and other expenses	Contribution to pension schemes	Bonus	Total	Note
Zhou Yong		640,419.00	112,470.00		752,889.00	Take office on 27 December 2021
Li Yunliang		675,575.00	34,911.00		710,486.00	Take office on 27 December 2021
Xia Baoqi		631,260.00	111,586.00		742,846.00	Take office on 27 December 2021
Wang Xiufen	31,000.00				31,000.00	Take office on 2 June 2021
Zhang Jinchang	62,000.00				62,000.00	
Jing Xu	62,000.00				62,000.00	
Zhang Kunhui						Resign on 15 June 2021; Get compensation from the related party
Ji Ruidong						Resign on 8 May 2021; Get compensation from the related party
Wang Jiangan						Resign on 27 December 2021; Get compensation from the related party
Chen Yuanming						Resign on 27 December 2021; Get compensation from the related party
Zhou Chunhua						Resign on 27 December 2021; Get compensation from the related party
Wang Xiaoming						Resign on 27 December 2021; Get compensation from the related party
Zhang Guohua	31,000.00				31,000.00	Resign on 2 June 2021
Supervisors						
Wang Wei						Take office on 27 December 2021; Get compensation from the related party
Wang Xuebai						Get compensation from the related party
Zhang Pengbin						Get compensation from the related party
Zhang Maosong		778,653.00	52,300.00		830,953.00	
Pang Xueli		631,777.00	34,955.00		666,732.00	

APPENDIX IV

**ACCOUNTANTS' REPORT OF
AVIC ELECTROMECHANICAL AND ITS SUBSIDIARIES**

Item	Fees	Salaries, allowances and other expenses	Contribution to pension schemes	Bonus	Total	Note
Wu Xingquan						Resign on 10 December 2021; Get compensation from the related party
Total	186,000.00	4,101,328.00	484,115.00		4,771,443.00	
Amount for 2020						
Directors						
Zhang Kunhui						Take office on 22 October 2020; Get compensation from the related party
Ji Ruidong						Take office on 22 October 2020; Get compensation from the related party
Wang Jiangan						Take office on 22 October 2020; Get compensation from the related party
Chen Yuanming						Take office on 22 October 2020; Get compensation from the related party
Zhou Chunhua						Take office on 22 October 2020; Get compensation from the related party
Wang Shugang		127,619.00	10,829.00		138,448.00	Take office on 22 October 2020
Li Bing		85,267.00	14,731.00		99,998.00	Resign on 26 September 2020
Zhang Guohua	62,000.00				62,000.00	
Jing Xu	62,000.00				62,000.00	
Zhang Jinchang	10,300.00				10,300.00	Take office on 22 October 2020
Liu Xuejun	51,700.00				51,700.00	Resign on 22 October 2020
Supervisors						
Wu Xingquan						Take office on 22 October 2020; Get compensation from the related party
Wang Xuebai						Take office on 22 October 2020; Get compensation from the related party
Zhang Pengbin						Take office on 22 October 2020; Get compensation from the related party

Item	Fees	Salaries, allowances and other expenses	Contribution to pension schemes	Bonus	Total	Note
Pang Xueli		619,710.00	25,517.00		645,227.00	Take office on 22 October 2020
Zhang Maosong		540,581.00	19,215.00		559,796.00	Take office on 22 October 2020
Yu Feng						Resign on 22 October 2020; Get compensation from the related party
senior management						
Zhou Yong		593,990.00	58,878.00		652,868.00	Take office on 22 October 2020
Li Yunliang		661,334.00	25,501.00		686,835.00	Take office on 22 October 2020
Xia Baoqi		583,123.00	56,826.00		639,949.00	Take office on 22 October 2020
Total	186,000.00	3,211,624.00	211,497.00		3,609,121.00	
Amount for 2019						
Directors						
Zhang Kunhui						Get compensation from the related party
Ji Ruidong						Get compensation from the related party
Wang Jiangan						Get compensation from the related party
Chen Yuanming						Get compensation from the related party
Zhou Chunhua						Get compensation from the related party
Li Bing		504,586.00	101,573.00		606,159.00	
Liu Xuejun	62,000.00				62,000.00	
Zhang Guohua	62,000.00				62,000.00	
Jing Xu	62,000.00				62,000.00	
Supervisors						
Yu Feng						Get compensation from the related party
Wu Xingquan						Get compensation from the related party
Wang Xuebai						Get compensation from the related party
Pang Xueli		590,143.00	32,555.00		622,698.00	
Zhang Maosong		430,616.00	47,402.00		478,018.00	

Item	Fees	Salaries, allowances and other expenses	Contribution to pension schemes	Bonus	Total	Note
senior management						
Zhou Yong		594,545.00	98,395.00		692,940.00	
Mao Zunping		363,751.00	47,435.00		411,186.00	Resign on 2 December 2019
Xia Baoqi		584,425.00	90,591.00		675,016.00	
Li Yunliang						Take office on 2 December 2019
Total	186,000.00	3,068,066.00	417,951.00		3,672,017.00	

(2) *Five highest paid employees*

Item	Amount for January to May 2022	Amount for January to May 2021	Amount for 2021	Amount for 2020	Amount for 2019
Salaries, allowances and other expenses	2,081,887.57	2,234,321.37	4,211,572.38	3,975,960.65	5,095,332.94
Contribution to pension schemes	144,909.40	112,171.32	301,568.38	229,663.18	216,831.40
Share-based payment					
Total	2,226,796.97	2,346,492.69	4,513,140.76	4,205,623.83	5,312,164.34

Remuneration range:

Item	Number of people from January to May 2022	Number of people from January to May 2021	Number of people in 2021	Number of people in 2020	Number of people in 2019
RMB0 to RMB848,700	5	5		3	
RMB848,701 to RMB1,273,050			5	2	5
Share-based payment					
Total	5	5	5	5	5

10. *Key management personnel remuneration*

Item	January to May 2022	January to May 2021	2021	2020	2019
Key management personnel remuneration	1,849,085.00	1,835,229.00	4,771,443.00	3,609,121.00	3,672,017.00

11. *Asset transfer and debt restructuring of related parties:*

No.

12. *Receivables and payables from related parties*(1) *Bank deposits*

Name of related party	31 May 2022 Carrying amount	31 December 2021 Carrying amount	31 December 2020 Carrying amount	31 December 2019 Carrying amount
AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司)	5,698,513,560.68	8,068,579,205.92	4,300,697,150.79	4,221,509,292.03

(2) *Notes receivable*

Name of related party	31 May 2022		31 December 2021	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Subsidiaries of AVIC	729,111,001.51		938,431,143.06	
Total	729,111,001.51		938,431,143.06	

Continue:

Name of related party	31 December 2020		31 December 2019	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Subsidiaries of AVIC	712,963,814.50		752,968,556.87	
Total	712,963,814.50		752,968,556.87	

(3) *Accounts receivable*

Name of related party	31 May 2022		31 December 2021	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Associates of AVIC				
Electromechanical	14,312,193.28	7,156.10	22,263,085.71	11,131.54
Associates of AVIC	158,000.00	79.00		
Subsidiaries of AVIC	5,644,271,884.76	17,788,411.05	3,851,262,921.61	15,691,468.35
Others	41,647,545.19	306,404.06	138,947,368.59	298,666.12
Total	5,700,389,623.23	18,102,050.21	4,012,473,375.91	16,001,266.01

Continued:

Name of related party	31 December 2020		31 December 2019	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Associates of AVIC				
Electromechanical	21,599,663.51	10,799.83	29,689,821.96	14,844.91
Associates of AVIC			698,500.00	349.25
Subsidiaries of AVIC	4,551,798,973.43	27,162,636.20	4,404,811,761.62	26,749,984.68
Others	187,079,300.05	98,174.93	29,690,999.76	16,022.71
Total	4,760,477,936.99	27,271,610.96	4,464,891,083.34	26,781,201.55

(4) *Receivables financing*

Name of related party	31 May 2022		31 December 2021	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Subsidiaries of AVIC	105,791,871.42		215,033,380.04	
Total	105,791,871.42		215,033,380.04	

Continued:

Name of related party	31 December 2020		31 December 2019	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Subsidiaries of AVIC	81,565,345.04		78,796,670.05	
Total	81,565,345.04		78,796,670.05	

(5) *Other receivables*

Name of related party	31 May 2022		31 December 2021	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
AVIC	5,000.00	1,250.00	5,000.00	1,250.00
Associates of AVIC				
Electromechanical	4,000,000.00			
Subsidiaries of AVIC	31,259,694.32	2,519,284.01	16,983,546.02	1,839,009.62
Total	35,264,694.32	2,520,534.01	16,988,546.02	1,840,259.62

Continued:

Name of related party	31 December 2020		31 December 2019	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
AVIC	5,000.00	750.00	5,000.00	500.00
Associates of AVIC				
Electromechanical	6,000,000.00			
Subsidiaries of AVIC	10,415,619.51	1,756,233.82	133,714,136.88	5,617,877.23
Total	16,420,619.51	1,756,983.82	133,719,136.88	5,618,377.23

(6) *Prepayments*

Name of related party	31 May 2022		31 December 2021	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Subsidiaries of AVIC	129,123,484.84		53,341,300.74	
Associates of AVIC	108,000.00		9,860,887.30	
Others	24,813,651.31		9,685,323.30	
Total	154,045,136.15		72,887,511.34	

Continued:

Name of related party	31 December 2020		31 December 2019	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Subsidiaries of AVIC	149,917,598.43		73,229,498.59	
Associates of AVIC	12,743,806.18		33,190.00	
Others	12,412,372.18			
Total	175,073,776.79		73,262,688.59	

(7) *Long-term receivables*

No.

(8) *Notes payable*

Name of related party	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Associates of AVIC				
Electromechanical	155,697.00	155,697.00		
Associates of AVIC				1,915,709.00
Subsidiaries of AVIC	744,397,824.82	847,148,762.99	669,389,438.84	417,252,109.19
Total	744,553,521.82	847,304,459.99	669,389,438.84	419,167,818.19

(9) *Accounts payable*

Name of related party	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Associates of AVIC				
Electromechanical	566,678.00	317,365.00	316,242.00	155,697.00
Associates of AVIC		67,564.00	67,564.00	5,491,748.76
Subsidiaries of AVIC	1,121,250,927.83	671,341,431.56	649,074,610.61	654,250,024.56
Others	577,282.97	838,497.62		
Total	1,122,394,888.80	672,564,858.18	649,458,416.61	659,897,470.32

(10) *Other payables*

Name of related party	31 May 2022	31 December 2021	31 December 2020	31 December 2019
AVIC	427,335.00			5,000.00
Associates of AVIC				
Electromechanical				150,000,000.00
Subsidiaries of AVIC	254,323,018.14	12,192,354.82	17,932,961.38	181,757,394.52
Others	2,990,242.64	1,082,242.64		
Total	257,740,595.78	13,274,597.46	17,932,961.38	331,762,394.52

(11) *Advances*

Name of related party	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Associates of AVIC		12,608.82	152,358.33	100,000.00
Subsidiaries of AVIC	15,184,473.62	18,760,147.58	50,824,579.62	32,181,146.72
Total	15,184,473.62	18,772,756.40	50,976,937.95	32,281,146.72

(12) *Contract liabilities*

Name of related party	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Subsidiaries of AVIC	2,148,979,209.19	2,338,236,434.89	66,579,538.16	15,090,390.08
Total	2,148,979,209.19	2,338,236,434.89	66,579,538.16	15,090,390.08

(13) *Long-term payables*

No.

XII. COMMITMENTS AND CONTINGENCIES**(I) Significant commitments**

AVIC Electromechanical has no significant commitments that need to be disclosed.

(II) Important contingencies existing as at the balance sheet date

- In July 2013, Yibin Sanjiang and YiBin Housing Provident Fund Management Center signed the Individual Housing Provident Fund Loan Cooperation Agreement, under which YiBin Housing Provident Fund Management Center provided housing provident fund loans for employees who purchase affordable housing built by Yibin Sanjiang. Yibin Sanjiang guarantees for housing provident fund loans. The guarantee period is from the date of signing the loan contract to the date when Yibin Sanjiang has completed the mortgage registration procedures approved by YiBin Housing Provident Fund Management Center and delivered the housing title certificate and other proof of ownership to YiBin Housing Provident Fund Management Center and the mortgage can be traded on the market. As at 31 May 2022, the balance of guarantee for housing provident fund loans not yet released from guarantee liability was RMB4,341,434.00.
- Jiangsu Construction Engineering Group Co., Ltd. (hereinafter referred to as "JSCE") sued Qing'an Group to Xi'an Intermediate People's Court on 12 June 2020 due to a dispute over construction contract involving a total amount of RMB65,636,818.10. Regarding the project, Qing'an Group has paid JSCE the full project fees according to the audit of the final accounts of the project and the construction contract. However, dispute arose because JSCE did not agree with the audit results of the final accounts. Qing'an Group has engaged a team of lawyers from Yong Jia Xin Law Firm to represent Qing'an Group in the court proceedings. After reviewing the evidentiary materials of the whole case, the lawyer team proposed a counter-claim and filed the same to Xi'an Intermediate People's Court on 30 July 2020 for RMB57,700,562.99. As of 31 May 2022, the case has not yet been heard.

XIII. EVENTS AFTER THE BALANCE SHEET DATE**(I) Planning of major assets restructuring by AVIC Electromechanical Systems Co., Ltd.**

AVIC Electromechanical and AVIC Avionics Systems Co., Ltd. (hereinafter referred to as "AVIC Avionics") are planning to issue A-shares to all shareholders of the Company by way of absorption and merger through share swap with AVIC Electromechanical's A-shares to raise supporting funds. This transaction constitutes a major asset restructuring stipulated in the Measures for the Administration of the Material Asset Restructurings of Listed Companies (2020 Amendment), and also constitutes a related transaction of AVIC Electromechanical. Upon completion of such absorption and merger through share swap, AVIC Electromechanical will be delisted and deregistered, and AVIC Avionics will inherit and take over all assets, liabilities, businesses, personnel, contracts and all other rights and obligations of AVIC Electromechanical. Both parties to the transaction have signed a agreement about the share swap absorption merger transaction.

(II) Adjustment of the reorganization program of Xi'an Qing'an Refrigeration Equipment Co., Ltd., a subsidiary of AVIC Electromechanical

AVIC Electromechanical convened the 3rd meeting of the 7th Board of Directors on 23 December 2020, where the Proposal on the Reorganization and Related Party Transactions of Xi'an Qing'an Refrigeration Equipment Co., Ltd. Subordinating a Subsidiary was passed after review and approval, agreeing that the subsidiary Qing'an Group will reorganize Xi'an Qing'an Refrigeration Equipment Co., Ltd. (hereinafter referred to as "Qing'an Refrigeration") and AVIC Electromechanical (Shenyang) Sanyo Refrigeration Equipment Co., Ltd (hereinafter referred to as "Electromechanical Sanyo") which it controls. The planned reorganization method is to integrate Qing'an Refrigeration and Electromechanical Sanyo in the form of "merger by the establishment of a new company". After research and demonstration, the parties decided not to integrate Qing'an Refrigeration and Electromechanical Sanyo in the form of "merger by the establishment of a new company", intending to adjust the transaction plan to capital injection into Beijing Hanghua Refrigeration Equipment Co., Ltd. (hereinafter referred to as "Beijing Hanghua") by Qing'an Group through a non-public agreement with its 51% equity in Qing'an Refrigeration.

Prior to the Transaction, Qing'an Company holds 65.62% equity interests in Qing'an Refrigeration. Upon completion of the Transaction, the Company will hold a total of 14.62% equity interests in Qing'an Refrigeration, and Qing'an Refrigeration will no longer be included in the consolidated financial statements of Qing'an Company. This Transaction has passed at the 20th meeting of the seventh session of the Board of AVIC Electromechanical on 28 June 2022.

XIV. OTHER SIGNIFICANTS EVENTS**(I) Accounting errors in prior years**

AVIC Electromechanical has no accounting errors in prior years.

(II) Debt restructuring**Debt restructuring during January to May 2022:**

AVIC Hubei Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司), Xinxiang Aviation Group (新航集團), Yibin Sanjiang, Sichuan Lingfeng and Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司), subsidiaries of AVIC Electromechanical, as debtors of the debt restructuring, paid off the debts of RMB193,445,077.18 with cash lower than book values thereof, resulting in a debt restructuring profit of RMB4,180,736.37.

Yibin Sanjiang, a subsidiary of the Company, as creditor of the debt restructuring, recovered the creditor's rights of RMB60,000.00 with cash lower than book values thereof, resulting in a debt restructuring loss of RMB18,000.00.

Debt restructuring in 2021:

AVIC Hubei Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司), Xinxiang Aviation Group (新航集團), Yibin Sanjiang, Sichuan Lingfeng and Xi'an Qing'an Refrigeration Equipment Co., Ltd. (西安慶安製冷設備股份有限公司), subsidiaries of AVIC Electromechanical, as debtors of the debt restructuring, paid off the debts of RMB652,047,885.12 with cash lower than book values thereof, resulting in a debt restructuring profit of RMB9,102,601.92.

AVIC Hubei Precision Machinery Technology Co., Ltd. and Yibin Sanjiang, subsidiaries of AVIC Electromechanical, as creditors of the debt restructuring, recovered the creditor's rights of RMB2,399,016.57 with cash lower than book values thereof, resulting in a debt restructuring loss of RMB38,374.85.

Debt restructuring in 2020:

Qing'an Group and Yibin Sanjiang, subsidiaries of AVIC Electromechanical, as debtors of the debt restructuring, paid off the debts of RMB340,579,389.20 with cash lower than book values thereof, resulting in a debt restructuring profit of RMB6,351,076.03.

Yibin Sanjiang, subsidiary of AVIC Electromechanical, as creditor of the debt restructuring, recovered the creditor's rights of RMB2,800,000.00 with cash lower than book values thereof, resulting in a debt restructuring loss of RMB78,000.00.

In 2019: no debt restructuring events.

(III) Annuity Plan

AVIC Electromechanical formulated a corporate annuity plan in accordance with the relevant policies under State's corporate annuity regulations, the post-employment benefits of which were defined as defined contribution scheme. Accordingly, the employees of AVIC Electromechanical are allowed to participate in such annuity plan on a voluntary basis. The corresponding expenses required for the corporate annuity are jointly assumed by AVIC Electromechanical and employees, among which AVIC Electromechanical takes the average monthly amount of the total salaries of employees in the previous period as the payment base, withholding no more than 8% (January to May 2022 and 2021) and 5% (2020 and 2019) for contribution to the annuity plan. Employees shall take the average monthly amount of his total salaries in the previous period as the payment base, making monthly contribution to the annuity plan at a rate not exceeding 5%.

(IV) Segment information

AVIC Electromechanical determines operating segments based on internal organisational structure, management requirements, and internal reporting systems, and determines reporting segments based on operating segments, and discloses such segment information. An operating segment is a component of AVIC Electromechanical that meets the following conditions simultaneously: (1) the component is able to generate revenues and incur expenses from its ordinary activities; (2) its operating results are regularly evaluated by AVIC Electromechanical's management to make decisions about resources to be allocated to the segment and to assess its performance; (3) the accounting information on financial position, operating results and cash flows of the component is available to AVIC Electromechanical. Two or more operating segments may be aggregated into a single operating segment if they have similar economic characteristics and meet specified conditions.

AVIC Electromechanical considers the materiality principle and decides reporting segment on the basis of operating segments. AVIC Electromechanical's reporting segment is a business unit which provides different products or services, or operates in different regions. As various businesses or regions need different technologies and market strategies, AVIC Electromechanical respectively and independently manage the production and operating activities of each reporting branch, and respectively evaluate the operating results so as to decide to configure resource to it and evaluate its performance. AVIC Electromechanical is mainly engaged in manufacturing of airborne avionics products for various types of aircrafts and engines. AVIC Electromechanical decides reporting segment on the basis of product segments and geographical segments by which assets and liabilities commonly used are unable to be clearly distinguished. For details about operating revenue and operating costs from product segments and geographical segments, please refer to the VI. Note. 50 "Operating revenue and operating costs".

(V) Other significant transactions and events that have an impact on investors' decisions

AVIC Electromechanical has no other significant transactions and events that have an impact on investors' decisions.

XV. NOTES TO THE MAJOR ITEMS OF THE PARENT COMPANY'S FINANCIAL STATEMENTS

Note 1. Other receivables

Items	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Interest receivable				120,567.59
Dividends receivable				8,539,100.00
Other receivables	64,961,410.96	50,662,867.35	54,291,662.93	162,651,760.11
Total	64,961,410.96	50,662,867.35	54,291,662.93	171,311,427.70

Note: Other receivables in the above table refer to other receivables after deducting interest receivable and dividends receivable.

(I) Interests receivable

1. Category of interests receivable

Items	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Entrusted loans				120,567.59
Total				120,567.59

2. Significant interests overdue as at 31 May 2022

No.

(II) Dividends receivable

Investee	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Including: Guiyang Aviation Motor Co., Ltd. (貴陽航空電機 有限公司)				8,539,100.00
Total				8,539,100.00

*(III) Other receivables*1. *Disclosure by aging*

Aging	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Within 1 year	14,962,244.15	146,067.18	3,628,533.50	113,575,058.56
1-2 years	1,745.19	1,745.19	1,092,802.92	1,723,157.58
2-3 years	844,220.63	844,220.63	888,936.95	1,859,600.00
3-4 years	888,936.95	888,936.95		923,100.00
4-5 years				
Over 5 years	50,211,721.81	50,211,721.81	50,230,321.81	50,230,321.81
Subtotal	66,908,868.73	52,092,691.76	55,840,595.18	168,311,237.95
Less: Bad debt provision	1,947,457.77	1,429,824.41	1,548,932.25	5,659,477.84
Total	64,961,410.96	50,662,867.35	54,291,662.93	162,651,760.11

2. *Classification by nature*

Nature of amount	31 May 2022	31 December 2021	31 December 2020	31 December 2019
Pretty cash	43,863.18	29,113.18	29,367.99	27,367.99
Intercourse funds	51,295,356.59	51,177,009.62	51,424,658.23	56,884,294.22
Custodian fee	14,683,080.00		3,500,000.00	17,000,000.00
Deposit and security	886,568.96	886,568.96	886,568.96	
Receivables from equity disposals				94,399,575.74
Less: bad debt provision	1,947,457.77	1,429,824.41	1,548,932.25	5,659,477.84
Total	64,961,410.96	50,662,867.35	54,291,662.93	162,651,760.11

3. *Bad debt provision of other receivables*

Bad debt provision	January to May 2022			Total
	Stage 1 Expected credit loss in the future 12 months	Stage 2 Lifetime expected credit loss (not credit impaired)	Stage 3 Lifetime expected credit loss (credit impaired)	
Opening balance	4,392.43	1,425,431.98		1,429,824.41
Opening balance during the period				
– Be transferred to Stage 2	-26.18	26.18		

	January to May 2022			Total
	Stage 1 Expected credit loss in the future 12 months	Stage 2 Lifetime expected credit loss (not credit impaired)	Stage 3 Lifetime expected credit loss (credit impaired)	
Bad debt provision				
– Be transferred to Stage 3				
– Be transferred back to Stage 2				
– Be transferred back to Stage 1				
Provision made in the current period	517,659.54	-26.18		517,633.36
Amount transferred back in the current period				
Amount written back in the current period				
Amount written off in the current period				
Other changes				
Closing balance	522,025.79	1,425,431.98		1,947,457.77

Continued:

	2021			Total
	Stage 1 Expected credit loss in the future 12 months	Stage 2 Lifetime expected credit loss (not credit impaired)	Stage 3 Lifetime expected credit loss (credit impaired)	
Bad debt provision				
Opening balance	122,530.00	1,426,402.25		1,548,932.25
Opening balance during the period				
– Be transferred to Stage 2	-26.18	26.18		
– Be transferred to Stage 3				
– Be transferred back to Stage 2				
– Be transferred back to Stage 1				

	2021			Total
	Stage 1 Expected credit loss in the future 12 months	Stage 2 Lifetime expected credit loss (not credit impaired)	Stage 3 Lifetime expected credit loss (credit impaired)	
Bad debt provision				
Provision made in the current period	-118,111.39	-996.45		-119,107.84
Amount transferred back in the current period				
Amount written back in the current period				
Amount written off in the current period				
Other changes				
Closing balance	4,392.43	1,425,431.98		1,429,824.41

Continued:

	2020			Total
	Stage 1 Expected credit loss in the future 12 months	Stage 2 Lifetime expected credit loss (not credit impaired)	Stage 3 Lifetime expected credit loss (credit impaired)	
Opening balance	3,931,226.88	1,728,250.96		5,659,477.84
Opening balance during the period				
– Be transferred to Stage 2	-3,488.22	3,488.22		
– Be transferred to Stage 3				
– Be transferred back to Stage 2				
– Be transferred back to Stage 1				
Provision made in the current period	-3,805,208.66	-305,336.93		-4,110,545.59
Amount transferred back in the current period				
Amount written back in the current period				
Amount written off in the current period				
Other changes				
Closing balance	122,530.00	1,426,402.25		1,548,932.25

Continued:

	2019			Total
	Stage 1 Expected credit loss in the future 12 months	Stage 2 Lifetime expected credit loss (not credit impaired)	Stage 3 Lifetime expected credit loss (credit impaired)	
Opening balance	650,806.93	1,225,015.62		1,875,822.55
Opening balance during the period				
– Be transferred to Stage 2	-13,434.05	13,434.05		
– Be transferred to Stage 3				
– Be transferred back to Stage 2				
– Be transferred back to Stage 1				
Provision made in the current period	3,293,854.00	489,801.29		3,783,655.29
Amount transferred back in the current period				
Amount written back in the current period				
Amount written off in the current period				
Other changes				
Closing balance	3,931,226.88	1,728,250.96		5,659,477.84

4. *Other receivables actually written off during the reporting period*

No.

5. *Details of top five other receivables with balances classified by the borrowers at the end of the period*

Name	Nature of amount	31 May 2022	Aging	Proportion to the closing balance of other receivables (%)	Closing balance of bad debt provision
Company 1	Intercourse funds	49,979,097.02	Over 5 years	74.70	
Company 2	Intercourse funds	1,066,845.42	Over 5 years	1.59	1,066,845.42
	Custodian fee	14,683,080.00	Within 1 year	21.94	513,907.80
Company 3	Deposit	883,936.95	3-4 years	1.33	353,574.78
Company 4	Intercourse funds	196,447.01	Within 1 year	0.29	6,875.65
Employee 1	Pretty cash	5,000.00	Within 1 year	0.01	75.00
Total	-	66,814,406.40	-	99.86	1,941,278.65

Continued:

Name	Nature of amount	31 December 2021	Aging	Proportion to the closing balance of other receivables (%)	Closing balance of bad debt provision
Company 1	Intercourse funds	49,979,097.02	Over 5 years	95.94	
Company 2	Intercourse funds	1,066,845.42	Over 4 years	2.05	1,066,845.42
Company 3	Deposit	886,568.96	3-4 years	1.70	346,627.58
Company 4	Intercourse funds	110,070.91	Within 1 year	0.21	3,852.48
Company 5	Intercourse funds	5,000.00	3-4 years	0.01	1,250.00
Total	-	52,047,582.31	-	99.91	1,418,575.48

Continued:

Name	Nature of amount	31 December 2020	Aging	Proportion to the closing balance of other receivables (%)	Closing balance of bad debt provision
Company 1	Intercourse funds	49,979,097.02	Over 5 years	89.50	
	Intercourse funds	174,185.45	Within 1 year	0.31	
Company 2	Custodian fee	3,500,000.00	Within 1 year	6.27	122,500.00
Company 3	Convertible bond project final payment	184,717.22	1-2 years	0.33	27,707.58
Company 4	Intercourse funds	16,213.12	1-2 years	0.03	1,621.31
Company 5	Intercourse funds	9,600.00	Over 5 years	0.02	9,600.00
Total	-	53,863,812.81	-	96.46	161,428.89

Continued:

Name	Nature of amount	31 December 2019	Aging	Proportion to the closing balance of other receivables (%)	Closing balance of bad debt provision
Company 1	Intercourse funds	49,979,097.02	Over 5 years	29.69	
Company 2	Receivables from equity disposals and custodian fee	111,399,575.73	Within 1 year	66.19	3,898,985.15
Company 3	Intercourse funds	1,859,600.00	2-3 years	1.10	278,940.00
Company 4	Intercourse funds	923,100.00	3-4 years	0.55	230,775.00
Company 5	Intercourse funds	199,731.11	Within 1 year	0.12	2,995.97
Total	-	164,361,103.86	-	97.65	4,411,696.12

Note 2. Long-term equity investments

Item	Book balance	31 May 2022	
		Impairment provision	Book value
Investment in subsidiaries	7,219,605,816.47		7,219,605,816.47
Investment in associates and joint ventures	193,493,351.55		193,493,351.55
Total	7,413,099,168.02		7,413,099,168.02

Continued:

Item	Book balance	31 December 2021	
		Impairment provision	Book value
Investment in subsidiaries	7,219,605,816.47		7,219,605,816.47
Investment in associates and joint ventures	186,381,323.79		186,381,323.79
Total	7,405,987,140.26		7,405,987,140.26

Continued:

Item	Book balance	31 December 2020	
		Impairment provision	Book value
Investment in subsidiaries	7,189,605,816.47		7,189,605,816.47
Investment in associates and joint ventures	168,412,760.49		168,412,760.49
Total	7,358,018,576.96		7,358,018,576.96

Continued:

Item	Book balance	31 December 2019	
		Impairment provision	Book value
Investment in subsidiaries	6,939,605,816.47		6,939,605,816.47
Investment in associates and joint ventures	150,000,000.00		150,000,000.00
Total	7,089,605,816.47		7,089,605,816.47

1. Investment in subsidiaries

Investee	Initial investment cost	31 December 2021	Increase in the current period	Decrease in the current period	31 May 2022	Impairment provision for the period	Closing balance of impairment provision
Qing'an Group Co., Ltd. (慶安集團有限公司)	1,837,874,829.49	2,837,874,829.49			2,837,874,829.49		
Shaanxi Aero Electric Co., Ltd. (陝西航空電氣有限責任公司)	585,555,926.23	920,555,926.23			920,555,926.23		
Zhengzhou Aircraft Equipment Co., Ltd. (鄭州飛機裝備有限責任公司)	201,700,811.38	583,062,711.38			583,062,711.38		
Sichuan Lingfeng Aero Hydraulic Machinery Co., Ltd. (四川凌峰航空液壓機械有限公司)	171,088,063.50	171,088,063.50			171,088,063.50		
Sichuan Fanhua Aviation Instrument and Electric Co., Ltd. (四川泛華航空儀表電器有限公司)	297,489,031.81	317,489,031.81			317,489,031.81		
Sichuan AVIC Chuanxi Machinery Co., Ltd. (四川航空工業川西機器有限責任公司)	175,609,510.28	240,609,510.28			240,609,510.28		
AVIC Hubei Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司)	481,222,782.17	541,222,782.17			541,222,782.17		
Guizhou Fenglei Aviation Ordnance Co., Ltd. (貴州風雷航空軍械有限責任公司)	131,638,654.88	381,638,654.88			381,638,654.88		
Guizhou Fengyang Hydraulic Co., Ltd. (貴州楓陽液壓有限責任公司)	212,404,882.76	212,404,882.76			212,404,882.76		
Yinbin Sanjiang Machinery Co., Ltd. (宜賓三江機械有限公司)	261,568,143.71	291,568,143.71			291,568,143.71		
AVIC Xinxiang Aviation Industry (Group) Co., Ltd. (新鄉航空工業(集團)有限公司)	530,925,852.26	530,925,852.26			530,925,852.26		
Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	191,294,000.00	191,165,428.00			191,165,428.00		
Total	5,078,372,488.47	7,219,605,816.47			7,219,605,816.47		

Continued:

Investee	Initial investment cost	31 December 2020	Increase in the current period	Decrease in the current period	31 December 2021	Impairment provision for the period	Closing balance of impairment provision
Qing'an Group Co., Ltd. (慶安集團有限公司)	1,837,874,829.49	2,837,874,829.49			2,837,874,829.49		
Shaanxi Aero Electric Co., Ltd. (陝西航空電氣有限責任公司)	585,555,926.23	920,555,926.23			920,555,926.23		
Zhengzhou Aircraft Equipment Co., Ltd. (鄭州飛機裝備有限責任公司)	201,700,811.38	583,062,711.38			583,062,711.38		
Sichuan Lingfeng Aero Hydraulic Machinery Co., Ltd. (四川凌峰航空液壓機械有限公司)	171,088,063.50	171,088,063.50			171,088,063.50		
Sichuan Fanhua Aviation Instrument and Electric Co., Ltd. (四川泛華航空儀表電器有限公司)	297,489,031.81	317,489,031.81			317,489,031.81		
Sichuan AVIC Chuanxi Machinery Co., Ltd. (四川航空工業川西機器有限責任公司)	175,609,510.28	240,609,510.28			240,609,510.28		
AVIC Hubei Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司)	481,222,782.17	541,222,782.17			541,222,782.17		
Guizhou Fenglei Aviation Ordnance Co., Ltd. (貴州風雷航空軍械有限責任公司)	131,638,654.88	381,638,654.88			381,638,654.88		
Guizhou Fengyang Hydraulic Co., Ltd. (貴州楓陽液壓有限責任公司)	212,404,882.76	212,404,882.76			212,404,882.76		
Yinbin Sanjiang Machinery Co., Ltd. (宜賓三江機械有限公司)	261,568,143.71	261,568,143.71	30,000,000.00		291,568,143.71		
AVIC Xinxiang Aviation Industry Group Co., Ltd. (新鄉航空工業集團有限公司)	530,925,852.26	530,925,852.26			530,925,852.26		
Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	191,294,000.00	191,165,428.00			191,165,428.00		
Total	5,078,372,488.47	7,189,605,816.47	30,000,000.00		7,219,605,816.47		

Continued:

Investee	Initial investment cost	31 December 2019	Increase in the current period	Decrease in the current period	31 December 2020	Impairment provision for the period	Closing balance of impairment provision
Qing'an Group Co., Ltd. (慶安集團有限公司)	1,837,874,829.49	2,837,874,829.49			2,837,874,829.49		
Shaanxi Aero Electric Co., Ltd. (陝西航空電氣有限責任公司)	585,555,926.23	920,555,926.23			920,555,926.23		
Zhengzhou Aircraft Equipment Co., Ltd. (鄭州飛機裝備有限責任公司)	201,700,811.38	583,062,711.38			583,062,711.38		
Sichuan Lingfeng Aero Hydraulic Machinery Co., Ltd. (四川凌峰航空液壓機械有限公司)	171,088,063.50	171,088,063.50			171,088,063.50		
Sichuan Fanhua Aviation Instrument and Electric Co., Ltd. (四川泛華航空儀表電器有限公司)	297,489,031.81	317,489,031.81			317,489,031.81		
Sichuan AVIC Chuanxi Machinery Co., Ltd. (四川航空工業川西機器有限責任公司)	175,609,510.28	240,609,510.28			240,609,510.28		
AVIC Hubei Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司)	481,222,782.17	541,222,782.17			541,222,782.17		
Guizhou Fenglei Aviation Ordnance Co., Ltd. (貴州風雷航空軍械有限責任公司)	131,638,654.88	131,638,654.88	250,000,000.00		381,638,654.88		
Guizhou Fengyang Hydraulic Co., Ltd. (貴州楓陽液壓有限責任公司)	212,404,882.76	212,404,882.76			212,404,882.76		
Yinbin Sanjiang Machinery Co., Ltd. (宜賓三江機械有限公司)	261,568,143.71	261,568,143.71			261,568,143.71		
AVIC Xinxiang Aviation Industry Group Co., Ltd. (新鄉航空工業集團有限公司)	530,925,852.26	530,925,852.26			530,925,852.26		
Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	191,294,000.00	191,165,428.00			191,165,428.00		
Total	5,078,372,488.47	6,939,605,816.47	250,000,000.00		7,189,605,816.47		

Continued:

Investee	Initial investment cost	1 January 2019	Increase in the current period	Decrease in the current period	31 December 2019	Impairment provision for the period	Closing balance of impairment provision
Qing'an Group Co., Ltd. (慶安集團有限公司)	1,837,874,829.49	2,837,874,829.49			2,837,874,829.49		
Shaanxi Aero Electric Co., Ltd. (陝西航空電氣有限責任公司)	585,555,926.23	920,555,926.23			920,555,926.23		
Zhengzhou Aircraft Equipment Co., Ltd. (鄭州飛機裝備有限責任公司)	201,700,811.38	583,062,711.38			583,062,711.38		
Sichuan Lingfeng Aero Hydraulic Machinery Co., Ltd. (四川凌峰航空液壓機械有限公司)	171,088,063.50	171,088,063.50			171,088,063.50		
Guizhou Aviation Motor Co., Ltd. (貴州航空電機有限公司)	116,444,745.24	216,444,745.24		216,444,745.24			
Sichuan Fanhua Aviation Instrument and Electric Co., Ltd. (四川泛華航空儀表電器有限公司)	297,489,031.81	317,489,031.81			317,489,031.81		
Sichuan AVIC Chuanxi Machinery Co., Ltd. (四川航空工業川西機械有限責任公司)	175,609,510.28	240,609,510.28			240,609,510.28		
AVIC Hubei Precision Machinery Technology Co., Ltd. (湖北中航精機科技有限公司)	481,222,782.17	541,222,782.17			541,222,782.17		
Guizhou Fenglei Aviation Ordnance Co., Ltd. (貴州風雷航空軍械有限責任公司)	131,638,654.88	131,638,654.88			131,638,654.88		
Guizhou Fengyang Hydraulic Co., Ltd. (貴州楓陽液壓有限責任公司)	212,404,882.76	212,404,882.76			212,404,882.76		
Yinbin Sanjiang Machinery Co., Ltd. (宜賓三江機械有限公司)	261,568,143.71	261,568,143.71			261,568,143.71		
AVIC Xinxiang Aviation Industry Group Co., Ltd. (新鄉航空工業集團有限公司)	530,925,852.26	530,925,852.26			530,925,852.26		
Nanjing Hangjian Aviation Equipment Technology Service Co., Ltd. (南京航健航空裝備技術服務有限公司)	191,294,000.00		191,165,428.00		191,165,428.00		
Total	5,194,817,233.71	6,964,885,133.71	191,165,428.00	216,444,745.24	6,939,605,816.47		

2. Investments in associates and joint ventures

Investee	31 December 2021	Added investment	Decreased investment	Movement for the period				Distribution of cash dividend or profit declared	Impairment provision	Others	31 May 2022	Closing balance of impairment provision
				Investment profit or loss recognized under equity method	Adjustment to other comprehensive income	Other changes in equity						
Associates												
AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空 降装备有限公司)	186,381,323.79			7,425,175.24	-917,405.00	604,257.52					193,493,351.55	
Subtotal	186,381,323.79			7,425,175.24	-917,405.00	604,257.52					193,493,351.55	
Total	186,381,323.79			7,425,175.24	-917,405.00	604,257.52					193,493,351.55	

Continued:

Investee	1 January 2021	Added investment	Decreased investment	Movement for the period				Distribution of cash dividend or profit declared	Impairment provision	Others	31 December 2021	Closing balance of impairment provision
				Investment profit or loss recognized under equity method	Adjustment to other comprehensive income	Other changes in equity						
Associates												
AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降装备有限公司)	168,598,042.02			25,147,747.88	504,390.00	1,321,143.89	9,190,000.00				186,381,323.79	
Subtotal	168,598,042.02			25,147,747.88	504,390.00	1,321,143.89	9,190,000.00				186,381,323.79	
Total	168,598,042.02			25,147,747.88	504,390.00	1,321,143.89	9,190,000.00				186,381,323.79	

Continued:

Investee	31 December 2019	Added investment	Decreased investment	Movement for the period				Distribution of cash dividend or profit declared	Impairment provision	Others	31 December 2020	Closing balance of impairment provision
				Investment profit or loss recognized under equity method	Adjustment to other comprehensive income	Other changes in equity						
Associates												
AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降装备有限公司)	150,000,000.00			18,575,297.14	2,708,355.00	-560,891.65	2,310,000.00				168,412,760.49	
Subtotal	150,000,000.00			18,575,297.14	2,708,355.00	-560,891.65	2,310,000.00				168,412,760.49	
Total	150,000,000.00			18,575,297.14	2,708,355.00	-560,891.65	2,310,000.00				168,412,760.49	

Continued:

Investee	1 January 2019	Movement for the period							Others	31 December 2019	Closing balance of impairment provision
		Added investment	Decreased investment	Investment profit or loss recognized under equity method	Adjustment to other comprehensive income	Other changes in equity	Distribution of cash dividend or profit declared	Impairment provision			
Associates											
AVIC Hongguang Airborne Equipment Co., Ltd. (宏光空降装备有限公司)		150,000,000.00								150,000,000.00	
Subtotal		150,000,000.00								150,000,000.00	
Total		150,000,000.00								150,000,000.00	

Note 3. Operating income and operating cost**1. Operating income and operating cost**

Item	January to May 2021									
	January to May 2022		(Unaudited)		2021		2020		2019	
	Income	Cost	Income	Cost	Income	Cost	Income	Cost	Income	Cost
Principal businesses										
Other businesses	13,851,962.26		9,207,036.20		22,096,886.87		17,676,981.19		17,044,015.62	

Note 4. Investment income

Item	January to May 2022	January to May 2021 (Unaudited)	2021	2020	2019
Long-term equity investment income calculated at equity method	7,425,175.24		25,147,747.88	18,575,297.14	
Long-term equity investment income calculated at cost method	547,500,000.00	485,400,000.00	485,400,000.00	404,280,000.00	383,728,800.00
Investment income from disposal of long-term equity investment					-27,645,593.77
Investment income from holding debt investments	6,875,018.79		16,277,851.41		
Dividend income from holding other equity instrument investments	5,856,825.45		3,872,676.42	1,792,905.75	
Others				-260,317.36	7,493,633.34
Total	567,657,019.48	485,400,000.00	530,698,275.71	424,387,885.53	363,576,839.57

XVI. SUPPLEMENTARY INFORMATION**(I) Breakdown of non-recurring profit or loss**

Item	January to May 2022	2021	2020	2019
Gain or loss on disposal of non- current assets	-27,811.99	-25,118,728.31	-4,329,966.00	19,536,849.10
Tax rebates and exemptions as a result of unauthorized approval or no official approval documents				
Government grants recognized in current profit or loss (except those closely related to the business of the enterprise and enjoyed in a fixed or quantitative amount according to the national uniform standard)	58,471,384.14	193,340,623.93	280,225,670.51	135,247,828.59
Charges to non-financial enterprises for capital utilization charged to current profit or loss				

Item	January to May 2022	2021	2020	2019
The cost of investments in subsidiaries, associates and joint ventures acquired by an enterprise is less than the gain from the fair value of the identifiable net assets of the investee at the time the investment is acquired				
Gain or loss on exchange of non-monetary assets				
Gain or loss from entrusting others to invest or manage assets				
Provision for impairment of various assets due to force majeure factors, such as natural disasters				
Gain or loss on debt restructuring	4,162,736.37	9,064,227.07	6,273,076.03	
Business restructuring costs, such as expenses for relocating employees, integration costs, etc.			-80,941,316.29	
Gain or loss in excess of fair value arising from transactions where the transaction price is not clearly fair				
Net gain or loss of subsidiaries arising from business combinations under common control for the period from the beginning of the period to the date of consolidation				48,426,287.23
Gain or loss arising from contingencies not related to the Company's normal operating business				

Item	January to May 2022	2021	2020	2019
Gain or loss from changes in fair value of financial assets held for trading, derivative financial assets, financial liabilities held for trading and derivative financial liabilities, and investment income from the disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investments, except for effective hedging operations related to the Company's normal business operations	25,034.57	-494,989.24	-670,326.36	9,214,655.59
Reversal of provision for impairment of receivables individually tested for impairment			164,479.51	203,545.98
Gain or loss on external entrusted loans				
Gain or loss arising from changes in fair value of investment properties subsequently measured using the fair value model				
Effect of one-time adjustments to current profit or loss in accordance with tax, accounting and other laws and regulations on current profit or loss				
Custodian fee income earned from entrusted operations	13,851,962.26	22,096,886.87	17,676,981.19	17,044,015.62
Non-operating income and expenses other than those mentioned above	-1,100,640.03	-4,972,659.32	-3,149,062.38	-1,045,707.24

Item	January to May 2022	2021	2020	2019
Other profit and loss items that meet the definition of non-recurring profit or loss	1,391,093.01	1,848,292.78		
Less: Income tax effect amount	10,089,096.62	25,569,459.02	30,318,511.25	23,130,797.21
Amount of minority interest impact (after tax)	1,199,586.02	10,835,686.26	17,575,098.84	41,790,305.31
Total	65,485,075.69	159,358,508.50	167,355,926.12	163,706,372.35

(II) Return on net assets and earnings per share

Profit for the reporting period	January to May 2022			2021			2020			2019		
	Weighted average return on net assets	Earnings per share		Weighted average return on net assets	Earnings per share		Weighted average return on net assets	Earnings per share		Weighted average return on net assets	Earnings per share	
	(%)	Basic earnings per share	Diluted earnings per share	(%)	Basic earnings per share	Diluted earnings per share	(%)	Basic earnings per share	Diluted earnings per share	(%)	Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	3.83	0.14	0.14	9.46	0.33	0.33	9.75	0.29	0.29	10.00	0.27	0.26
Net profit attributable to ordinary shareholders of the company after non-recurring profit or loss	3.37	0.12	0.12	8.27	0.29	0.29	8.23	0.25	0.25	8.33	0.22	0.22

Legal representative:

Person in charge of accounting:

Person in charge of the
accounting department:AVIC Electromechanical Systems Co., Ltd.
(Official seal)

28 September 2022

THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma financial information of the Enlarged Group (the “**Unaudited Pro Forma Financial Information**”) after the completion of the transactions by the Group. The Unaudited Pro Forma Financial Information has been prepared in accordance with paragraph 4.29 of the Listing Rules, which indicates the Unaudited Pro Forma Financial Information of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) in relation to the share swap and absorption of AVIC Electromechanical Systems Co., Ltd. (the “**AVIC Electromechanical**”), deemed disposal of equity of China Avionics Systems Co., Ltd. (the “**AVIC Avionics**”) and subscription and deemed disposal of AVIC Avionics A shares (the “**Absorption and Subscription**”), for illustrative purpose only, and provides information on the effect of the Absorption and Subscription on the financial position, operating results and cash flows of the Group as if the Absorption and Subscription had been completed on i) 30 June 2022 (in respect of the unaudited pro forma consolidated balance sheet of the Enlarged Group) ; and ii) completed on 1 January 2021 (in respect of the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement of the Enlarged Group). Details of this matter are set out in pages 7 to 32 of “Letter from the Board” to this circular.

The unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared based on: i) the consolidated balance sheet of the Group as at 30 June 2022, which was extracted from the published interim results announcement of the Group as of 30 June 2022 dated 30 August 2022; and ii) the audited consolidated balance sheet of the Target Group as at 31 May 2022, which was extracted from the accountants’ report set out in Appendix IV to this circular, and adjusted in accordance with the pro forma adjustments described in the notes, as if the Absorption and Subscription had been completed on 30 June 2022.

The unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement of the Enlarged Group have been prepared based on: i) the consolidated income statement and consolidated cash flow statement of the Group for the year ended 31 December 2021, which were extracted from the published annual report of the Group as of 31 December 2021 dated 25 April 2022; and ii) the audited consolidated income statement and consolidated cash flow statement of the Target Group for the year ended 31 December 2021, which were extracted from the accountants’ report set out in Appendix IV to this circular, and adjusted in accordance with the pro forma adjustments described in the notes, as if the Absorption and Subscription had been completed on 1 January 2021.

The Unaudited Pro Forma Financial Information has been prepared based on accounting policies that are consistent with those set out in the published annual report of the Group for the year ended 31 December 2021.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Unaudited Pro Forma Financial Information, it may not give a true picture of the financial position, results of operations or cash flows of the Enlarged Group that would have been attained had Absorption and Subscription been completed on the dates indicated herein. Furthermore, the Unaudited Pro Forma Financial Information does not support to predict the Enlarged Group’s future financial position, operating results or cash flows.

The Unaudited Pro Forma Adjustment Table (Unit: Yuan)

Unaudited Pro Forma Consolidated Balance Sheet

Items	The unaudited consolidated balance sheet of the Group as at 30 June 2022	The audited consolidated balance sheet of the Target Group as at 31 May 2022	Pro forma adjustments					The unaudited pro forma consolidated balance sheet of the Enlarged Group
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	Note 7	
Monetary funds	16,021,102,190	6,182,255,583		-242,818,748	4,500,000,000		-46,435,016	26,414,104,009
Financial assets held for trading	1,327,706,120	1,912,546		-191,987,448				1,137,631,218
Notes receivable	6,202,122,354	1,789,634,254				-323,215,101		7,668,541,507
Accounts receivable	27,950,872,600	8,613,427,325				-1,016,923,758		35,547,376,167
Receivables financing	2,254,540	345,697,882						347,952,422
Prepayments	8,296,757,364	478,136,472				-142,879,161		8,632,014,675
Other receivables	364,784,756	128,897,784						493,682,540
Inventories	36,475,349,927	6,571,528,601				-2,846,419		43,044,032,109
Contract assets	8,671,385,112					-62,415,413		8,608,969,699
Held-for-sale assets	48,656,246							48,656,246
Non-current assets due within one year	300,000,000			-300,000,000				
Other current assets	665,156,286	73,212,414						738,368,700
Total current assets	106,326,147,495	24,184,702,861		-734,806,196	4,500,000,000	-1,548,279,852	-46,435,016	132,681,329,292
Long-term receivables	6,134,844							6,134,844
Long-term equity investments	2,038,732,977	295,246,742						2,333,979,719
Other equity instrument investments	2,374,006,614	1,061,696,267		-299,007,247				3,136,695,634
Other non-current financial assets	400,000,000			-400,000,000				
Investment properties	337,124,934	187,031,727						524,156,661
Fixed assets	15,471,569,372	5,711,802,339				-35,190,832		21,148,180,879
Construction-in-progress	2,724,161,720	1,143,889,352						3,868,051,072
Right-of-use assets	587,962,933	74,182,640						662,145,573
Intangible assets	3,200,179,385	1,078,941,237						4,279,120,622
Development expenditure		148,536,687						148,536,687
Goodwill	69,121,895	311,565,699						380,687,594
Long-term deferred expenses	65,987,442	10,738,764						76,726,206
Deferred income tax assets	446,790,690	137,779,813						584,570,503
Other non-current assets	450,279,545	469,480,145						919,759,690
Total non-current assets	28,172,052,351	10,630,891,412		-699,007,247		-35,190,832		38,068,745,684
Total assets	134,498,199,846	34,815,594,273		-1,433,813,443	4,500,000,000	-1,583,470,684	-46,435,016	170,750,074,976

APPENDIX V
**UNAUDITED PRO FORMA
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

Items	The unaudited consolidated balance sheet of the Group as at 30 June 2022	The audited consolidated balance sheet of the Target Group as at 31 May 2022	Pro forma adjustments					The unaudited pro forma consolidated balance sheet of the Enlarged Group
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	Note 7	
Liabilities and shareholders' equity								
Current Liabilities:								
Short-term borrowings	4,775,951,275	516,326,812						5,292,278,087
Financial liabilities held for trading	65,598,075							65,598,075
Notes payable	9,843,626,970	2,773,840,465				-323,215,101		12,294,252,334
Accounts payable	30,941,890,340	6,908,904,918				-1,016,923,758		36,833,871,500
Advances	4,164,258	40,250,238						44,414,496
Contract liabilities	17,985,073,361	2,607,807,527				-142,879,161		20,450,001,727
Employee compensation payable	1,311,601,674	530,686,994						1,842,288,668
Tax payable	332,829,509	104,096,810						436,926,319
Other payables	1,808,644,707	1,019,088,296						2,827,733,003
Non-current liabilities due within one year	2,202,226,954	487,549,490						2,689,776,444
Other current liabilities	475,748,308	307,632,277						783,380,585
Total current liabilities	69,747,355,431	15,296,183,827				-1,483,018,020		83,560,521,238
Non-current liabilities:								
Long-term borrowings	4,798,441,185	727,600,000						5,526,041,185
Lease liabilities	492,359,257	56,461,855						548,821,112
Long-term payables	-716,422,091	-2,045,738,256						-2,762,160,347
Long-term employee compensation payable	1,430,516,285	565,373,945						1,995,890,230
Estimated liabilities	654,713,899	39,014,967						693,728,866
Deferred income	862,526,999	394,336,316						1,256,863,315
Deferred income tax liabilities	300,117,176	174,363,497						474,480,673
Other non-current liabilities	716,706,855	2,376,281,526						3,092,988,381
Total non-current liabilities	8,538,959,565	2,287,693,850						10,826,653,415
Total liabilities	78,286,314,996	17,583,877,677				-1,483,018,020		94,387,174,653
Total shareholders' equity attributable to								
parent company	27,141,242,291	13,983,450,775	-13,975,154,005	-826,169,471	311,607,460	-100,452,664	-12,866,906	26,521,657,480
Minority equity	29,070,642,559	3,248,265,821	13,975,154,005	-607,643,972	4,188,392,540		-33,568,110	49,841,242,843
Total shareholders' equity	56,211,884,850	17,231,716,596		-1,433,813,443	4,500,000,000	-100,452,664	-46,435,016	76,362,900,323
Total liabilities and shareholders' equity	134,498,199,846	34,815,594,273		-1,433,813,443	4,500,000,000	-1,583,470,684	-46,435,016	170,750,074,976

Unaudited Pro Forma Consolidated Income Statement

Items	The audited	The audited	Pro forma adjustments					The unaudited
	consolidated	consolidated	Note 3	Note 4	Note 5	Note 6	Note 7	pro forma
	income	income						consolidated
	statements of	statements of						income
	the Group for	the Target						statements of
	the year ended	Group for the						the Enlarged
	31 December	year ended 31						Group for the
	2021	December 2021						year ended 31
	Note 1	Note 2						December 2021
I. Operating income	60,296,284,748	14,992,204,845				-1,081,607,630		74,206,881,963
Less: Operating cost	47,597,965,155	11,332,018,814				-1,078,565,252		57,851,418,717
Taxes and surcharges	137,635,434	63,898,357						201,533,791
Selling expenses	688,394,493	112,494,020						800,888,513
Administrative expenses	3,594,423,526	1,313,122,494					10,075,016	4,917,621,036
Research and development								
expenses	3,452,213,026	775,708,652						4,227,921,678
Finance costs	165,153,607	20,429,722						185,583,329
Add: Other income	275,272,348	194,083,820						469,356,168
Investment income	474,448,476	45,533,679						519,982,155
Income from changes in								
fair value	5,024,934	-494,989						4,529,945
Credit impairment loss	-41,426,128	6,062,209						-35,363,919
Asset impairment loss	-187,793,184	-61,368,814						-249,161,998
Income from assets disposal	76,297,341	-25,118,728						51,178,613
II. Operating profit (loss to be listed with "-")	5,262,323,294	1,533,229,963				-3,042,378	-10,075,016	6,782,435,863
Add: Non-operating income	90,308,664	12,838,658						103,147,322
Less: Non-operating expenses	37,732,376	16,723,512						54,455,888
III. Profit before tax (loss before tax to be listed with "-")	5,314,899,582	1,529,345,109				-3,042,378	-10,075,016	6,831,127,297
Less: income tax expenses	480,004,533	177,515,084						657,519,617
IV. Net profit (net loss to be listed with "-")	4,834,895,049	1,351,830,025				-3,042,378	-10,075,016	6,173,607,680
(1) Classified according to operating continuity								

APPENDIX V
**UNAUDITED PRO FORMA
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

Items	The audited consolidated income statements of the Group for the year ended 31 December 2021	The audited consolidated income statements of the Target Group for the year ended 31 December 2021	Note 3	Pro forma adjustments				The unaudited pro forma consolidated income statements of the Enlarged Group for the year ended 31 December 2021
	Note 1	Note 2		Note 4	Note 5	Note 6	Note 7	
Net profit from continuing operations (net loss to be listed with “-”)	4,834,895,049	1,351,830,025				-3,042,378	-10,075,016	6,173,607,680
Net profit from discontinuing operations (net loss to be listed with “-”)								
(II) Classified according to attribution of the ownership								
Net profit attributable to the owners of the parent company	2,369,276,265	1,271,879,737	-1,237,770,782	51,817,673	-11,057,384	-3,042,378	-6,021,971	2,435,081,160
Minority profit and loss	2,465,618,784	79,950,288	1,237,770,782	-51,817,673	11,057,384		-4,053,045	3,738,526,520
V. Net of tax of other comprehensive income	540,232,266	110,044,330						650,276,596
Net of tax of other comprehensive income attributable to the owner of the parent company	538,717,219	116,404,207	-94,010,980	2,605,883	-556,070			563,160,259
(I) Other comprehensive income that cannot be reclassified into profit or loss	538,886,088	122,789,574	-99,319,971	2,765,681	-590,169			564,531,203
1. Changes arising from re-measurement of the defined benefit plan	-17,794,276	-17,643,500	17,204,262	-722,575	154,190			-18,801,899
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method	320,660	504,390	-419,365	12,623	-2,694			415,614

APPENDIX V
**UNAUDITED PRO FORMA
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

Items	The audited consolidated income statements of the Group for the year ended 31 December 2021	The audited consolidated income statements of the Target Group for the year ended 31 December 2021	Note 3	Pro forma adjustments			Note 7	The unaudited pro forma consolidated income statements of the Enlarged Group for the year ended 31 December 2021
	Note 1	Note 2		Note 4	Note 5	Note 6		Note 7
3. Changes in fair value of other equity instrument investments	556,359,704	139,928,684	-116,104,868	3,475,633	-741,665			582,917,488
(II) Other comprehensive income that can be reclassified into profit or loss	-168,869	-6,385,367	5,308,991	-159,798	34,099			-1,370,944
6. Translation difference of foreign currency financial statements	-168,869	-6,385,367	5,308,991	-159,798	34,099			-1,370,944
Net of tax of other comprehensive income attributable to minority shareholders	1,515,047	-6,359,877	94,010,980	-2,605,883	556,070			87,116,337
VI. Total comprehensive income	5,375,127,315	1,461,874,355				-3,042,378	-10,075,016	6,823,884,276
Total comprehensive income attributable to owners of the parent company	2,907,993,484	1,388,283,944	-1,331,781,762	54,423,556	-11,613,454	-3,042,378	-6,021,971	2,998,241,419
Total comprehensive income attributable to minority shareholders	2,467,133,831	73,590,411	1,331,781,762	-54,423,556	11,613,454		-4,053,045	3,825,642,857

Unaudited Pro Forma Consolidated Cash Flow Statement

Items	The audited consolidated cash flow statement of the Group for the year ended 31 December 2021 Note 2	The audited consolidated cash flow statement of the Target Group for the year ended 31 December 2021 Note 2	Note 3	Pro forma adjustments			Note 7	The unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2021
				Note 4	Note 5	Note 6		
I. Cash flow from operating activities:								
Cash received from sales of goods or rendering of services	59,976,813,751	19,929,305,649				-1,004,712,779		78,901,406,621
Refund of taxes and surcharges	141,018,858	66,862,518						207,881,376
Other cash received relating to operating activities	3,120,443,141	1,207,851,265						4,328,294,406
Subtotal of cash inflows from operating activities	63,238,275,750	21,204,019,432				-1,004,712,779		83,437,582,403
Cash paid for purchase of goods and receipt of services	45,219,215,398	8,983,584,533				-971,521,804		53,231,278,127
Cash paid to and for employees	10,565,792,240	3,802,546,647						14,368,338,887
Taxes and surcharges cash payments	1,038,984,169	369,800,703						1,408,784,872
Other cash paid relating to operating activities	4,169,695,563	1,672,787,004						5,842,482,567
Subtotal of cash outflow from operating activities	60,993,687,370	14,828,718,887				-971,521,804		74,850,884,453
Net cash flow from operating activities	2,244,588,380	6,375,300,545				-33,190,975		8,586,697,950

APPENDIX V
**UNAUDITED PRO FORMA
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

Items	The audited consolidated cash flow statement of the Group for the year ended 31 December 2021	The audited consolidated cash flow statement of the Target Group for the year ended 31 December 2021	Note 3	Pro forma adjustments			Note 6	Note 7	The unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2021
	Note 2	Note 2		Note 4	Note 5	Note 7			
II. Cash flows from investing activities:									
Cash received from return of investment	4,677,380,998			1,390,000,000					6,067,380,998
Cash received from investment income	521,027,094	23,288,663							544,315,757
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	86,676,763	12,000,087							98,676,850
Net cash received from disposal of subsidiaries and other business entities	11,136,524								11,136,524
Other cash received relating to investing activities	1,000,000,000	846,413,412							1,846,413,412
Subtotal of cash inflows from investing activities	6,296,221,379	881,702,162		1,390,000,000					8,567,923,541
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	2,857,821,578	757,778,038				-33,190,975			3,582,408,641
Cash paid to acquire investments	4,983,353,990	3,500,000							4,986,853,990
Net cash paid for acquisition of subsidiaries and other business entities	53,476,190								53,476,190
Other cash paid relating to investing activities	344,000,000	2,126,161,161					5,082,016		2,475,243,177
Subtotal of cash outflows from investing activities	8,238,651,758	2,887,439,199				-33,190,975	5,082,016		11,097,981,998
Net cash flows from investing activities	-1,942,430,379	-2,005,737,037		1,390,000,000		33,190,975	-5,082,016		-2,530,058,457

APPENDIX V
**UNAUDITED PRO FORMA
FINANCIAL INFORMATION OF THE ENLARGED GROUP**

Items	The audited consolidated cash flow statement of the Group for the year ended 31 December 2021	The audited consolidated cash flow statement of the Target Group for the year ended 31 December 2021	Note 3	Pro forma adjustments			Note 6	Note 7	The unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2021
	Note 2	Note 2		Note 4	Note 5	Note 6			Note 7
III. Cash flows from financing activities:									
Cash received from absorbing investment	3,327,270,391				4,500,000,000			-41,353,000	7,785,917,391
Including: Cash received from minority shareholders' investment in subsidiaries	134,070,400				4,500,000,000			-41,353,000	4,592,717,400
Cash received from borrowings	6,544,472,045	1,229,762,700							7,774,234,745
Other cash received relating to financing activities	1,055,487,041	152,637,900							1,208,124,941
Subtotal of cash inflow from financing activities	10,927,229,477	1,382,400,600			4,500,000,000			-41,353,000	16,768,277,077
Cash paid for repayments of debts	7,471,834,580	2,961,031,857							10,432,866,437
Cash paid for distribution of dividends, profits or interest repayment	1,663,101,330	417,322,074							2,080,423,404
Including: Dividends and profits paid to minority shareholders by subsidiaries	860,107,534	8,630,356							868,737,890
Other cash paid relating to financing activities	1,368,486,176	41,817,990		1,433,813,443					2,844,117,609
Subtotal of cash outflow from financing activities	10,503,422,086	3,420,171,921		1,433,813,443					15,357,407,450
Net cash flow from financing activities	423,807,391	-2,037,771,321		-1,433,813,443	4,500,000,000			-41,353,000	1,410,869,627

Items	The audited consolidated cash flow statement of the Group for the year ended 31 December 2021	The audited consolidated cash flow statement of the Target Group for the year ended 31 December 2021	Note 3	Pro forma adjustments			Note 6	Note 7	The unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2021
	Note 2	Note 2		Note 4	Note 5	Note 6			Note 7
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-23,720,758	-12,339,250							-36,060,008
V. Net increase in cash and cash equivalents	702,244,634	2,319,452,937		-43,813,443	4,500,000,000			-46,435,016	7,431,449,112
Add: Opening balance of cash and cash equivalents	22,836,476,891	3,910,140,172							26,746,617,063
VI. Closing balance of cash and cash equivalents	23,538,721,525	6,229,593,109		-43,813,443	4,500,000,000			-46,435,016	34,178,066,175

Note 1: The Group's consolidated balance sheet as at 30 June 2022 is extracted from the Group's published interim results announcement dated 30 August 2022, the consolidated income statement and the consolidated cash flow statement for the year ended 31 December 2021 are extracted from the Group's published annual report dated 25 April 2022.

Note 2: The Target Group's audited consolidated balance sheet as at 31 May 2022, the audited consolidated income statement and the audited consolidated cash flow statement for the year ended 31 December 2021 are extracted from the accountant's report set out in Appendix IV to this circular.

Note 3: In June 2022, AVIC Avionics, a subsidiary of the Company, entered into the Share Swap and Absorption Agreement with AVIC Electromechanical and entered into the Subscription Agreement with the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry respectively (hereinafter collectively referred to as the "Transaction Plans"). AVIC Avionic, as the absorbing party, will issue A Shares to conduct the share swap and absorption of AVIC Electromechanical, as the merged party, which means that AVIC Avionics issues A Shares to the share swap participating shareholders of AVIC Electromechanical in exchange for the AVIC Electromechanical Shares held by them. The exchange ratio between AVIC Electromechanical and AVIC Avionic equals to 1: 0.6647, which means that one AVIC Electromechanical A Share can exchange for 0.6647 AVIC Avionics A Share. After the above transaction, the Company's shareholding in AVIC Avionics will be diluted from the original 39.43% to 16.86% while the Company still has control over AVIC Avionics. In accordance with the provisions of 'Business combinations involving entities under common control' in Accounting Standard for Business Enterprises No. 20 – Business Combinations, the group has included the assets and liabilities of the target group in the pro forma consolidated balance sheet of the enlarged group, and recognizes Shareholders' equity attributable to parent company according to the Company's recalculated shareholding ratio of AVIC Electronics (16.86%). Upon completion of the absorption, the enlarged group's Shareholders' equity attributable to parent company increased by RMB8,296,770 compared to the group as 30 June 2022, the enlarged group's net profit attributable to the owners of the parent company increased by RMB34,108,955 compared to the group in year 2021.

Note 4: Pursuant to the Transaction Plans, shareholders of AVIC Avionics that oppose the share swap and absorption are granted with the right to request the Company to purchase their AVIC Avionics A Shares at AVIC Avionics Appraisal Right Exercise Price in cash. Similarly, shareholders of AVIC Electromechanical that oppose the share swap and absorption are granted with the right to request the Company to purchase their AVIC Electromechanical A Shares at AVIC Electromechanical Appraisal Right Exercise Price in cash. The company estimates that 5.17% of the independent shareholders of AVIC Avionics and 4.22% of the independent shareholders of AVIC Electromechanical will exercise their respective objection repurchase rights and the Company expects to pay RMB1,433,813,443 to repurchase such equity. The Company intends to pay RMB242,818,748 by holding bank deposit, pay RMB891,987,448 by disposal of the financial assets held and pay the rest of RMB299,007,247 by disposal of equity instrument investments. After the repurchase, the Company's shareholding in AVIC Avionics (excluding subscription) will increase from 16.86% to 19.36%. Such event will have an impact of RMB-826,169,471 on Shareholders' equity attributable to parent company, RMB51,817,673 on net profit attributable to the owners of the parent company.

Note 5: Pursuant to the Transaction Plans, AVIC Avionics also intends to place AVIC Avionics A Shares to not more than 35 designated investors (including the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry) to raise fund at a total amount not exceeding RMB5,000 million. The Company intends to subscribe for AVIC Avionics A Shares at a total consideration of RMB500 million in cash. After the subscription, the Company's enlarged shareholding in AVIC Avionics (including subscription) will be diluted from 19.36% to 18.83%. Such event will have an impact of RMB311,607,460 on Shareholders' equity attributable to parent company, RMB-11,057,384 on net profit attributable to the owners of the parent company.

The pro forma adjustment is not expected to have an ongoing impact on the Enlarged Group's consolidated cash flow statement.

Note 6: Due to related party transactions between AVIC Electromechanical and some of the Group's subsidiaries in historical years, the amount was arrived after offsetting by related party transactions arising in the reporting period.

Note 7: The adjustment represents the enlarged group's payment of approximately RMB46,435,016 for this transaction, including accounting, legal, brokerage and other professional services related to the Absorption and Subscription, of which: the impact on Shareholders' equity attributable to the parent company was RMB-12,866,906, the impact on net profit attributable to the owners of the parent company was RMB-6,021,971.

The pro forma adjustment is not expected to have an ongoing impact on the Enlarged Group's consolidated cash flow statement.

TO THE DIRECTORS OF AVICHINA INDUSTRY & TECHNOLOGY COMPANY LIMITED

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 (hereinafter collectively referred to as the “**Group**”) and of AVIC Electromechanical Systems Co., Ltd. (the “**AVIC Electromechanical**” or the “**Target Group**”) (the Group together with the Target Group, hereinafter collectively referred to as the “**Enlarged Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only.

The unaudited pro forma financial information consists of the unaudited pro forma consolidated balance sheet as at 30 June 2022, and the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2021 and related notes (the “**Unaudited Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in the circular of the Company dated 29 September 2022 (the “**Circular**”).

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the share swap and absorption of AVIC Electromechanical and deemed disposal of equity of China Avionics Systems Co., Ltd. (the “**AVIC Avionics**”), and the subscription and deemed disposal of AVIC Avionics A Shares (the “**Absorption and Subscription**”) on the Group’s financial position as at 30 June 2022, and operating results and cash flows for the year ended 31 December 2021 as if the Absorption and Subscription had taken place at 30 June 2022 and 1 January 2021. As part of this process, information about the Group’s operating results and cash flows has been extracted by the Directors from the Group’s financial statements for the year ended 31 December 2021 (published on 25 April 2022), the Group’s financial position has been extracted from the Group’s interim results announcement as of 30 June 2022 (published on 30 August 2022). Information about the Target Group’s financial position, operating results and cash flows has been extracted by the Directors from the audited financial information (on the basis of which the accountant’s report has been published in Appendix IV to this circular).

DIRECTORS’ RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with the requirements of paragraph 4.29 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 (the “**Accounting Guideline**”) 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” 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 requirements of the Code of Ethics issued by the Chinese Institute of Certified Public Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies the Accounting Firm Standards on Quality Control 5101 – Business Quality Control issued by Ministry of Finance to maintain 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 ACCOUNTANT’S RESPONSIBILITIES

Our responsibility is to express an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion. 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 except 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 standards require that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to Accounting Guideline 7 issued by the HKICPA.

For purpose 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 the Circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the entity as if the event or transaction had occurred at an earlier date selected for the purposes of illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction 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 transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria;
- 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 accountant's judgement, having regard to the reporting accountant's understanding of the nature of the Group, the 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 by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group;
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Da Hua Certified Public Accountants (Special General Partnership)

Certified Public Accountants

29 September 2022

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, save as disclosed below and to the best knowledge of the Directors, 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 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	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Director					
Yan Lingxi	H Shares	Beneficial owner	267,740	0.003%	Long position
Supervisor					
Zheng Qiang	H Shares	Beneficial owner	239,687	0.003%	Long position
		Interest of spouse	966	0.000%	Long position
Zhao Zhuo	H Shares	Beneficial owner	69,110	0.001%	Long position

Note:

As at the Latest Practicable Date, Mr. Zheng Qiang held 33,500 A shares in AVIC Industry-Finance Holdings Co., Ltd (中航工業產融控股股份有限公司) (“**AVIC Industry-Finance**”), representing approximately 0.0003% of the total issued share capital of AVIC Industry-Finance. AVIC Industry-Finance is a subsidiary of AVIC, and therefore is a 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, to the best knowledge of the Directors, 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 in issue	Nature of Shares held
AVIC ^(Note 1)	H Shares	Beneficial owner; Interest in controlled corporation	3,553,069,569	57.21%	Long Position
	Domestic Shares ^(Note 2)	Beneficial owner	1,250,899,906	83.36%	Long Position
Tianjin Free Trade Zone Investment	Domestic Shares ^(Note 2)	Beneficial owner	249,769,500	16.64%	Long Position
Airbus ^(Note 3)	H Shares	Beneficial owner	312,255,827	5.03%	Long Position

Notes:

- Out of the 3,553,069,569 H Shares held by AVIC, 3,297,780,902 H Shares are held as beneficial owner and 183,404,667 H Shares are held through AVIC Airborne Systems, its wholly-owned subsidiary, 18,346,000 H Shares are held by AVIC through China Aviation Industry (Hong Kong) Company Limited, its wholly-owned subsidiary, and 53,538,000 H Shares are held through AVIC Industry-Finance Holdings Co., Ltd, its non-wholly owned subsidiary.
- Pursuant to the equity acquisition and share issuance agreement dated 28 November 2019, the Company proposed to issue a number of 1,500,669,406 Domestic Shares as the consideration for the acquisition, among which, a number of 1,250,899,906 and 249,769,500 Domestic Shares were be issued to AVIC and Tianjin Free Trade Zone Investment, respectively. The issuance of Domestic Shares was completed on 24 December 2020.
- European Aeronautic Defence and Space Company – EADS N.V. officially changed its name to Airbus on 1 January 2014.

Save and except that (i) Mr. Zhang Minsheng (an executive director of the Company) is the chief accountant of AVIC; and (ii) Mr. Li Xichuan (a non-executive director of the Company) is the deputy general manager of AVIC Industry-Finance, 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 2021, 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
Maxa Capital	A corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
Da Hua Certified Public Accountants LLP	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 2021, 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 2021, 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, 22nd Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
- (d) This circular is in both English and Chinese. In the event of inconsistency, the English version of this circular shall prevail over the Chinese version.

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 share subscription agreement dated 15 January 2021 entered into between the Company and AVIC Heavy Machinery Company Limited* (中航重機股份有限公司) (“**AVIC Heavy Machinery**”) in relation to the subscription of A shares of AVIC Heavy Machinery through non-public offering with the total subscription amount of RMB200 million;
- (b) the equity transfer agreement dated 10 May 2021 entered into AVIC CAPDI and AVIC Construction and Development (Beijing) for the acquisition of 100% equity interest in Beijing Yinyan Enterprise Co., Ltd.* (北京銀燕實業有限公司) (“**Beijing Yinyan**”) by AVIC CAPDI at the consideration of RMB68,361,300;
- (c) the conditional share subscription agreement dated 9 July 2021 entered into between the Company and JONHON Optronics for the allotment and issue of A shares of JONHON Optronics, pursuant to which the Company has conditionally agreed to subscribe for A Shares of JONHON Optronics with RMB200 million in cash;
- (d) the equity transfer agreement dated 21 April 2022 entered into between AVIC, AVIC CAPDI and (i) Beijing Xuneng Development Technology Co., Ltd.* (北京旭能發展科技有限責任公司); (ii) Jilin Zhongkai New Energy Development and Utilization Co., Ltd.* (吉林省中愷新能源開發利用有限責任公司); and (iii) Anhui Zhongcheng Dadi Energy Development Co., Ltd.* (安徽中城大地能源發展有限公司) for the transfer of equity interests in AVIC Renewable Energy Investment Co., Ltd.* (中國航空工業新能源投資有限公司) (“**AVIC Renewable Energy**”), pursuant to which AVIC CAPDI agreed to transfer its 21.30% equity interest in AVIC Renewable Energy at a total consideration not less than RMB383.89 million;
- (e) the Share Swap and Absorption Agreement; and
- (f) the Subscription Agreements.

12. DOCUMENT(S) AVAILABLE FOR INSPECTION

Electronic copies of the following documents are published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (<https://www.avichina.com/>) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the letter from the Board dated 29 September 2022, the text of which is set out on pages 6 to 32 of this circular;
- (b) the letter of recommendation dated 29 September 2022 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 33 of this circular;

- (c) the letter of advice dated 29 September 2022 from Maxa Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 34 to 57 of this circular;
- (d) the written consent from the experts referred to in paragraph VI of this Appendix;
- (e) the Share Swap and Absorption Agreement;
- (f) the Subscription Agreements;
- (g) the accountant's report on the financial information of AVIC Electromechanical as set out in Appendix IV to this circular;
- (h) the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular; and
- (i) this circular.

NOTICE OF EGM



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 a.m. on Wednesday, 26 October 2022 at 6/F, Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the People's Republic of China to consider and approve the following resolutions. Unless otherwise indicated, capitalised terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 29 September 2022 (the “Circular”):

ORDINARY RESOLUTIONS

1. “THAT:

- (1) the Share Swap and Absorption Agreement entered into between AVIC Avionics and AVIC Electromechanical, and the transactions contemplated thereunder, be and is hereby approved, ratified and confirmed; and
- (2) any Director or authorized representative of the Chairman of the Board be and is hereby authorised 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 Share Swap and Absorption 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.”

2. “THAT:

- (1) the Subscription Agreements entered into between the AVIC Avionics and: (i) the Company; and (ii) AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, and the transactions contemplated thereunder, be and is hereby approved, ratified and confirmed; and

* For identification purpose only

NOTICE OF EGM

- (2) any Director or authorized representative of the Chairman of the Board be and is hereby authorised 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 Subscription Agreements, 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.”
3. the resolution relating to the new appointment of Mr. Liu Bingjun as the non-executive Director of the Company with a term of office commencing from the date on which his proposed appointment is approved at the EGM until the date on which the election of the new session of the Board is resolved at the annual general meeting to be convened in 2024, the grant of an authorisation to the remuneration committee of the Company to determine his remuneration and the grant of an authorisation to an executive Director of the Company to sign the relevant service contract on behalf of the Company with him.

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

Beijing, 29 September 2022

As at the date of this notice, the Board comprises executive Directors Mr. Zhang Minsheng and Mr. Yan Lingxi, non-executive Directors Mr. Lian Dawei, Mr. Li Xichuan, Mr. Xu Gang and Mr. Wang Jun as well as independent non-executive Directors Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping.

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 Thursday, 6 October 2022 to Wednesday, 26 October 2022 (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, 6 October 2022 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 Wednesday, 5 October 2022 at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong.

(2) REGISTRATION PROCEDURES FOR ATTENDING THE EGM

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.

NOTICE OF EGM

(3) PROXIES

1. 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.
2. 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) PRECAUTIONARY MEASURES FOR THE EGM

Measures being taken to prevent and control the spread of the COVID-19 pandemic, including but not limited to:

- compulsory temperature check before entering the EGM venue, and those with a body temperature of over 37.3degrees Celsius or with the flu-like symptoms or is otherwise unwell will not be admitted to the EGM venue;
- wearing of surgical face mask is compulsory at any time within the EGM venue; and
- signing of health declaration form before admission to the EGM venue
- satisfying other requirements according to local epidemic prevention and control policies.

Any person who declines any of the aforementioned precautionary measures will not be admitted to the EGM venue. The Company reminds the Shareholders that they may appoint the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

(5) 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

(6) Resolutions (1) and (2) above will be voted by poll by the Independent Shareholders.